

# Forbes

## Why Is The Trump Administration Faking A Trade War With Canada?

Phil Levy

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When I go to an airport and am told to take off my shoes, remove my jacket, and put my hands above my head while a machine whirrs around me, I do not take it personally. It's just business.

There are equivalent processes with trade complaints. In cases of alleged dumping or use of illicit subsidies in trade, a complainant files a case. There are preliminary and final determinations by both the U.S. Department of Commerce and the U.S. International Trade Commission, and, if the complaint has been upheld, tariffs are applied. Nothing personal, just business.

But when this happened Tuesday, in a case involving Canadian softwood lumber, the Trump administration seemed to go to great lengths to take an otherwise routine action and scream, "It's not business, it's personal!"

As background, the United States and Canada have been fighting about softwood lumber for decades. Most lumber in Canada is owned by provincial governments, who charge timber producers to cut down trees. The question is whether the prices charged are fair or whether they are too low and thus provide timber producers with an unfair subsidy.

When U.S. producers think they are facing unfair competition from foreign subsidies, they can file to launch a 'countervailing duty' (CVD) investigation. That has happened repeatedly over the decades in the case of Canadian softwood lumber.

Interspersed with those CVD cases have been government negotiations to try to settle the dispute. In 2006, the United States and Canada reached the Softwood Lumber Agreement, which effectively halted the fighting. That agreement expired in October 2015. The Obama administration, in its waning days, could not negotiate a new agreement and a CVD case was filed.

The action this week was the preliminary move in that new CVD case. The Commerce Department found Canadian subsidy rates of up to 24% (which would indicate the size of U.S. tariff – or duty – to be applied). The trade analyst Simon Lester, of the Cato Institute, advising against panic, wrote that "this one seems to be the usual, routine kind of trade remedy action." Bloomberg quoted a Canadian analyst as saying, "It definitely could've been a heck of a lot worse...I think a lot of people were bracing for a higher duty."

And yet this move was treated by top officials of the Trump administration as a major and

deliberate blow against Canada. Commerce Secretary Wilbur Ross intoned that “It has been a bad week for U.S.-Canada trade relations.” President Trump himself declared the United States would slap a 20 percent tax on Canadian softwood lumber. He tweeted that the United States would not stand for Canadian trade provocations, perhaps suggesting this was retaliation.

This is the exact opposite of the approach U.S. officials normally take. The standard problem is that trade findings like this one can pop up at inopportune moments. The United States might be trying to work with China, for example, on some sensitive foreign policy matter, when all of a sudden an anti-dumping tariff on Chinese steel is announced. In such a case, diplomats scramble to explain to the Chinese that this is the outcome of a legal process over which the President has no legal review.

So why has the Trump administration embraced the softwood lumber decision this way? The crowing comes in the run-up to the administration’s 100<sup>th</sup> day. If there is to be a reckoning on their accomplishments, perhaps a pro forma attack on Canada can substitute for bolder promises to rework NAFTA – promises as yet unfulfilled.

While the bravado might play well with a domestic trade-skeptical base, it has some serious downsides. First, it’s clearly provocative toward Canada, almost demanding a response. The point of routine trade actions, established review procedures, and dispute settlement mechanisms is to *avoid* damaging retaliatory spirals. In contrast, this week’s approach pretends we’re in a trade war, a feint that could lead to the real thing.

Second, taking full ownership of a CVD decision at this stage will make it much harder to disown any awkwardly-timed findings in the future. It is a short-term ploy with potentially long-term costs.

If TSA agents started to pretend they were being capricious in their inspection of passengers at airports, making it seem personal, it’s not hard to imagine how things could get out of hand.