



Why Trump is fighting Canada on softwood lumber and dairy

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Two arcane and long-standing fights are at the center of President Trump's trade war with Canada.

The U.S. has been battling with Canada over softwood lumber since the 1980s, and disputes over dairy protections have been a persistent irritant in the otherwise congenial relationship between the two countries.

Both trade issues grabbed headlines after Trump announced a 20 percent tariff on Canada's softwood lumber industry last week.

Separately, Trump described Canada's treatment of American dairy producers as a "disgrace." That remark came in response to Canada's reduction in domestic prices on milk products used to make cheese, which effectively shut down demand for U.S. dairy products in the country.

As of Monday, about 75 contracts in Wisconsin will be canceled because of the loss of business in Canada created by the price changes Canada started making last year, which were finalized in February.

Meanwhile, farmers have been scrambling, some successfully, to find other producers to buy their dairy products.

The crux of the lumber squabble centers on the different ways timber is harvested in the two countries.

In Canada, companies pay a fee to harvest trees that are grown on public lands. In the United States, most logging is done by private companies on private land.

U.S. companies argue that the logging on public land in Canada constitutes a government subsidy and allows Canadian producers to send cheaper wood into the United States.

Over the past few decades, the two countries have managed to reach agreements governing the trade of softwood lumber, which is used for many purposes, most notably for housing construction.

But the last lumber agreement, a nine-year deal, expired in 2015, and no resolution has been reached so far.

Since the early 1980s, the United States has started five different countervailing-duty investigations — 1982, 1986, 1991, 2001 and 2016 — into whether Canadian lumber imports were damaging the U.S. lumber industry, according to Chad Bown, a senior fellow at the Peterson Institute for International Economics.

In the two most recent cases, the U.S. industry also has alleged that Canada was “dumping” lumber at unfairly low prices into the U.S. market.

The Commerce Department is again considering U.S. industry claims that Canadian lumber is dumped in the U.S. market. That decision is expected on June 23.

Canada has rarely sat by when the U.S. has levied tariffs on its lumber market and has won most of the disputes over those duties.

In 1991 and 2001, Ottawa filed formal trade disputes against the United States through the North American Free Trade Agreement (NAFTA), the World Trade Organization (WTO) and the General Agreement on Tariffs and Trade — the WTO’s predecessor, Bown said.

Dan Ikenson, head of the Cato Institute’s Center for Trade Policy Studies, said lumber was never covered in NAFTA because “any agreement would require the U.S. industry to give up its right to bring those countervailing duty and antidumping actions, indefinitely.”

“A renegotiated NAFTA is more likely to fix the dairy issue than the lumber issue because in the latter case it’s not market access, but access to trade remedies that is the issue,” he said.

But Ikenson doesn’t expect the announcement of the preliminary duties will be enough to bring the Canadians to the table “begging for a new deal on lumber.”

Bown said that “if it proceeds like earlier episodes, eventually Canada and the U.S. would negotiate a deal where the Canadian government agrees to limit how much softwood lumber gets exported to the United States each year.”

“But it may not happen immediately, it may be part of the broader set of NAFTA renegotiations that President Trump wants to initiate and address,” he said.

Dairy products have just as long a history in U.S. and Canadian fights over trade.

U.S. producers have consistently argued that Canadian policies effectively shut them out of the market.

“The issue there is that Canada’s dairy market is heavily protected, and there has been very little interest in opening it, although there would have been some liberalization in the Trans-Pacific Partnership,” Ikenson said.

Canada’s dairy industry is governed by a supply management system created in the 1970s that keeps tariffs high on imports to protect the market from foreign competition. It also applies strict

production quotas so farmers don't produce too much or too little and guarantees fixed prices to producers.

A few years ago, U.S. dairy farmers found a loophole in Canada's dairy tariffs that let them export ultra-filtered milk, which is usually used for making cheese, into the country.

The National Milk Producers Federation argues that Canada's new pricing policy may be a violation of trade rules between the two countries because it uses a government-administered system to hurt the U.S. dairy industry, "undercutting our farmers' exports and threatening to cause great damage to world dairy prices by dumping Canada's surplus on the world market."

Rep. Ron Kind (D-Wis.), who is talking to the Trump administration about how to proceed, says the latest price controls on dairy violate NAFTA, which the U.S., Canada and Mexico all say they want to renegotiate.

"I am deeply concerned that these changes to Canada's milk system may violate existing trade commitments by discouraging U.S. dairy exports to Canada," Kind said in a letter to the Trump administration.

In the letter, Kind calls for Canada's "habitual protectionist dairy policies" to be "a top priority in the context of any NAFTA renegotiation."

Overall, there are differing opinions about whether Canada's price changes constitute a violation of trade rules and if the U.S. could win what would likely to be a drawn-out fight.

Canada disagrees and says it is compliant with NAFTA.

Canadian officials have argued that the dairy trade heavily favors the United States, which ships \$550 million of dairy into Canada, while Canada exports only \$110 million of its own dairy products.

The Canadians also blame problems faced by American farmers on an oversupply of milk in the U.S. dairy market, an issue that Kind acknowledged.

But while Kind said overproduction is a problem, that doesn't change the fact that Canada's dairy policies violate NAFTA.

He is urging the two governments to work together to settle the dispute.

"They're trying to protect their supply management program," Kind said.

"But they also had agreed to certain things on NAFTA ... and so we're asking them to first live up to the NAFTA agreement."