



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on International Trade

CIIT • NUMBER 014 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Tuesday, May 3, 2016

—
Chair

The Honourable Mark Eyking

Standing Committee on International Trade

Tuesday, May 3, 2016

•(0845)

[English]

The Chair (Hon. Mark Eyking (Sydney—Victoria, Lib.)): I call the meeting to order.

Good morning, everyone. We welcome back members of Parliament after their week in the constituency. For anybody who is just visiting our committee, welcome.

We have a very busy agenda for our committee this session. We are dealing with finishing up the European agreement and we have the TPP. We also have other issues.

One very important issue, which is ongoing, is of course the softwood lumber issue. Our committee has already had a meeting with what I guess you would call the east side: we had Ontario, Quebec, and the Maritimes already visit our committee with some submissions. Today we welcome the crew from out west, in beautiful British Columbia. We were there in our TPP travels and we saw some of you out there.

I would like also to apologize for pushing this meeting forward. We had a situation, and I really appreciate how you witnesses accommodated it for us.

On that note, today's meeting is going to be split into two hours. The first hour is with the people we have in front of us. In the second hour, testimony will be via satellite.

With us today from British Columbia, from the B.C. Lumber Trade Council, we have Susan Yurkovich, and I have Duncan Davies.

Do you have two hats on today?

Mr. Duncan Davies (Co-Chair, BCLT, President and Chief Executive Officer, Interfor Corporation, B.C. Lumber Trade Council): Yes, sir, I do.

The Chair: You're still only going to have five minutes.

Some hon. members: Oh, oh!

The Chair: No, you're welcome to jump in any time, but I see that you're with B.C. Lumber Trade Council and also the Canadian Lumber Trade Alliance. Welcome, Mr. Davies.

We have also Kevin Edgson from the Canadian Lumber Trade Alliance.

Folks, welcome again.

What we do is give each group five minutes. You can split it or do whatever you want to do with the five minutes.

I'll start off with the B.C. Lumber Trade Council.

Who is going to speak?

Ms. Susan Yurkovich (President, B.C. Lumber Trade Council): That would be me. Thank you, Mr. Chair.

Good morning. My name is Susan Yurkovich. I'm really pleased to be here today on behalf of the B.C. Lumber Trade Council.

Duncan is the co-chair of the B.C. Lumber Trade Council, which is an organization that was established to advocate for the B.C. forest sector on trade-related matters, but our organization, as you'll see today, works collaboratively with provincial associations and lumber companies across the country as a member of the Canadian Lumber Trade Alliance.

We appreciate the interest of the international trade committee in softwood lumber. It's an issue that is critically important to B.C. and to the forest products-producing regions across the country. Indeed, it's important to all Canadians.

I'd like to start this morning with just a little information about B.C.'s forest industry.

Forestry matters in British Columbia. It continues to be one of the key drivers of our provincial economy, contributing about \$12 billion annually to the GDP. Taxes, stumpage, and fees from our industry also provide annual revenues of about \$2.5 billion. Those revenues, of course, go to help support critical citizen services, such as health and education.

The industry is one of the largest employers in the province, with about 145,000 people from Fort St. John to Vancouver deriving their living either directly or indirectly from the sector. That's about one out of every 16 jobs in our province. Many of those people are employed in our 300 wood products manufacturing facilities located throughout the province, but they also work in forest management, in research and innovation, and in silviculture.

We're very proud of the fact that the fibre flowing to our manufacturing facilities comes from sustainably managed forests. At 52 million hectares, B.C. has more forested land under independent environmental certification than any other country in the world. This fibre is used to create high-quality forest products that are shipped around the globe. In 2014, the last year for which we have full data, our forest products exports from British Columbia totalled about \$12.4 billion, about half of it coming from softwood lumber. B.C. is by far the largest producer of softwood lumber in the country, and we are the largest shipper of softwood to the U.S. market.

In recent years we've worked very hard to diversify our exports and reduce our reliance on the U.S. market. Through a partnership with Natural Resources Canada, the Province of British Columbia, and industry, this effort has in fact produced very significant results. Our lumber shipments to China have increased from about 300 million board feet in 2005 to more than 2.5 billion board feet in 2014. We're marketing our products throughout Asia, and we're starting to explore India as well.

In spite of this effort, the U.S., which is a natural market given its proximity and its culture of building with wood, remains our largest market for softwood lumber. B.C. accounts for half of the volume shipped to the U.S. from Canada, which is why maintaining predictable access to the U.S. marketplace is critical for the future health of our industry.

Canada and the U.S. have had a long history of disputes over softwood lumber. They stem from claims from U.S. producers that our industry is subsidized, largely because of a difference in ownership of the lands in our two countries. In the U.S., the majority of timberlands are privately owned, whereas in Canada timberlands are generally owned by the provincial governments. U.S. interests have alleged that because timberlands in Canada are owned by the crown, they are subsidized. This is not the case; however, these kinds of allegations have resulted in decades of the U.S. implementing protectionist measures over their marketplace.

In a perfect world we would have free trade in softwood lumber between our two countries, but the fact of the matter is that in the last 35 years, free trade in softwood has only existed for about two of those years. During this period, there have been four countervailing duty and anti-dumping trade cases and three managed trade agreements, the last of which expired last October. Today we find ourselves in a standstill period that prevents the U.S. from launching trade action until October of this year. This gives us just a few short months to see whether a new agreement that works for both Canada and the U.S. can be reached.

●(0850)

Some in the country may not support this effort, preferring to let the litigation process proceed or simply wishing that free trade was achievable when in reality it is not. We in B.C. believe that it's imperative to work hard to see if a new agreement is possible in order to avoid the uncertainty that ongoing litigation creates, along with the disruption it causes for producers and consumers on both sides of the border. The time to do that work is now.

Finding a resolution to the dispute will not be easy. We know that Minister Freeland and her officials are working hard to engage with their U.S. counterparts and that Premier Clark has made this a top

priority issue for B.C., but it will take leadership and goodwill in Washington as well as Ottawa and in boardrooms of industry across both nations to find a lasting resolution to this dispute.

Our hope is that with a concerted effort from both sides, we will be able to reach agreement, but if that's not possible, we are also prepared to work closely with the Government of Canada and industry across the country to rigorously defend our forest practices and policies against any trade litigation that the U.S. may launch.

Canada and the U.S. enjoy the world's largest trading relationship. This relationship should not be fettered by an ongoing dispute over softwood lumber. Finding a resolution needs to be a national priority to ensure that the forestry sector in B.C. and Canada can continue to contribute to the national economy and to the economies of hundreds of communities across our nation.

Thank you. I look forward to your questions.

●(0855)

The Chair: Thank you very much. Now we're going to move over to the Canadian Lumber Trade Alliance with Mr. Edgson...Mr. Davies.

Mr. Duncan Davies: Thank you for the invitation to appear here today.

My name is Duncan Davies. I am the president and CEO of Interfor Corporation, one of the largest lumber companies in the world, based in Vancouver. I am also co-chair of the B.C. Lumber Trade Council and co-chair of the Canadian Lumber Trade Alliance.

I'm joined here this morning by my colleague Kevin Edgson, the president and CEO of Eacom Timber.

The Canadian Lumber Trade Alliance was formed in 2001 to present a collective voice for the Canadian softwood lumber industry with respect to the U.S. industry's claim of injury from Canadian softwood lumber imports. Today the membership of CLTA includes provincial associations and companies from British Columbia, Alberta, Saskatchewan, Ontario, and Quebec, representing 70% of Canada's softwood lumber production that is exported to the U.S. market. The CLTA regularly consults with Global Affairs Canada to provide constructive input regarding trade matters on softwood lumber.

Our industry is vital to the national economy and to the economies of many forest-dependent communities across Canada. This sector generates approximately 370,000 direct and indirect jobs and contributes more than \$20 billion to our national GDP. The vast majority of Canada's forest products are exported to global markets, which makes ongoing access to those markets critically important from a national economic standpoint.

For many generations, Canada and the United States have been engaged in a dispute over access to the U.S. market for softwood lumber. The dispute can be traced back to the late 1800s. Over the last 35 years, it has resulted in four rounds of trade litigation. The fact is that the U.S. can and does control the access to their market through their trade laws, which are designed to protect U.S. interests. For that reason, over the last three decades our industry has either operated under a negotiated treaty arrangement or has been engaged in litigation, as has been the case for 33 of the last 35 years.

In recent years, the CLTA member companies have been subject to the 2006 softwood lumber agreement. In the five years leading up to that agreement, the Canadian industry faced punishing countervailing and anti-dumping duties on production shipped to the U.S. By the time the agreement was reached in 2006, the Canadian industry had more than \$5 billion on deposit with the U.S. Treasury Department, creating a massive financial burden for companies in our industry.

Entering into the 2006 softwood lumber agreement required Canada and Canadian softwood lumber producers to carefully weigh the costs associated with the agreement against the benefit of being able to access that marketplace.

Some have characterized the 2006 SLA as a bad deal or contrary to the interests of Canadians. I respectfully disagree.

The 2006 SLA provided certainty of access to the U.S. market during one of the worst economic downturns we've seen since the Depression. It encouraged the development of offshore markets and it provided an opportunity for the industries in Canada and the U.S. to work together constructively to grow the market for our products against competing products such as steel, cement, and composites. It allowed companies like mine to make investment decisions about our plants in Canada that have been highly beneficial to the economic viability of those facilities, and to provide greater security of employment for the people employed in our operations. While the 2006 agreement was not perfect, it did provide certainty of access to producers on both sides of the border for nearly a decade.

While we may all prefer to have free trade in lumber, that is not our reality. The U.S. has the right, under its trade laws, to control access to its market. The choice we face is between managed trade and litigation. Managed trade agreements, if reasonable, can work to the benefit of producers in both countries. Without an agreement in place, we will return to the costly path of litigation to resolve this dispute.

Faced with these two options, the members of the Canadian Lumber Trade Alliance believe it's in our collective interest to work constructively to find a new agreement that is fair and acceptable to producers on both sides of the border. We will continue to work collaboratively with Minister Freeland and her officials as they engage with their U.S. counterparts to try to achieve this goal. However, if the U.S. approach is punitive and if a new agreement cannot be reached, we are equally prepared to work alongside our national government to aggressively defend our industry against any potential legal challenges brought by the United States, as we have done successfully in the past.

● (0900)

Eight weeks ago, President Obama and Prime Minister Trudeau underscored the need to find a long-term solution to this trade irritant between our two countries. We agree. This dispute should be settled once and for all, and the time to do that is now. It will take political and industry leadership from all sides to find a way forward. For our part, the members of the CLTA stand ready to work with all parties to help achieve this goal.

Thank you for your interest. I'm more than happy to answer any questions you may have on this subject.

Thank you.

The Chair: Thank you, Mr. Davies.

Thanks to both of you for those submissions.

Before we go on to questioning, I'd like to welcome some of our visiting MPs here. I'm sure they have a lot at stake in their ridings with their softwood lumber.

Gord Johns, Richard Cannings, Alistair MacGregor, and Todd Doherty, welcome to our very active and exciting trade committee.

We'll start off our questioning with the Conservatives.

Mr. Hoback, you have five minutes.

Mr. Randy Hoback (Prince Albert, CPC): Mr. Chair, I think if we have any more people around this table, we'll have to charge admission so that they can participate in this esteemed committee.

The Chair: We'll have to keep an eye on our cookies today, that's for sure.

Voices: Oh, oh!

Mr. Randy Hoback: First I would like to thank the witnesses for their understanding with regard to the cancellation of our committee meeting. We appreciate the fact that you weren't given lots of notice, and I hope you understand why we had to do that. I want to thank you for coming back, because this is a very important issue. It deserves the recognition and the hearing that we're having today.

Moving right into the questions, first, if we look at the B.C. sector and the B.C. industry and at the existing agreement in place, we're *x* number of years moved forward. What should be in the agreement today versus yesterday? What type of changes should be made? Is the industry structurally the same way today as it was back then?

Another example might be the ownership of mills now in B.C. and the Canadian ownership of mills in the U.S. Does that have an impact on how that agreement should be struck?

Maybe I'll lay that on the floor for both of you to answer.

Mr. Duncan Davies: From an industry structure standpoint, I don't think the fact that a number of Canadian companies, including mine, have invested in the U.S. is really a pertinent issue with respect to the structure of the SLA.

We believe, both in British Columbia and nationally, that the structure of the 2006 SLA, which would be characterized as a bottom-of-the-market structure that provided provinces with the options to use either a tax-based system or a volume-based restriction as the basis of their access to the U.S. market, was a good structure. I think it meets the respective needs and interests of the different provinces under that optionality provision.

I think economic circumstances have changed since 2006. There are opportunities to modernize the agreement and make it possibly more effective than it was under the old structure. Susan described the root of this issue as based on timber pricing as it relates to land ownership issues in the U.S. The real factor here is really what happens at the bottom of the market, particularly when the Canadian dollar is weak, and a tax-based structure or volume-based structure that limits access or reduces access of Canadian production to the U.S. market when the market is weak is the right kind of a structure. It makes much more sense, from our standpoint, than a volume-based structure.

Mr. Randy Hoback: I know we had some groups that wanted to change what they'd chosen after a year or two into it.

Mr. Duncan Davies: Yes. They can. Under the old agreement, a province could choose I think twice during the term of the last agreement. A province that chose one option was able to switch to the other option.

That's not a bad arrangement, from our standpoint, because it allows provinces to adjust to changing circumstances as it pertains to their operations.

Mr. Randy Hoback: Okay.

As far as outside of Canada and the U.S. is concerned, what do you see in terms of actively pursuing other markets that would offset what you possibly could lose in the U.S.?

I look at the beef sector and what happened to us by being so reliant on one market. Of course, they have now diversified around the world. What are you guys doing in order to do that, and how do both TPP and other trade agreements impact that?

Ms. Susan Yurkovich: British Columbia in particular has been doing a lot of work, as I mentioned, to grow our markets, and a particularly big success story is what we have been able to do in Asia. If we had not been able to build those markets, in the post-2008 world it would have been even much more difficult for the sector to move through.

We have actually been very successful in growing our markets in China. Of course, we've been very well established in Japan as well since the 1970s, and we still sell a lot there. We have a small office in Korea. We're sending product there. As I said, now we're starting to explore options in India, a very different market with very different logistics and different species that are of interest. We're just starting to explore that market.

In terms of those programs done in combination with Natural Resources in Canada, and in our case the Province of British Columbia through Forestry Innovation Investment, we couldn't do those as industry alone, and those are really important programs to try to diversify our market. However, the reality, frankly, is the U.S.

needs our lumber, and it's a natural market as well, so I don't expect we would be moving completely off it.

I don't know, Kevin, if you want to speak to the—

• (0905)

Mr. Kevin Edgson (Member, CLTA, President and Chief Executive Officer, Eacom Timber, Canadian Lumber Trade Alliance): I would like to speak.

For clarification, Eacom is based in Montreal. It's the largest lumber producer in Ontario, so I have an eastern perspective on this.

Foreign markets are fantastic for the whole Canadian industry.

We will never ship a stick of wood to Japan, China, or India, but this is a commodity product, and if part of the production flows overseas, that benefits all of us. The foreign markets should not be viewed as a B.C. advantage; it's an advantage to the Canadian industry. It should be supported by the entire Canadian industry, and it should be viewed in that light. We benefited in Ontario and Quebec, and our jobs were saved because of the development of those markets and the supply that came out of B.C.

The Chair: Thank you very much.

Thank you, Mr. Hoback.

We're going to move over to the Liberals and Mr. Dhaliwal.

Mr. Sukh Dhaliwal (Surrey—Newton, Lib.): Thank you, Mr. Chair.

Thank you to the presenters. I appreciate your coming, Susan and Duncan, and the work that you're doing.

I'm taking over from Randy. As Duncan mentioned, you are trying to see... On this 100-day period that we have for the negotiation between the U.S. and Canada, what would you like to see accomplished in that agreement that we are going to form? Also, Duncan mentioned that we need the political will of the industry and of the government. What can the Canadian industry and both of our governments do to encourage that deal?

It's for both of you, Susan and Duncan.

Ms. Susan Yurkovich: Obviously, we have this 100-day period and we think we should be working very hard towards a new agreement. It might be a modernized agreement, as Duncan has said. Certainly the 2006 agreement—the basic structure of the agreement, the optionality of the agreement, having provinces that had a volume constraint and others that had a tax—worked. The agreement actually worked for a long period of time. Of course, it was a nine-year agreement, but it was a seven-year agreement with a two-year extension, and both parties agreed to the extension, so for a long period of time, that agreement worked.

We would like to be at the 100 days with very significant work having been done towards a modernized agreement. That is what British Columbia would like to see within that 100-day period, but you need to have the willingness of both parties in order to achieve that.

Mr. Sukh Dhaliwal: Some people also suggest that the lumber industry should not rush into this agreement in the next 100 days. What is your position on that? Do you agree with those people? If we do not reach an agreement within the 100 days, what are the risks and what are the implications that you see?

Mr. Duncan Davies: There are a couple of points. First of all, the history of the softwood lumber dispute shows clearly that this matter is never resolved unless the president and the prime minister both take a direct interest in finding a solution. Minister Freeland and Prime Minister Trudeau have both been very active on this file since the election and the appointment of the new government last fall.

First things first: raising the profile of this issue with the U.S. is a critically important step in finding a solution to the file. That's number one.

Number two, if we don't make progress during these 100 days or in the period leading up to the expiry of the standstill that was built into the 2006 agreement, which expires in the middle of October of this year, we would fully expect the U.S. industry to petition their government to bring another trade case against the Canadian industry.

While I'd like to think that saner heads will prevail, the practice in the U.S. is that when their industry petitions for a trade case, the U.S. trade authorities fall into line and institute a trade case. As a result, we would expect that we would move back into a period of time in which the U.S. government would investigate practices in Canada. In all likelihood, we would end up facing some form of countervail and anti-dumping duties next spring, and then we'd be faced with ongoing litigation to deal with that and trying to negotiate an agreement when significant duties are hanging over our head during that period of time.

I think there's significant value in trying to move this thing forward before we get into that type of situation. I think that's why on March 10, when the Prime Minister met with the President, the 100-day period of time for officials in the two countries to work together to try to develop a framework was put in place. Our hope is that by the end of that 100 days, which I think is the middle of June, we'll see a clear framework of a new agreement in place, subject only to refinement and the proper legal papering of the agreement. That would be our hope.

If it goes much beyond that, I think U.S. political cycles will be such that it will be very difficult for anybody to accomplish very much before the standstill period expires.

• (0910)

Mr. Kevin Edgson: The supercalendered paper litigation going on right now is very clearly what we can expect to see on the lumber side. It's not a principle; it's about protecting and enhancing profitability south of the border. If you want a good indication of what happens, regardless of your perspective on free trade, look at those who are affected by the SC paper trade issue.

The Chair: Thank you, sir. Thank you, Mr. Dhaliwal.

We're now going to move to the NDP for five minutes. Go ahead, Madam Ramsey.

Ms. Tracey Ramsey (Essex, NDP): I'll be sharing my time with my B.C. colleague, so Gord Johns will be doing the questioning today.

The Chair: All right. Go ahead, Mr. Johns.

Mr. Gord Johns (Courtenay—Alberni, NDP): Thank you, Mr. Chair, and thank you to the presenters from British Columbia. It's nice to see some people from the west coast here.

Before I get started, I want to echo Susan's comments about the importance of this agreement and this industry to British Columbians. Coming from a community on Vancouver Island, Port Alberni, where forestry is the job creator, I know it's the driving economic industry in our region.

I come from a long history in forestry. My great-grandfather was a papermaker up in Ocean Falls and my uncle was a forester, so I really understand not only the impact on jobs today but also that it's really part of our heritage, it's part of our economy, and it's what built British Columbia.

Maybe before I get started, I think that all British Columbians know how important our relationship is with aboriginal peoples in British Columbia. One of the great aboriginal leaders in forestry, Nelson Keitlah, passed away on Sunday, and I think all British Columbians here at the table understand how significant that is and how that changed our relationship with aboriginal people. I just wanted to recognize that.

I have a question on the impact on jobs in B.C. if a deal doesn't happen and what that would look like. I also want to know what components of a deal would ensure that our domestic market can access good quality wood for our sawmills. I think it's really important that we ensure we're getting access to fibre.

I'll let you kind of divvy up the third question. The 2006 softwood lumber agreement included a binding dispute settlement process with a final dispute settlement body composed of three commercial arbitrators appointed by the LCIA. What changes would Canadian softwood lumber producers like to see made to the dispute settlement process in a new softwood lumber agreement?

Susan, do you want to lead, and then maybe Duncan can follow?

Ms. Susan Yurkovich: I'll start with your question on jobs.

I think obviously if we move into a world where we are making significant deposits, doing that places a financial burden on all the companies that are operating within Canada right across the country. If they're paying countervailing duties or anti-dumping duties, those deposits can strain the ability of companies to invest in plants and equipment as well as to do training and bring new people in. Therefore, if we are heading into a very long battle over softwood lumber and difficult financial constraints for companies that have already had very difficult circumstances post-2008 from which the industry is still recovering, it's certainly going to have an impact on jobs and employment and the ability to invest in plants and equipment, doing which, of course, would have a long-term benefit in terms of keeping people employed in our province.

• (0915)

Mr. Duncan Davies: Trade litigation, which is what happens in the absence of a deal, is a very blunt instrument designed to weaken one side of a negotiation, whereas a negotiated treaty has the ability to protect certain interests that can't be protected during litigation. It affects the B.C. industry probably more than any other industry across the country because of the value of the timber species and the lumber products that are produced in British Columbia.

Litigation will put a pro rata duty on all products regardless of product value. When you get into some of the high-value cedars on Vancouver Island and throughout the B.C. coast, those operators will pay very high absolute-dollar duties to access the traditional market in the United States, whereas under the SLA there was a cap on product value that helped to protect those operators.

The other area that's badly hit is the independent remanufacturers, which help to create a more vibrant industry than would be the case with strictly the primary industry only. There were provisions in the 2006 SLA such that remanufacturers that purchased product from a primary would pay duties on access to the U.S. market based on the cost of their inputs as opposed to the cost of their outputs, so the high-value producers and the small independents are more at risk from a litigation process than the bigger, better-capitalized major producers. I think that's something we need to be very cognizant of from a public policy standpoint as we move forward to discuss litigation versus a renewal of the SLA question.

That's number one.

The Chair: Unless you want to say something short, their time is up, but go ahead and finish up your thought.

Mr. Duncan Davies: I'll pass on the fibre issue; that's a constant matter. I'm not sure it's directly related to the SLA.

With regard to the third issue, dispute resolution, there are ways for us to accelerate the pace of it. It's a long, cumbersome, and very expensive process. There are ways to shorten that, and I think one of the things the U.S. has on the table now is that they'd like to see a modernized mechanism to help accelerate that process to resolve disputes under the SLA. I think there's some merit to that.

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

We're going to move to Madam Lapointe for five minutes.

Go ahead.

[Translation]

Ms. Linda Lapointe (Rivière-des-Mille-Îles, Lib.): Thank you, Mr. Chair.

I would like to welcome the witnesses appearing today.

A few weeks ago, we heard from lumber producers in Quebec. You will understand that I represent a riding in Quebec.

Mr. Davies, you touched earlier on the issue of an updated agreement. Since you represent the industry across Canada, what would you like to see in this regard? I would like to hear about the difference between the industry in Quebec and that in British Columbia.

We have heard from representatives from Quebec. They would ultimately be prepared to operate under a free trade agreement, without necessarily having a written agreement like the 2006 one. I would like to hear your views, Mr. Davies. I would then like to hear from you, Mr. Edgson, on the same matter.

[English]

Mr. Duncan Davies: I would like to see free trade too. I just don't think it is a possibility, because this is U.S. trade laws at work here, and the U.S. authorities are utilizing their trade laws to protect their market. Our assessment of the situation is that free trade per se is not an option. It is either managed trade or litigation, one of those two. Some people differ from that view, but history tells us that our assessment is correct. That's number one.

Number two is that with respect to the modernized agreement, there are ways to take the structure of the 2006 SLA and improve its effectiveness. That is what we would like to see happen under a new arrangement. It would mean taking into account the changes in economic circumstance, whether it is through currency, improvements in information flow, or changes in dispute resolution mechanisms, to make it a more effective agreement that would work for producers on both sides of the border, for consumers in the U.S., and for communities in British Columbia and the rest of Canada as well.

• (0920)

[Translation]

Ms. Linda Lapointe: Mr. Edgson, would you like to add anything?

[English]

Mr. Kevin Edgson: I think free trade is a fantastic principle, and one worthy of discussion, but as Duncan said, it is impractical.

The problem is that if you stand on a crosswalk when the bus is coming and say, "I have the right of way", you are dead wrong. The risk to our industry, to the people who work in it, to the small communities in Quebec and Ontario and across the country, is that we stand on principle and we throw down the drain all the jobs, revenues, and resources that can be a key part of the climate change dialogue as we go forward. I think what the rest of the industry, as represented by the CLTA, has said is that it is time to talk pragmatically about what a solution looks like.

[Translation]

Ms. Linda Lapointe: You said earlier that the President of the United States and the Prime Minister of Canada would like to sign a long-term agreement. With the upcoming U.S. presidential elections in the fall, do you think we will be able to conclude such an agreement? We were told the time limit would be 100 days. In your opinion, would it be possible to conclude such an agreement?

Mr. Kevin Edgson: One moment, please.

[English]

You lost me about halfway through. Could you repeat just the latter part?

[Translation]

Ms. Linda Lapointe: The time limit is 100 days. With the upcoming presidential elections in the fall, do you think we will get an agreement by then?

[English]

Mr. Kevin Edgson: We can reach an agreement if both parties want to be practical and reasonable, and I believe that within the Government of Canada and within the majority of the industry there is a willingness on this side. What I am not sure about is whether the counterparty is interested in being reasonable. If they are not, then we have to go down the path of protecting our industry against a sovereign attack.

The Chair: You have half a minute left, Madam Lapointe.

[Translation]

Ms. Linda Lapointe: Very well.

If no agreement is concluded, we would be headed for trade disputes like the ones we have seen in recent years. That is what you are saying, isn't it?

[English]

Mr. Kevin Edgson: There would be litigation. What we need to recognize, especially in the east, is that there has been a lot of work to try to rebuild that industry. It took a disproportionate hit in the last downturn. There has been a lot of investment, especially by the majors within that sector, but we are far from being stable and strong, and therefore we are not in a place, yet, to be able to protect ourselves through a competitive approach. An uncompetitive approach is litigation.

[Translation]

Ms. Linda Lapointe: Thank you.

[English]

The Chair: Thank you.

That's the first round. We are going to the second round and we are starting with the Liberals.

Mr. Peterson, you have five minutes.

Mr. Kyle Peterson (Newmarket—Aurora, Lib.): Thank you, Mr. Chair.

Thank you, everybody, for being here this morning. We appreciate your taking the time and providing your information to us.

I have a couple of questions.

Under the former agreement, I think Canada's exports were allowed to be about 34% of the American market, and there were clearly two regions, I think, that were called option A and option B. My understanding is that option A regions paid a higher export tax on the U.S. shipments, and option B regions had quota limits but paid lower tax rates. How does the quota-only U.S. proposal now compare to the expired agreement and that facet of it?

Mr. Duncan Davies: We haven't seen the specifics of the U.S. proposal at this point. They have not tabled what would be called "the key feature", which would be a market share arrangement.

That aside, the fundamental difference from what existed under the 2006 SLA, in which there was a choice between option A and option B, is that the U.S. proposal would offer only an option B approach, with a volume restriction. From the standpoint of British Columbia, certainly, and the other provinces that operated under the option A provision of the 2006 agreement, we do not believe that a volume restriction in isolation is a prudent approach to managing trade between the two countries, and so we are not in favour of that approach.

●(0925)

Mr. Kevin Edgson: I would counter or add that optionality was a key part of the last agreement. It worked well for all regions, and the lack of details around a quota-only approach has resulted in either uncertainty or disagreement clear across the country. It affects regions in the east that were exempt. It affects Quebec, which has a separate view in terms of what should happen. Ontario, which had quota, is unsure in terms of what that means, and in the west, there is a preference to have a structure that allows them to be most competitive in the world market.

Mr. Kyle Peterson: That leads to my other question. Maybe Mr. Edgson might be particularly well positioned to answer this, based on his perspective from the east as well as from the western industry.

Can there be an agreement without this optionality component that would satisfy the entire Canadian lumber industry, or would the lack of optionality favour one region over another?

Mr. Kevin Edgson: I don't think the optionality is an issue in terms of favouring one region over the other. The problem with a quota-only discussion is that you have to start with what the number is. Without trying to be too glib, if it is 100%, then quota works. If you could tell me somewhere between zero and one hundred, then we can start to have a discussion. However, there are far too few details for a quota-only system to be able to get to a serious discussion around whether that would work.

Mr. Kyle Peterson: Okay.

There's been some consolidation in the B.C. industry over the past decade or even more recently. Would this consolidation, this new investment, and even the processing happening now south of the border change the sort of ideal agreement that we could come to at this stage, and how would it change?

I presume it would, but maybe it wouldn't. If it would, what changes do you think we would like to see in this agreement that weren't in the 2006 agreement?

Mr. Duncan Davies: I don't think the changes in the structure of the industry—which have been really on the margin, as opposed to fundamental, including investments by Canadian companies in the U.S.—change what we would think would be an appropriate agreement in any way, shape, or form.

Mr. Kevin Edgson: I would echo that. As well, there's been significant investment in the east in modernizing the sawmills, and I don't think that changes the structure or the requirements of the new agreement.

Mr. Kyle Peterson: Thank you.

Ms. Susan Yurkovich: I might just add to that.

This is a global business. To have all your assets in one jurisdiction is not normal in a business that competes globally. I know people are saying it's all different and this is really changing; I think businesses that operate in a global environment tend to have assets in more than one jurisdiction, so I don't really think it's abnormal.

Mr. Kyle Peterson: That's good.

The Chair: You only have half a minute, but you can give it to the Conservatives if you want to.

Some hon. members: Oh, oh!

Mr. Kyle Peterson: Just so I can get an idea of the industry here, the Canadian dollar is obviously relatively low now. What impact does that have? Is that already factored into the way you conduct business? Can you just illuminate me on that a little bit?

Mr. Duncan Davies: It's built into the way business is conducted, but it's the elephant in the room as it pertains to trade agreements.

When markets are weak and the Canadian dollar is weak, it results in a change in the location of the cost curve of Canadian producers, and if you look at all the statistics since the beginning of time, you'll see that it's when markets are weak and currency is weak that Canadian producers are able to ship volume into the U.S. market, capturing market share and pushing prices low. That's the fundamental issue at the heart of the softwood lumber dispute.

Finding some way to equalize or at least take some of the extremes off the movement in the currency would be a significant step in the right direction. The 2006 SLA did that indirectly through increasing tiers at the bottom of the market, and we say the best route forward is a modernization of the 2006 structure. It would be to take into account some of the changes that have taken place from a currency relationship standpoint, and as a result from the pricing standpoint, in the new agreement going forward.

• (0930)

The Chair: Thank you very much. You've gone way over time, but that's fine. The comments were well received.

We're going to move over to the Conservatives now.

Mr. Doherty, you're up. You have five minutes.

Mr. Todd Doherty (Cariboo—Prince George, CPC): Thank you, Mr. Chair.

Thank you to our guests.

Susan, I'm skipping the formalities because we know each other. Can you explain the issue that B.C. is facing with timber supply and the challenges that some of our producers are having in terms of the availability of our timber supply, the proximity to their operations, and some of the other conditions and challenges our B.C. producers are facing?

Ms. Susan Yurkovich: Sure.

For those of you who are not from British Columbia, we've had a large infestation of the mountain pine beetle that peaked in the 2004-2005 time frame. That timber is getting to the end of its useful life. We've been spending a lot of time moving that wood out as quickly as we possibly can. The result is we had an uptick in our annual allowable cut in order to bring that out as quickly as possible, but

now we will have a reduction in AAC, or annual allowable cut, as we move forward.

What that does is force mills to go farther afield to feed themselves. They have to travel greater distances, which means the hauling costs are higher. They're also moving into places where the economics of bringing that wood out are not as good, so as we are moving farther afield, our delivered log costs are moving up as a result.

Mr. Todd Doherty: That's great. Thank you.

We are also seeing a considerable number of our major producers divest themselves of their Canadian operations. Is that correct?

Ms. Susan Yurkovich: No, I wouldn't say that.

We've had some changes in ownership. There was a period of consolidation in the late 1990s and into the 2000s. There was quite a bit of consolidation. From time to time, assets do change hands, but in the last couple of years there has not been an exodus from the industry.

Mr. Todd Doherty: Okay.

In your comment earlier you said in the ever-changing global environment it's not normal to see all our operations remain in one place. I would agree with you that it would make sense for businesses to expand and to expand their global interests as well. We are dealing with the softwood lumber agreement, and we are seeing that a considerable number of our major producers have considerable interests on the other side of the border, which could be perceived as a conflict of interest.

For my question, I'll turn to Mr. Davies. Mr. Davies, how many of your company's operations would you say are in the U.S. versus Canada?

Mr. Duncan Davies: Two-thirds.

Mr. Todd Doherty: Two-thirds of your operations are U.S.-based?

Mr. Duncan Davies: Yes.

Mr. Todd Doherty: That would mean if there were any export tax levied against Canadian producers, your company would be a net beneficiary of that.

Mr. Duncan Davies: Not necessarily.

Mr. Todd Doherty: You wouldn't see a benefit to that?

Mr. Duncan Davies: It would be a negative pertaining to our Canadian operations.

Mr. Todd Doherty: Your Canadian operations are only one-third. You have considerably more in the U.S., correct?

Mr. Duncan Davies: You have to tell me what happens to product prices in the U.S. market before I could tell you what the impact would be on our U.S. business.

Mr. Todd Doherty: Okay. Fair enough.

We are under the understanding the U.S. coalition has shared with the U.S. trade group what they believe would be a fair market share for Canada under their hard-capped quota system. Is this something the minister has shared with you—

Mr. Duncan Davies: I'm aware—

Mr. Todd Doherty: —or with the group?

Mr. Duncan Davies: I am aware the U.S. industry has shared that information with USTR.

• (0935)

Mr. Todd Doherty: Do you know the amount?

Mr. Duncan Davies: No, I do not. I've asked, but I haven't been told, and I don't know whether or not USTR has shared that information with Global Affairs as yet. My understanding is they have not.

Mr. Todd Doherty: Global Affairs has been going down the path. I think we're at day 54 in the 100 days of the 100-day agreement. We have a U.S. political cycle that is fast approaching, and we have a president who may or may not have the balance of power within their House.

Are you confident we're going to be able to see an agreement in the next 46 days, or a framework that will allow us to get to one? Is there any concern for you, or Mr. Edgson, or Ms. Yurkovich that we could be sitting here as we rapidly approach October in the political cycle we're seeing across the border?

Mr. Duncan Davies: I think Kevin characterized it well: he said it boils down to the goodwill on both sides of the border. If both sides want to work constructively to find a resolution to this matter, then there is sufficient time available between now and the end of the 100 days to be able to do that.

I can tell you from my involvement that the Canadian authorities are working actively on this issue. The delays have been on the other side in putting forward their positions to Canada.

The Chair: I'm sorry; your time is up.

Mr. Todd Doherty: That's it?

The Chair: You're at six minutes now, and we don't usually give that to visiting members. I'm just letting you know.

We're going to move over, and I think we only have one position left for questioning, one MP.

Ms. Ludwig, go ahead.

Ms. Karen Ludwig (New Brunswick Southwest, Lib.): Thank you.

Thank you very much for your presentations.

Mr. Davies, you mentioned during your presentation that there has been a change in terms of building supplies, meaning steel, cement, and composite. How much loss in market share has that competition caused for softwood lumber?

Mr. Duncan Davies: I couldn't quantify that off the top of my head, but the observation that I would make is that as we have fought the various iterations of the lumber dispute, we've lost sight of the fact that softwood lumber is in competition with other products that can be used for similar purposes.

Only through the 2006 SLA was the industry given the opportunity to work constructively to combat both the loss of market share to these other products and also to grow market in segments of the industry where we had historically not been well

represented, through groups like the Binational Softwood Lumber Council and the Softwood Lumber Board.

I'm actively involved with both of those groups. I can tell you that the work that has been done has been absolutely tremendous, both in terms of stopping the loss of market share and actually growing the market.

Those of you from British Columbia will know that there's an 18-storey wooden building being constructed in Vancouver, and there are tall wood buildings being constructed in eastern Canada, the United States, and other markets. That's all the result of the constructive efforts to grow market, which I think is a much better focus for everyone's attention than fighting over market share that's being eroded by other products.

Ms. Karen Ludwig: Thank you.

Mr. Kevin Edgson: One other point is that it would be a terrible shame if the Softwood Lumber Board and this effort were to be a casualty of a legal dispute going forward.

Ms. Karen Ludwig: It must be quite a challenge from a business perspective to try to balance the loss of market share and work on growing market share when there's always the uncertainty about the softwood lumber agreement hanging over you.

Mr. Duncan Davies: That's absolutely the case. It's also very difficult to run your business day to day if you don't know what the rules of access are to the primary market worldwide.

It's a major distraction in all respects. That's one of the great benefits of a managed trade agreement: you can put that aside and focus on running the business, making your company successful, and working on growing markets.

Mr. Kevin Edgson: The 2006 agreement was tied to a percentage of market share in the U.S., so there was every incentive for the Canadian industry to want to see that market grow. Therefore, we focused on the right thing under the last agreement, which was growing the pie, because there's plenty enough room if the pie is big enough.

Ms. Karen Ludwig: Looking at the U.S. market itself, do you have a quantifiable number of how much of the U.S. market is actually exported, or is it typically U.S. domestic consumption?

Mr. Duncan Davies: U.S. producers export a very small percentage of their total production. The U.S. market needs imported product, and Canada is by far and away the largest component of that import.

Ms. Karen Ludwig: My next question is regarding diversification.

Each of you talked about the need for diversification, and certainly any Canadian producers should be focused on that and not so much focused on one particular market. What would be your greatest challenges to expanding into some of the emerging markets in Asia?

• (0940)

Mr. Duncan Davies: I think Canada has done a tremendous job. Susan talked about the work that has been done by the B.C. industry and the B.C. government. The Canadian federal government has been very actively involved and very supportive on the initiatives to grow markets offshore. I think it continues to grow in importance strategically.

The Japanese market has been one that we've been involved in for many years, but the growth in the Chinese market that has taken place, effectively beginning in 2004-2005, has been a tremendous success. There are opportunities to continue to expand our presence in that marketplace, as there are opportunities to grow in other Asia-Pacific markets, and India is receiving significant attention now.

We think those are very good programs with tremendous potential.

Ms. Susan Yurkovich: There are a variety of things you need to do, though. We build with wood and we have a history of building with wood, but in some markets it's showing people how to use wood. It's dealing with architects, designers, engineers, etc., and getting acceptance of wood as a building product, in addition to issues around codes and standards, so it's important to work with governments to try to introduce building codes that allow for a higher number of storeys in construction.

There are government components. There is getting people to adopt wood construction and then there's promoting the wood product itself. It's multi-dimensional.

The Chair: Thank you.

That wraps up the time and that wraps up our panel this morning. We did well.

Thank you again for coming from the west coast and being with us, and for your submissions. We had good questions from our MPs.

Right now people are standing by in B.C., up bright and early, and we're going to do a video conference. To the witnesses who are here, you're welcome to stay with us in the audience, but we're going to suspend now for five to ten minutes just to get everybody set up.

Thank you very much.

• (0940)

(Pause)

• (0945)

The Chair: We're going to start our second panel. We see you guys are up bright and early in British Columbia.

Just for our witnesses in British Columbia, we've had a couple of meetings now on the softwood lumber issue. A few weeks ago we had the eastern part. We had the Maritime Lumber Bureau and Quebec and Ontario here. Earlier this morning we had a panel here from British Columbia. The B.C. Lumber Trade Council was here, and also the Canadian Lumber Trade Alliance.

With us via satellite video conference, from Harmac Pacific, we have Cameron Milne. We also have, as an individual, Harry Nelson. He's an associate professor from UBC in the faculty of forestry. Welcome, gentlemen.

We're going to get started here. It might be the first time you guys have been on a panel at our committee. You're allowed to have five minutes each for opening comments, and then MPs will ask you questions and we'll go back and forth.

It's sometimes a little difficult because there's a little delay here, and I encourage MPs to keep your time short so we don't get into an awkward situation.

We're going to start off with the witnesses. Who wants to go first?

Mr. Cameron Milne (Fibre Supply Manager, Harmac Pacific): I will.

The Chair: Okay, go ahead, Mr. Milne.

Mr. Cameron Milne: I am going to start with a bit of an introduction to our company, if you could indulge me.

I represent Harmac Pacific. We are a B.C. company operating in Nanaimo. We produce northern bleached softwood kraft, and we are in Nanaimo on Vancouver Island. We have an annual capacity of 375,000 metric tons of pulp and 450 gigawatt-hours of green power, 205 of which are used and sold on the BC Hydro grid. For those who are not familiar with that kind of capacity, that is equivalent to powering up about 18,500 homes.

We are unique in Canada. We are the only pulp mill operating where employees own a large proportion of the company, approximately 25%. There are over 330 employees, each with an investment of \$25,000. We were formed in 2008 when our former owners went bankrupt and our management, together with the union, collaborated and were able to lead a successful effort to conclude an employee purchase of the assets from the receiver.

Since we began business in the fall of 2008, we have invested \$125 million in capital improvements, as well as \$27 million of green transformation funding into energy conservation and environmental improvement projects. We have completed the installation of a \$45-million green energy project and we have hired 150 new employees in the community.

We continue to look for opportunities to leverage our site infrastructure to diversify and grow our revenue streams. We market our high-strength NBSK pulp, which is a northern bleached softwood kraft pulp, around the world. The majority of our production is sold overseas into freight-logical regions, primarily in Asia, with a heavy balance to China. We do, however, sell a small amount, approximately 5%, of specialized product in the U.S. This product is used in a non-woven fabric for highly technical medical uses, and we are the only ones in the world who produce this fibre.

Switching a little to the softwood file, I want to talk about the integration of our industry and the importance of the sawmill sector to us.

Our operation consumes approximately two million metres of wood chips per year for the production of the pulp, and approximately 170,000 metres of hog, which is primarily bark and sawdust, to burn to produce steam, which in turn supports the pulp mill and produces the green power.

Fibre is purchased competitively on the open market. The pulp industry and the lumber and plywood solid wood producers are highly interdependent.

In the early days following the development of the lumber industry, pulp mills were established based on the utilization of chips, sawdust, shavings, and waste bark products from lumber production. The economics of the pulp and paper mills were based on waste products. Those same economics still apply today.

In a similar manner, the solid wood producers are dependent on the pulp industry to dispose of their waste products and provide additional revenue. Pulp mills rely on a healthy solid wood sector, and anything that undermines the production of lumber is detrimental to the viability of the pulp and paper industry. The amount of waste fibre from sawmills has declined on the coast due to the reduction in the number of operating sawmills, and the result has been multiple closures of pulp and paper mills.

Hence, our desire is that the two governments reach a negotiated settlement in the softwood lumber dispute, one that meets the needs of U.S. and Canadian lumber producers and protects the overall lumber capacity of the solid wood sector. This will provide the security that both sectors require to remain viable, to make the necessary investments in their businesses, and to continue to provide the many benefits to society and local communities.

That concludes my remarks.

Thank you.

● (0950)

The Chair: Thank you, sir. Thank you for those opening comments, and for being on time.

We are going to move over now to Mr. Nelson for five minutes. Go ahead, sir.

Professor Harry Nelson (Assistant Professor, University of British Columbia, Faculty of Forestry, As an Individual): Good morning. Thank you for the opportunity to appear before the committee.

I've shared my comments with you ahead of time, so I can be briefer. I'm drawing on both my research experience as well as my experience from being involved in various rounds of the dispute, going back a good 15 years or more.

There are three points I'd like to emphasize to the committee as you investigate this issue.

The first is to understand that in some ways these different notions of how we manage our forests really influence the way these discussions take place. The Americans view with skepticism our public ownership of timber and the policies around how we manage that, and that's just an unfortunate by-product of this dispute. Anything we do in terms of policies to try to improve or strengthen either our forest sector or the competitiveness of our industry tends to be viewed with a high degree of skepticism.

That's something to keep in mind. Because of the risks associated with this kind of dispute—and my feeling is that we'll find ourselves being approached by the Americans with something around how we manage this trade agreement—it's important that we keep the

flexibility we have to develop policies that are in our best interests, not necessarily just to meet American objectives, which mainly tend to focus on limiting access to the U.S. market.

Along those lines, I think there are two voices that are often neglected in these kinds of discussions. One of those is the smaller manufacturers, the secondary industries and others that are highly reliant on the U.S. market. Even though individually they are quite small, they still make up a considerable proportion of the value, the employment, and the trade that we have with the U.S., and if anything they are even more dependent on the U.S. market than some of our producers here in B.C., so I'd want to make sure that they have an opportunity to offer their input in any kind of agreement or discussions that are presented for negotiation.

The other one is that here in B.C., and I would imagine elsewhere in Canada, we're seeing some evolution in how we think about forest management, with new partnership arrangements, often with aboriginal communities and others. Again I think we want to allow ourselves the opportunity to be able to do that without having to worry about being constrained by such an agreement.

I'll end there and perhaps just pick up on something that Cam said. For much of the industry, it is a tightly-woven web of interconnections, and if we hope to gain the maximum value from our forest resources and have a healthy forest, we'll need a healthy forest industry. Therefore, taking into account these different perspectives, as you're doing, is essential to making sure that we can strike a good agreement.

With that, I'd be happy to take any questions.

● (0955)

The Chair: Thank you, Mr. Nelson. Thank you for that submission.

We're going to start with questions. We're going to start with the Conservatives.

Mr. Doherty, you're first.

Mr. Todd Doherty: Thank you, Chair, and thank you to both of our guests today.

Mr. Milne, I will start off with a comment. I understand the challenges that we have in today's environment for fibre supply. I have cattle producers and dairy producers who at one point not so long ago could back up a pickup and get the chips they needed for bedding and what have you, so the cattle producers and dairy producers in my region are crying foul as well. They would love to see timber supplies available so that they could get their chips back.

My question is to Mr. Nelson.

Mr. Nelson, you mentioned in your paper that between the two different types of combinations that we've seen in past agreements, whether it was a quota or an export tax, you believe that an export tax would probably provide for better market access.

More and more of our major producers now have operations on both sides of the border. Would an export tax not raise our lumber prices, thereby penalizing some of our smaller producers who do not have operations on the other side, and benefit our U.S. producers?

Prof. Harry Nelson: It's a good question. One of the outcomes of both a quota and an export tax—the purpose behind these is to restrict Canadian supply—would be to raise U.S. prices. Both the export tax and a quota will do it.

In both cases, the challenge is if you are a small producer and you don't have quota, you cannot access that U.S. market, so there's no benefit to you from that higher price. Under an export tax, if you can cover the cost of production, at least you can get some of that benefit. From my perspective at least, that's why there is a benefit to the tax, even for the smaller producer.

• (1000)

Mr. Todd Doherty: I'm from B.C. We are seeing increased challenges in accessibility to timber supply. Annual allowable cuts are being decreased, so both our small and large producers are having to work harder and are incurring higher costs to get their timber supply and get it to market. An export tax would likely penalize those smaller producers because we're already seeing higher costs of operations due to the timber supply issues we have in B.C. Is that not right?

Prof. Harry Nelson: It depends. It can be context-specific. We have a market pricing system or market-based system in B.C. Given that so much of our production still goes to the U.S., in some ways the value of our timber floats with what we get for that timber in the U.S. market, even if there is an export tax or not. I think the larger challenge we're having in B.C. right now is accommodating or adjusting to the changing timber supply.

I think that the export tax in itself is not the major influence on the viability of these smaller or larger producers. What really impacts you is the overall supply within your area and then how much you might be able to find on the open market. That's an area where we can certainly do things to strengthen the competitiveness of the sector in B.C.

Mr. Todd Doherty: Mr. Milne, I appreciate that you see your shareholders every day and I applaud your company for taking bold steps. I followed your company's restructuring back in 2008. That is commendable, and I'd be interested to see that same structure being replicated right across the country.

While 5% of your product goes to the U.S., is there a preferred option or a preferred quota? Is there a combination that you would like to see and that your shareholders are also asking for?

Mr. Cameron Milne: We would prefer an export tax for the same reasons that Harry Nelson has explained. It at least allows people access to market. I'm thinking of some of the smaller operators that supply us with chips and fibre.

The Chair: Your time is up, sir.

I know you're on a roll with good questions, but thank you, gentlemen.

We're going to move over to the Liberals now.

Mr. Fonseca, it's your turn. You have five minutes, please.

Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.): Thank you very much, Mr. Chair.

Mr. Milne and Professor Nelson, thank you for your presentations.

Mr. Milne, I want to congratulate you on all the success you've had from 2008 forward. You say the majority of your sales are overseas. Has it always been that way from 2008, or have you diversified and increased those market shares overseas over that time?

Mr. Cameron Milne: The pulp is sold at the destination. The majority of the markets depend on where the most inexpensive shipping is. Our markets have changed over time.

When we started in 2008, we were largely unproven. Our customers were reluctant to deal with us because we were employee-owned. There was concern over our viability.

When we started in 2008, we were very highly leveraged into China. It was a new emerging market. Over the years, as confidence in our operation continued, we got back to some of our other markets in Australia, southern Europe, and other Asian markets as well. We're highly leveraged in Asia because that's the logical freight area, and most of that business is in China. We have since pulled out of northern Europe.

Mr. Peter Fonseca: Thank you.

Our committee had the opportunity to be in your beautiful province two weeks ago and to hear about the trans-Pacific partnership from many witnesses. I want to get your take on the industry and your company in particular: how you feel about the TPP and the potential ratification of the TPP? How would that affect your company?

• (1005)

Mr. Cameron Milne: I don't exactly know. I haven't looked at the agreement, but I'm told there are some positive benefits for the forest industry, so I will take it at face value.

Mr. Peter Fonseca: Professor Nelson, I know you wrote and published an op-ed piece about how a lot of consolidation happening within the industry has hollowed out the middle class and led to a few companies controlling a large proportion of the forest resource. Can you expand on that? Is that the trend going forward?

Prof. Harry Nelson: It's the trend we've seen in B.C. In my perspective, in my opinion, it has actually weakened our sector in some ways, because it's made it more dependent. When one company faces challenges, those impact or ripple throughout the broader forest sector economy.

It's also something that I feel is an internal policy that we here in B.C. could probably address. I do not see any kinds of structural reasons that we had to have the consolidation, and I think I've written about that. In my view, I think there are things that provinces can do internally to further enhance the competitiveness of their own forest sectors. In my view, this is one area in which we could try to improve—I'm picking up on the previous member's comments—and perhaps turn back the clock a bit and try to improve access to fibre through open market or other means as a way to increase the opportunity for that middle class.

Mr. Peter Fonseca: Thank you.

We heard from some previous witnesses that to get a new SLA done, you need political will and industry will. I also feel that much of what was said was around some of the economic and environmental factors that we may have little control over, such as the currency, the fluctuation of the currency, and how well the economy's doing here in Canada or stateside.

Do you think that right now, where we are as compared to where we were in 2006, we're in a good position to set a new agreement with the United States?

Prof. Harry Nelson: Is that question directed towards me?

Mr. Peter Fonseca: It could be to either of you, but I think Professor Nelson would probably be best to address it.

Prof. Harry Nelson: Okay. Here's my shot at answering that question. I think from a political will perspective, it is promising in the sense that both the Prime Minister and the President have made commitments to try to negotiate such an agreement. I worry that this probably isn't the highest priority for the President, even though it's critically important for Canadians. I think that's a positive check mark to try to reach a good deal.

When one looks at the industry, on one hand I think that perhaps some of the American fears that there is this wall of wood that's going to come crashing down from B.C. or western Canada may have abated, so perhaps there's some latitude for a reasonable agreement that allows us flexibility such as we had in the past agreement. I feel somewhat encouraged by that.

Offsetting that, the U.S. housing market is very slow to recover, and so I count that as kind of a halfway factor.

I feel positive that the environment right now would be a good one in which to reach a good agreement for us, subject to nothing drastic happening in the next few weeks.

The Chair: We'll have to move on. Thank you very much.

We're going to move to the NDP. I'd like to welcome Ms. Malcolmson to our committee.

You're sharing your time with Mr. MacGregor, as I understand. You have five minutes. Go ahead.

Ms. Sheila Malcolmson (Nanaimo—Ladysmith, NDP): Thank you, Chair.

I am the member of Parliament for Nanaimo, and Harmac is a real point of pride for us in the community, so I'm really grateful that Cameron Milne's here to talk about the interconnection between the lumber industry and fibre supply. With the renewable energy component, value-added jobs, and employee purchase, it's right in the heart of our community, so it's good to hear a success story.

I'm hoping you can expand on your comments around what would be a win for Harmac. When the softwood lumber agreement is announced, and we're very optimistic that there's going to be a good conclusion from that for Canada, what would be a win? What's the headline you want to see in Nanaimo on that?

• (1010)

Mr. Cameron Milne: A win for us is an agreement with the Americans that allows access for the lumber producers into the U.S.

Principally, I'd like to see something that recognizes the large producers, which essentially produce CLS or construction-grade material—a commodity—and I'd like to see the smaller guys, the independents who do not have tenure but who bid for wood on the open market, also have access into the States, in recognition that their business is different from that of the large guys and that they need some special consideration so that they can be successful. It's a very tough world for them.

A good part of our success is dependent on the small guy's success, because we end up purchasing our chips and hog material on the open market from the small guys as well. They need to survive.

Mr. Alistair MacGregor (Cowichan—Malahat—Langford, NDP): Thank you for appearing today, Mr. Milne.

I'm Alistair MacGregor. I'm the southern neighbour of Sheila Malcolmson. My riding runs from Chemainus down to Langford. I have the Crofton pulp mill, and I have the sawmills in Chemainus and in Cowichan Bay. It's great to see a fellow Vancouver Islander.

I was really interested in your comments about the supply of fibre available for your operations having declined.

As you know very well, the topic of raw log exports is an explosive item on Vancouver Island. In 1997 we had 200,000 cubic metres exported, and now exports exceed 5.5 million cubic metres. In that time we've seen thousands of jobs already lost.

As this new agreement is being negotiated, I was curious to hear your thoughts on the whole raw logs issue and how the increase in exports may or may not have affected your operations in trying to find fibre.

Mr. Cameron Milne: The export of raw logs is an explosive topic in B.C. It has a positive side and a negative side, from my perspective. The positive side is that export log values allow operators—tenure holders and small businesses—to operate and harvest in areas in which they might not otherwise. The downside, of course, is that the fibre is leaving B.C. unprocessed.

From a pulp mill perspective, there is a high component of pulp log material—that's low-grade logs—in some of these high-value older stands. In actual fact, we're able to source a significant volume of pulp logs out of harvesting that is principally done for the export market. I'd like to see the material stay in the province and support some of the smaller manufacturers, but at the same time it does supply us with fibre from the lower-quality log that is not exportable. There isn't a market to export it.

Mr. Alistair MacGregor: I know that a lot of the demand for raw logs is coming from Asia. With the agreement with the United States, are you seeing a demand in the United States market for Canadian raw logs, or are they more interested in our value-added products?

Mr. Cameron Milne: As you know, there is no export tax on logs into the States, so the U.S. purchases a fair volume of logs from B.C.

The Chair: Unless you have any quick comments, your time is pretty well up.

Is it just a quick one? Go ahead.

Ms. Sheila Malcolmson: I have a fast one for Mr. Milne.

What are the implications for your operation, Harmac in Nanaimo, if we don't get a good deal that protects that fibre supply?

Mr. Cameron Milne: As I said earlier, our business model and the economics of our model are predicated on lower-cost residual fibre. Every time a lumber manufacturer goes out of business, we have to source a more expensive pulp log from the bush and support the economics of that. This is detrimental to our business, so we'd like to see sawmillers and plywood manufacturers remain in business.

• (1015)

The Chair: Thank you very much, sir. That's a good question to wrap it up.

We're going to go over to the Liberals now.

Mr. Dhaliwal.

Mr. Sukh Dhaliwal: Thank you, Mr. Chair.

Thank you, Mr. Milne and Professor Nelson.

Mr. Milne, even though you hardly export any softwood lumber, do you believe that there should be an agreement in place in order for Canadian industry to do well?

Mr. Cameron Milne: Yes, I do.

Mr. Sukh Dhaliwal: Thank you.

Professor Nelson, what in your view is a pragmatic solution to the softwood lumber negotiation, and one that is realistically achievable while reasonably satisfying both the Canadian and the U.S. governments?

Prof. Harry Nelson: Thank you for the question.

To be honest, I thought the agreement that we had in the past was reasonable in the sense that it offered both flexibility to the different provinces and access to the market.

I do think that there were some things that could have been done to create opportunities for some of these secondary manufacturers and for people who relied on untenured timber. The door has been open with the U.S. before; we could have tweaked the agreement there. I think something that builds on that last agreement would be a good starting point. I think a strict quota would not be a bad one.

Mr. Sukh Dhaliwal: You said it should be tweaked a bit. What would you like to see included in that?

Prof. Harry Nelson: One of the concerns I had at the time was that a previous agreement actually had created an incentive to produce value-added goods and secondary products. That became a disincentive under the last agreement. There are certain products and certain species that are produced in B.C. that aren't really part of this trade dispute, so efforts could be made to find a way to create incentives to produce these higher-valued goods and support the smaller manufacturers and such.

It's not a primary part of what this agreement is about, which is really managing the export of construction-grade lumber to the U.S., but I think attention could be paid to that. That's why I think it's important to solicit the perspective of what that part of the sector thinks would make a good agreement.

Mr. Sukh Dhaliwal: Professor Nelson, I understand that your primary research includes developing policy options that enhance the long-term sustainability of the Canadian forest industry. What specifically would you like to see our government and the forest industry do to improve long-term sustainability while ensuring our forest industry remains competitive?

Prof. Harry Nelson: I think one of the opportunities here—and I think Cameron has touched on it—is there's this highly interdependent web between the competitiveness of the sector, the value of the forest, and what that allows us to do in managing that forest. I think there are opportunities to diversify the mix of models that we use to manage our forests to match in some ways the diversity we have in the industry, so I see the potential role for more collaborative agreements between different types of tenure holders, not just industry licensees.

Here in B.C. we're experimenting with community forests and aboriginal communities that have their own tenures, and the agreement strengthens the reasons for having that, or at least doesn't penalize us. That is the kind of thing I would like to see. In a minute or less, this is how I envision it.

Mr. Sukh Dhaliwal: Last week we travelled through western Canada. Most of the farmers are now exporting pulses, canola, and potash to India in big numbers. Susan and Duncan earlier mentioned that we have to explore our industry to India. What would you like to see? India can be a market for Canadian lumber and create opportunities for Canadians if we go in there.

• (1020)

Prof. Harry Nelson: I know that the provincial government is investing in it, and it does appear that there's an opportunity there. The one challenge is that other producers are closer to that market—the Australians and New Zealanders—and if it's a price-sensitive market, there may be a challenge, but I do agree that it's worth looking at.

I would like to pick up on something else. I think one of the other things I've been struck by in talking to some of the smaller producers is that we tend to forget if you're a smaller producer, and you're trying to go into a market, let's say the U.S. market, whatever kind of agreement comes forward, the rules around access to that market can be a critical component of whether or not that market makes sense for you.

It can be something as simple as the customs forms and the reporting that you do. This may seem like a by-product of it, but anything that we could do from our end to help reduce the bureaucratic costs or the disincentives created around trying to figure out what the rules are to access that market would be an important part of what we could achieve or negotiate.

The Chair: Thank you.

We only have a few minutes left, so I'm going to give Mr. Van Kesteren and Madam Lapointe two minutes each. Then we can wrap it up.

Go ahead, Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Leamington, CPC): Thank you, Chair.

I don't have much time, but the one thing we haven't talked about is the reality that we could see Donald Trump as the president of the United States. I wouldn't have said that two months ago, but increasingly that is becoming a real possibility. Should that happen, and it's really not funny, I think it's safe to say that all bets are off the table.

Should we be talking together as an industry, as a strategy, as we go into the 21st century? The whole softwood lumber issue and the negotiations over it took place in 2006, and now we're at that table again. Should we be looking outside of the box and should we be asking ourselves where we want to be in the forestry industry in the 21st century?

Mr. Cameron Milne: I would say it's whether the Americans would allow us to do that. The Americans principally would like to protect their market and they would like to limit access to Canadians to raise prices; that's their intent. We simply want to remain in business, so there is the conflict. We'd love to look longer term, because I don't think we want to see ourselves every five or six years in discussions over a trade agreement in lumber.

Prof. Harry Nelson: I would agree. As Cam said, and in your comments too, the Americans want to limit access, but it makes no sense for them to completely block access for Canadian exports to the U.S. Really, what this has been about for many years is what market share they feel they're willing to kind of grudgingly give us.

In my view, in the longer term we do want to find something that offers us some stability and certainty around access to that market that's never going to go away. It's the richest market in the world still, but we do not want to find ourselves having to go back to changing the rules every five to ten years. That simply kills the business and kills any kind of ability to do long-term thinking.

I'd agree. If we can reach an agreement that puts to bed some of this uncertainty so that we can focus on the long-term view of the industry and the sector, it would be a good thing.

The Chair: Thank you.

We're going to wrap it up with a couple of minutes from Madam Lapointe.

Go ahead.

[*Translation*]

Ms. Linda Lapointe: Thank you, Mr. Chair.

Thank you very much to the witnesses for being here today.

Mr. Milne, the company you built with your employees is very interesting and inspiring.

Mr. Nelson, you said earlier that this agreement is very important for Canadians, but that you are not so sure about the United States. In your view, it is not necessarily their first priority to be resolved with Canada.

As my colleague said, the presidential elections are in the fall. We don't know what the outcome will be, whether the Republicans or the Democrats will win this time. Do you truly believe that we will be able to conclude an agreement before next November?

• (1025)

[*English*]

Prof. Harry Nelson: Honestly, I am unsure. I know that the Canadians, both from the industry and from the federal government and the provinces, have been happy to speak with the Americans about this over the past year, even pre-dating the expiration of the agreement, but you need two people to be at the table to reach an agreement. Part of that in the U.S., because of the politics down there, is heavily driven by the interests of the U.S. industry.

As for what brings them to the table or whether they feel that they may do better or worse with a new president, I can't speak to that. I think in some unfortunate ways we are waiting to hear on that. From our perspective, we can simply press where we can to follow up on the commitments made by the President and the Prime Minister to try to reach an agreement sooner rather than later. Nobody likes uncertainty.

The Chair: Thank you for that good question.

That wraps up our second panel and that wraps up our lumber study.

Thank you, gentlemen, for joining us this morning. Thanks for the information and, hopefully, all goes well.

Thank you for coming.

Mr. Cameron Milne: It was our pleasure. Thank you very much.

Prof. Harry Nelson: Thank you for the opportunity.

The Chair: The meeting is suspended. We're only going to break for about four or five minutes, and then we're going to go in camera to do some future business.

[*Proceedings continue in camera*]

Published under the authority of the Speaker of
the House of Commons

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Also available on the Parliament of Canada Web Site at the following address: <http://www.parl.gc.ca>

Publié en conformité de l'autorité
du Président de la Chambre des communes

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante : <http://www.parl.gc.ca>