

The 1987 National Forest Sector Strategy and the search for a federal role in Canadian forest policy

Abstract: After obtaining office in 1984, the federal Conservative government began a lengthy process of consultations and conferences intended to define a new, expanded, federal role in Canadian forest policy. Despite their best efforts, however, the 1987 National Forest Sector Strategy which emerged from this process envisioned only a very restricted federal role in the sector. On the basis of a survey of federal government activity in the forest sector since 1867, it is argued that the most recent federal initiative, like similar attempts made in 1949, 1966, and 1978, foundered on the obstacles presented to any expanded federal role by the fact that resource ownership and constitutional authority over the forest resource are vested in the provincial governments.

Sommaire: Après son arrivée au pouvoir en 1984, le gouvernement conservateur a entrepris un long processus de consultations et de conférences dans le but de définir un rôle nouveau et plus étendu pour le gouvernement fédéral en matière de politique forestière au Canada. En dépit de ces efforts, la Stratégie nationale pour le secteur forestier de 1987 qui a résulté de ce processus ne proposait qu'un rôle très restreint au gouvernement fédéral dans ce secteur. Sur la base d'une étude de l'activité du gouvernement fédéral dans le secteur forestier depuis 1867, on indique que cette récente initiative du gouvernement fédéral, à l'image des essais similaires de 1949, 1966 et 1978, se heurte aux obstacles que l'on rencontre lors de toute tentative d'expansion du rôle du fédéral: la propriété des ressources et la compétence constitutionnelle sur les ressources forestières relèvent des gouvernements provinciaux.

Introduction

Understanding the development of the federal role in Canadian forest policy formation is somewhat more problematic than is the case with the development of forest policy in the provinces, and to a certain extent, more interesting to policy analysts.

The key problem faced by most policy analysis concerns the interpretation made of the nature of state actions, or to put it another way, of identifying the *interests* governments pursue in formulating and implementing public

The author would like to thank the editor of this journal and two anonymous referees for their time and trouble in preparing this manuscript for publication and commenting on its contents. The paper benefited greatly from their efforts.

policies.¹ All policy areas, of course, involve a number of actors with more or less distinct interests on any given policy issue. Fortunately, in the case of natural resource policy in Canada, at least on the provincial level, the nature of the policy area in question is such that the interests in policy formulation can be easily identified.

Since natural resource policy is in all countries a sub-set of industrial policy and in Canada involves the regulation of a predominantly private sector industry, it is apparent from the start that two major actors involved in Canadian natural resource policy will be capital and labour; the former with an interest in profits and the latter with an interest in wage and employment conditions. Due to the predominantly public nature of land and resource ownership in Canada, the third major actor in Canadian natural resource policy is usually the government-as-landowner. The interest of government-as-landowner can be conceived, in a Ricardian sense, as an interest in rents generated by resource exploitation. This interest, of course, can be manifested a variety of forms ranging from the extraction of maximum monetary rents to the use of all or part of those rents to subsidize wages or profits in the form of "rent expenditures."²

While, to a great extent, it is possible to analyse the formation of natural resource policies in Canada through the application of this model – in which the key actors are capital, labour, and governments, with an interest in profits, wages, and rents, respectively – such an analysis begs the question of the role of the federal government. Since most land and natural resources are in fact owned by provincial governments, the attribution to the federal government of a fundamental interest in rents is not entirely appropriate.

Notwithstanding the general case of provincial resource ownership, in some natural resource sectors, such as oil and gas exploration on frontier lands, an argument can be made that the federal government retains a substantial interest in rent collection. Such an argument, however, cannot be made in the case of federal forest policy. The federal government, at present, owns or controls forest resources only in minor patches on Indian reserves, in national parks, on such federal installations as armed forces bases and airports, and in the generally poor forest lands of the Northwest and Yukon territories. Unlike in the provinces, then, where the develop-

1 The importance of this question for policy analysts has been recognized by others in the natural resource field but never systematically pursued. See, for example, the somewhat ad hoc framework developed by Doern and Toner in the energy sector: G. Bruce Doern and Glenn Toner, *The Politics of Energy* (Toronto: Methuen, 1985), pp. 11–20.

2 Rent expenditures are very similar to tax expenditures and are often confused with the latter in much the same way that rents and taxes are often confused. On the notion and application of tax expenditures in Canada, see Kenneth Woodside, "The Political Economy of Policy Instruments: Tax Expenditures and Subsidies in Canada" in Marsha Chandler and Michael Atkinson, eds., *The Politics of Canadian Public Policy* (Toronto: University of Toronto Press, 1983), pp. 173–98.

ment of forest policy can be seen to have occurred through an interplay of conflicts arising between governments, capital, and labour over the distribution of resource revenues, in the case of federal forest policy formation, the fundamental interest of the federal government is much less certain.

While its motivations may be unclear, however, it has been the case on at least three occasions since 1945 that the federal government has gone to great lengths and some expense in attempting to define a role for itself in the regulation of the Canadian forest sector. As will be argued below, these repeated attempts to enhance the role of the federal government can be understood in the context of a prevailing federal government interest in preserving the health and vigour of the forest products industry – that is, its continued profitability – due to the recognition by the government of the major role the industry plays in the national economy. This interest, not surprisingly, tends to manifest itself during periods of downturn in the industry, when both profits and employment are threatened by oversupply or a decrease in demand for Canadian forest products. As an analysis of the historical development of federal forest policy shows, however, the constitutional rights to ownership of the forest resource vested in the provinces and the exclusive provincial rights to legislate in these areas have combined to constrain severely the federal government's ability to define an effective role for itself in the sector, even in these times of crisis.

The forest sector and the Canadian economy

Most Canadians don't realize exactly how important the forest sector is to the Canadian economy, and especially to the Canadian balance of trade. This is the case for a variety of reasons, including the fact that it is located primarily outside of major urban population centres, far away from the day-to-day view of the majority of the population. Even among people familiar with some aspects of the industry it is sometimes perceived as a kind of vestigial staple enterprise whose heyday was long ago. Nevertheless, it is the case that the forest sector is one of the most important Canadian industrial sectors, arguably *the* most important.

The Canadian forest products industry is Canada's largest manufacturing industry in terms of value-added in manufacture, employment, and wages paid. Over \$33 billion in goods are shipped every year, representing about 15 per cent of total Canadian manufacturing shipments. The industry has over 300,000 direct employees, approximately 80 per cent in manufacturing and 20 per cent in logging operations, and generates a similar number of indirect jobs. Many plants are located in single-industry resource communities of which about three hundred are entirely dependent on the forest industry. The industry is a major source of foreign exchange earnings with about one-half of production exported from the country and an annual positive

net balance of trade of close to \$13 billion, or almost 75 per cent of Canada's entire surplus on merchandise trade. Canada is the world's largest exporter of forest products and Canadian exports account for 22 per cent of world forest products trade.³

While the sector is composed of a variety of industries, it is overwhelmingly dominated by three \$5 billion a year industries. The softwood lumber industry produces a variety of products but its main commodity is dimension lumber destined for North American residential construction. The market pulp industry provides a variety of specialized chemical and mechanical pulps for both domestic and foreign paper and paperboard manufacture. The largest single sub-sector, and the most export-reliant, is the Canadian newsprint industry which ships the bulk of its production to export markets in the United States.

The 1987 National Forest Sector Strategy

The most recent federal government effort to carve out a place for itself in the development and implementation of Canadian forest policy occurred in 1987. While in opposition, Conservative MPs such as Frank Oberle had long criticized the Liberal government's efforts in the forest sector⁴ and in the September 1984 federal elections, the Conservative party made the reversal of the Liberal record a plank in their election platform. On obtaining office, the Mulroney government moved quickly to demonstrate its commitment to this promise.

The Conservatives formed a new Ministry of State for Forests and quadrupled planned federal expenditures in the forest sector from about \$225 million to over \$1 billion for the period 1985–90, concluding a series of Forest Resource Development Agreements (FRDAs) with several major producing provinces under the Economic and Regional Development Agreement (ERDA) umbrella.⁵ In addition to the creation of the new Ministry

3 General statistical sources on the Canadian forest products industry include the Canadian Pulp and Paper Association, *Reference Tables* (Montreal: CPPA, various years); United Nations Food and Agricultural Association, *Yearbook of Forest Products* (Rome: FAO, various years); and Canadian Forestry Service, *Selected Forestry Statistics: Canada* (Ottawa: CFS, various years). Recent sectoral overviews are contained in Department of Regional Industrial Expansion, *Sectoral Competitiveness Profiles: Consumer Goods, Services and Resource Processing* (Ottawa: DRIE, 1985). On resource reliant communities, see Department of Regional Economic Expansion, *Single Sector Communities* (Ottawa: DREE, 1979).

4 Frank Oberle and Warren Everson, *The Green Ghetto: Can We Save Canadian Forestry?* (Ottawa: Progressive Conservative Party of Canada, 1983).

5 The FRDAs were initiated by the Trudeau government in accordance with its 1981 forest sector strategy (see below). Agreements with most of the provinces were actually signed in 1982–83 but the Conservatives negotiated major agreements with hold-out provinces such as British Columbia, Quebec, and Newfoundland after obtaining office in 1984. Interview with John Forster, director of development agreements, Forestry Canada, March 16, 1989.

of State, the Conservatives also moved to rationalize an array of over ninety ad hoc interdepartmental committees and task forces working on forest sector problems within the federal administration and combined two major private sector advisory groups to the minister of the environment and the minister of regional industrial expansion into a single Forest Sector Advisory Committee to the minister of state for forests. On the intergovernmental level, the government also supported the withdrawal of forest ministers from the more or less moribund Canadian Council of Resource and Environment Ministers (CCREM) and the formation of a separate Canadian Council of Forest Ministers.⁶

In addition, the government began a major policy development process aimed at enunciating a new Conservative national forest policy to replace the *Forest Sector Strategy for Canada* adopted by the Liberals in September 1981.⁷ The new minister of state for forests, Gerald Merrithew, placed the development of a new policy high on his agenda for the first term in office, and the federal government provided funding for a series of "forestry forums" held in various cities around the country in late 1985–86, leading up to the establishment of a National Forest Congress in Ottawa in April 1986. The forums were intended to bring together company officials, government personnel, labour representatives, academics, and other interested parties to discuss the future direction of forest policy in Canada. The recommendations of the forums⁸ were brought to the National Forest Congress for ratification⁹ and a committee of federal and provincial officials struck to set down the guidelines for a new national forest strategy. These were referred to the Canadian Council of Forest Ministers at a final forestry forum set for Saint John, New Brunswick, in July 1987. In due course a document, *A National Forest Sector Strategy for Canada*¹⁰ appeared and was accepted by the government as representing federal forest policy.

Expectations of the Conservatives

In an interview given to the *Financial Post* in December 1984, Forest Minister Merrithew had indicated that his highest priority was to bring together the federal and provincial governments and private industry in order to deal

6 Brian Mulroney, "Opening Statement" in Canadian Forestry Association, *National Forest Congress 1986* (Ottawa: CFA, 1986), pp. 303–305.

7 Canadian Forestry Service, *A Forest Sector Strategy for Canada* (Ottawa: Ministry of the Environment, 1981).

8 See Canadian Council of Forest Ministers, *Canadian Forestry Forum 1985–1986* (Ottawa: Agriculture Canada, 1986).

9 Gilbert Paille, "The Major Elements of a Forest Sector Strategy for Canada" in Canadian Forestry Association, *National Forest Congress 1986* (Ottawa: Canadian Forestry Association, 1986), pp. 392–96.

10 Canadian Council of Forest Ministers, *A National Forest Sector Strategy for Canada* (Ottawa: Ministry of Supply and Services, 1987).

with what he saw as the major problems confronting the industry, including difficulties the industry was experiencing in the short term in limited markets and low prices, and the more long-term problems of renewing the forest resource supply.¹¹ The federal government, Merrithew argued, could serve as a catalyst, bringing together the different interests involved in the industry to resolve the problems it faced.

The federal government, however, had its own suggestions on how to resolve the industrial crisis. These included market expansion, especially in Japan, China, and the Pacific Rim; rationalizing production facilities to prevent oversupply and promote modernization; and promoting long-term forest renewal. In October 1985, in the midst of the forestry forum process, Merrithew repeated most of these federal goals in an interview with the *Pulp and Paper Journal*. In comments made then and repeated to a major environmental conference in Toronto, Merrithew reiterated the government's expectation that the national forest sector policy development process would in fact yield a decisive break with the past and define a new era of federal forest policy. As he told reporters, "the National Forest Congress will probably be one of the most significant conferences in Canadian history."¹²

Contents of the strategy

Despite the high priority accorded to the forest policy development process by the federal government and its avowed desire to develop a major new policy initiative, the 1987 National Forest Sector Strategy is a remarkably slight document. It is almost silent on the actual role the federal government is expected to play, and to the extent that any role is specified, echoes almost word for word the contents of the earlier 1981 Liberal strategy.

The 1987 strategy paper addressed five major areas of concern: trade and investment, forest management, employment, research and development, and public awareness; and it made a total of thirty-four recommendations for action. Specific mention of the role of the federal government, however, was made in only six recommendations; two in each of the areas pertaining to trade and investment, forest management, and employment. It was suggested that the federal government take the concerns of the forest sector into account in negotiating liberalized trading arrangements with the United States, that the federal role in funding forest management be confirmed, and that the federal government take action on the question of acid rain damage to forests. In addition, it was recommended that the federal government participate in programs to compensate labour for

11 Anonymous, "Preventing the Decline and Fall of One of Our Key Industries: Q and A with Forestry Minister Merrithew," in *Financial Post*, December 22, 1984, p. 40.

12 Anonymous, "Federal Forestry Minister Reviews His First Year in Spotlight: Interview Gerald Merrithew" in *Pulp and Paper Journal* (January 1986), pp. 78-78b.

employment losses suffered through technological change, and aid the development of university forestry programs. Finally, the strategy also called for the creation of a full federal Department of Forestry and Forest Industries in order to provide "the necessary co-ordination for the national forest sector."

Evaluation of the strategy

The limited federal forestry role contained in the 1987 policy paper is more remarkable given the much larger role envisioned by the first draft of the strategy¹³ which emerged from the forestry forum process. The first draft of the sector strategy presented at the 1986 National Forest Congress contained many additional suggestions for federal government action, including recommendations that exchange rate policy be clarified, that transportation deregulation be pursued, and that federal competition policy be altered to allow for specialization and export agreements between major firms. In addition, the Congress proposals urged that the federal government ensure energy costs be kept in line with U.S. trends, that the tax system be altered to replace ad hoc industrial subsidies with investment incentives, and that real estate taxes on production facilities be reduced. Finally, the Congress proposals also urged that the federal role in forest management funding be specified and acknowledged in legislation, and a federal department of forests and forest industries be created. All of these recommendations presaged an enlarged federal role in industrial development and forest management which was absent from the final policy document.

The experience of the federal government with a new Department of Forests is instructive in this regard. The Conservatives at first rejected the creation of a new federal ministry of forests as proposed at the 1986 Congress and in the 1987 strategy document, and in fact somewhat downgraded the office of minister of state for forests, combining it with responsibility for mines in a new Ministry of State for Forests and Mines. Given the fact that the other five recommendations of the 1987 strategy were all oriented towards a very restricted definition of the federal role in the forest sector, a role limited to negotiations with the United States over export markets and acid rain, and to the assurance of federal funding for forest-related silvicultural, unemployment, and education expenditures, the initial rejection of the ministry proposal made sense. All of these items are within the well-established jurisdictions of existing federal government departments, and none requires a new or separate forests department for its successful implementation. Nevertheless, in a move timed to coincide with the 1988 federal general election, the creation of a new Department of

13 Paille, "Forest Sector Strategy for Canada," pp. 392-96.

Forestry was announced September 15, 1988.¹⁴ Significantly, however, the new ministry was not given any new programs or funds to administer and industrial, employment, and other forest-related programs remained with their respective ministries. Rather, the new ministry simply joined the Canadian Forest Service (now Forestry Canada) with the Ministry of State (Forestry).¹⁵ The new agency was expected to provide forestry with an enhanced status in the administrative activities of other *federal* departments by its inclusion in cabinet-level discussions.¹⁶

Given the commitment of the federal government to obtaining a stronger and more visible presence in the forest sector at the start of the policy process and the high expectations held out for the final policy at the April 1986 National Forest Congress, the questions must be asked why this did not occur and why the final July 1987 policy document reflected a much more limited vision of the proper role of the federal government in Canadian forest policy.

One possible explanation, of course, is that the federal commitment to an interventionist industrial policy changed between the commencement and end of the policy exercise due to the impact of intervening events such as the 1986 softwood lumber dispute with the United States and the decision by the Mulroney government to pursue the U.S.-Canada Free Trade Agreement. As is well known, the softwood lumber controversy involved the question of Canadian government subsidies to the lumber industry, and the preliminary determination of the U.S. International Trade Administration ITA¹⁷ con-

14 See Ross Howard, "Multiculturalism, Forestry to be Full Ministries," in *Globe and Mail* September 15, 1989, pp. A1-A2. Although clearly timed to gather electoral support for prominent British Columbia MPs, such as newly appointed forest minister, Gerry St. Germain, the reorganization survived St. Germain's defeat in the November 1988 election and a subsequent January 1989 cabinet reorganization. See Ross Howard, "Cabinet Shifts May Begin Restructuring for Ottawa," in *Globe and Mail*, January 19, 1989 and Office of the Prime Minister, release, January 30, 1989.

15 As of mid-1989 Forestry Canada officials awaited introduction of a new Department of Forests Act officially creating the new entity although Forestry Canada had already been separated from the Department of Agriculture and a deputy minister-designate had been appointed. Interview with Hans Ottens, senior policy advisor, Forestry Canada, March 17, 1989, and Interview with Tim Bezanson, director of planning, Forestry Canada, March 17, 1989.

16 Much more significant for forest policy development, in fact, was the earlier separation of the Canadian Council of Forest Ministers from the CCREM. This move established the most plausible institutional forum in which to develop long-term national forest policy, even if that policy remains as a result somewhat fragmented and provincially led (See note 6 above).

17 U.S. International Trade Administration, *Preliminary Affirmative Countervailing Duty Determination: Certain Softwood Lumber Products from Canada* (Washington, D.C.: U.S. Department of Commerce, 1986). On December 30, 1986, the Canadian and U.S. governments signed an eleventh-hour Memorandum of Understanding substituting a 15 per cent Canadian federal government export tax for a threatened U.S. countervailing duty on a variety of softwood

demned not only low stumpage rates¹⁸ but an entire array of federal, provincial, and federal-provincial programs providing assistance to the forest sector.¹⁹

The ITA objected to investment tax credit schemes designed to encourage capital investment in certain regions of the country, to export market development programs which "promote exports of the subject merchandise to the United States" and hence confer "benefits which constitute export subsidies," and to the federal Regional Development Incentive Program (RDIP) and its successor, Industrial and Regional Development Program (IRDP) which, according to the ITA, provide "regional subsidies" and are therefore countervailable. The ITA also objected to the Community-Based Industrial Adjustment Programs, and the entire panoply of federal-provincial regional development agreements from the Agricultural and Rural Development Agreements (ARDA), the General Development Agreements (GDA), and the successor, the Economic and Regional Development Agreements (ERDA), all of which were found to promote the location of companies in specific regions of the country through the provision of favourable grants or expense treatment, and, therefore, to be subject to countervail.²⁰

lumber products. The agreement has temporarily suspended the countervailing duty case undertaken by the U.S. Department of Commerce. U.S., International Trade Administration, *Termination of Countervailing Duty Investigation: Certain Softwood Lumber Products from Canada* (Washington: U.S. Department of Commerce, December 30, 1986).

18 Such charges had arisen on many occasions, notably in 1962 and 1982 when formal proceedings into the imposition of U.S. countervailing tariffs and anti-dumping measures had been undertaken. On the 1962 episode, see Sperry Lea, *The U.S. Softwood Lumber Situation in a Canadian-American Perspective* (Toronto: National Planning Association and the Private Planning Association of Canada, 1962). On the 1982-83 countervailing case, which resulted in a negative determination, see U.S. International Trade Administration, *Final Negative Countervailing Duty Determinations: Certain Softwood Products from Canada* (Washington D.C.: U.S. Department of Commerce, 1983) and Gordon W.V. Jansen, "Canada-United States Trade Relations: The Lessons of the Softwood Lumber Countervail Case," in *Conference Board of Canada Executive Bulletin* 27 (1984). On the situation between 1982 and 1986, see Kenneth F. Englade, "Stumped by the Lumber Issue," in *Across the Board* 23, no. 2 (1986): 25-32.

19 A detailed discussion of the preliminary determination is contained in Michael Howlett, "Softwood Lumber and Extra-Territoriality" in *Policy Options* 8, no. 2 (1987): 27-30. A general review of the 1982-87 events is contained in David Leyton Brown, "Hewers of Wood: The Forest Products Sector" in *International Journal* 42, no. 1 (1986-87): 59-77.

20 In addition, the ITA found operational research and evaluation carried out by Forintek, the jointly funded private-provincial-federal wood products laboratory, to amount to a subsidy. Neither did provincial programs escape censure by the ITA. Plans and programs developed by the Quebec government offering tax abatements, export promotion assistance, and productivity expansion were all declared countervailable for the same reasons as their federal counterparts, as were the low-interest loans provided ailing forest companies by the Quebec government's forestry crown corporation REXFOR and specific B.C. statutes such as the Critical Industries Act, and the Low Interest Loan Assistance Act.

Although its status as a precedent for further trade action is debatable,²¹ the softwood lumber case was a clear signal to the Canadian government to adopt a less *dirigiste* and more *laissez-faire* approach to the forest sector, and was one of the reasons cited for the need to negotiate a comprehensive Canada-U.S. free trade treaty which would exempt Canadian programs from U.S. trade remedy law.²²

Although this raises the possibility that the federal forestry agenda changed between 1984 and 1987 from an active to a passive stance as a result of U.S. pressure, there is little evidence that this was the case. In fact, throughout the period under consideration both the federal government and the provinces agreed that continued secure access to the U.S. market was a major policy goal and supported the negotiation and implementation of the free trade agreement. The softwood lumber case only strengthened this previously existing resolve. Although the government was clearly concerned about the possible negative precedent the softwood lumber decision set for regional and industrial expenditure programs, this was not the only case which involved these concerns.²³ In all the cases involved, the Canadian government officially rejected the American view that regional development and other programs constituted unfair trade advantages, and as was made clear in the 1988 federal election campaign, continued to insist on the government's right to implement these programs. Thus although possible, this hypothesis remains improbable.

A more plausible explanation for the differences between the early federal expectations and the failure of the 1987 National Forest Strategy to deliver on these expectations can be developed by placing the 1987 strategy in the perspective of previous federal efforts to extend its jurisdiction over aspects of this key industrial sector.

21 On the evaluation of the softwood lumber case in ITC case law, see Gary Horlick, "Analysis of the Dispute Settlement Provisions: A U.S. Perspective" in Murray Smith and Frank Stone, eds., *Assessing the Canada-U.S. Free Trade Agreement* (Montreal: IRPP, 1987), pp. 97–104; M.B. Percy and C. Yoder, *The Softwood Lumber Dispute and Canada-U.S. Trade in Natural Resources* (Montreal: IRPP, 1987); and Robert E. Herzstein, "Notes for an Address to the Canadian Mineral Outlook Conference" (Ottawa: Department of Energy, Mines and Resources, 1988).

22 On the rationale for the free trade talks, see Ministry of International Trade, *Canadian Trade Negotiations: Introduction, Selected Documents, Further Reading* (Ottawa: Department of External Affairs, 1985). When the actual free trade package was finally negotiated in October 1987, of course, the softwood lumber export duty was specifically exempted from the general tariff reduction. See Canada, *Trade: Securing Canada's Future – Overview of The Canada-United States Trade Agreement* (Ottawa: Ministry of International Trade, 1987), and Kimberly Noble, "Softwood Lumber Agreement Remains Unaffected by Comprehensive Treaty," *Globe and Mail* October 6, 1987, p. B5.

23 On the others, see Alan Rugman and A. Anderson, "A Fishy Business: The Abuse of Trade Law in the Atlantic Groundfish Case 1985–1986" in *Canadian Public Policy* 13, no. 2 (1987), and Canada, *Report of the Federal-Provincial Task Force on Regional Development Assessment* (Ottawa: Conference of First Ministers, 1987), pp. 23–25.

The record of federal forest policy initiatives

An analysis of the historical record of federal forest policy indicates that this policy has in fact gone through a series of five stages since 1867, with the pivotal stage marking a major transition in the federal role occurring between 1930 and 1949. Since 1949 the federal government has made three efforts in three separate guises to assert its presence in the forest sector, and has failed on each occasion to secure a major, permanent, role for itself.

1867–1930: Co-equal status with the provinces

Despite the fact that the BNA Act perpetuated provincial ownership of unalienated forest land, granted exclusive legislative authority over these lands to the provincial governments, and accorded the exclusive right to levy royalties to these governments, the federal government maintained a position equal to that of the provinces through its control over the crown lands of the Northwest Territory and Hudson's Bay Company purchases; retaining this control despite the creation of the three prairie provinces in 1870 and 1905.²⁴

Between 1867 and 1900 the federal government also attempted to use its powers over trade and commerce, fisheries, and through other means, to extend its control over provincial resources. By 1900, however, it had lost three major constitutional battles with the provinces over the delineation of the Ontario-Manitoba border, concerning the validity of the Ontario Rivers and Stream Act, and in a judicial interpretation of the validity of Ontario's forest "manufacturing condition," which restricted its role to co-equal status with the provinces in controlling the forest resource on federal lands.²⁵

After 1900, the federal government had to be content to administer its own forest lands through the Department of the Interior and to attempt to influence provincial policy through reason and persuasion. This was accomplished, for instance, in Sir Wilfrid Laurier's convening the first National

24 The Manitoba Act, 1870 (32–33 Vict., c. 3) and the Saskatchewan Act and Alberta Acts of 1905 (4–5 Edw. VII, c. 3) excluded application of the provincial resource ownership rights contained in section 109 of the BNA Act to the newly created provinces. In addition, the federal government retained exclusive legislative control over these lands. See Gerard V. La Forest, *Natural Resources and the Canadian Constitution* (Toronto: University of Toronto Press, 1968).

25 These issues are discussed in Christopher Armstrong, *The Politics of Federalism* (Toronto: University of Toronto Press, 1981); F.C. Morrison, "Oliver Mowat and the Development of Provincial Rights in Ontario: A Study in Dominion-Provincial Relations 1867–1896" in Ontario, *Three History Theses* (Toronto: Department of Public Records and Archives, 1961); H.V. Nelles, *The Politics of Development* (Toronto: Macmillan, 1974); and Gerard V. La Forest, *Reservation and Disallowance of Provincial Legislation* (Ottawa: Department of Justice, 1955). The most significant case was *Smylie v. Queen* OAR, vol. 27, 1900, which upheld Ontario's manufacturing condition on pulpwood exports against the federal trade and commerce power.

Forest Congress in 1905, and by the efforts made by both the Laurier and Borden governments to promote forest conservation through federal participation in the long-standing Commission of Conservation and through the provision of assistance for the formation of various professional associations of foresters and forest engineers.²⁶

1930–49: Federal decline and wartime controls

This *modus vivendi* with the provinces ended in 1930 with the Natural Resource Transfer Agreements which conveyed control over crown lands in the three prairie provinces to the governments of Manitoba, Saskatchewan, and Alberta.²⁷ Following this development, the federal role in the forest sector was thrown into a quandary from which it has never entirely emerged. Left with only the poor forest lands of the Yukon and Northwest Territories to administer, the Department of the Interior was disbanded by the King government in 1936 and federal forest administration reduced to a small Lands, Parks and Forest Branch in a new Department of Mines and Resources.²⁸ Only the imposition of federal wartime controls on timber production and prices between 1939 and 1945 rescued federal forest policy from oblivion.

1949–66: Federal resurgence through the spending power

After the Second World War the forest sector figured prominently in federal reconstruction efforts and in efforts to expand the national economy through resource development. Although the federal role remained limited by the constitutional division of powers and provincial resource ownership, the King government attempted to influence the direction of provincial forest policies through the federal spending power. This initiative was embodied in the enactment of the Canada Forestry Act in 1949 which authorized the federal government to enter into shared-cost, conditional grant programs with the provincial governments.²⁹

Although ostensibly an act to promote and aid provincial forest conserva-

26 On the federal conservation efforts of this era, see R. Peter Gillis and Thomas R. Roach, *Lost Initiatives: Canada's Forest Industries, Forest Policy, and Forest Conservation* (New York: Greenwood Press, 1986).

27 These were accomplished in three separate Natural Resource Transfer Agreements and the Railway Belt Conveyance Act in 1930 (20–21 Geo. V). See La Forest, *Natural Resources and the Canadian Constitution*.

28 On these administrative changes see J.E. Hodgetts, *The Canadian Public Service: A Physiology of Government 1867–1970* (Toronto: University of Toronto Press, 1973).

29 An Act Respecting Forest Conservation, 13 Geo. vi, c. 8, 1949.

tion efforts, the 1949 Canada Forest Act was utilized by the federal government to promote forest resource development and the expansion of the Canadian forest industry. In fact, \$23.8 million of the \$63.8 million spent by the federal government under the terms of the act between 1951 and 1967 was allocated for forest access road construction.³⁰

Following the resource development orientation of the Gordon Commission on Canada's Economic Prospects,³¹ the Diefenbaker government attempted in 1960 to establish a direct federal presence in the forest sector through the creation of a specific federal Department of Forests – the first and only time such a distinct department was created.³² The Pearson government continued the resource development policy begun by the Diefenbaker government, but was forced to acknowledge the need for provincial participation in forest policy development. In 1966 the government, through the Department of Forests, convened only the second National Forest Congress in Canadian history in an effort to secure provincial support for new federal initiatives.³³

What should have been the culmination of a process leading up to a new federal presence in the Canadian forest sector, however, turned out to be its nadir. Faced with provincial opposition to federal conditional grant programs and an inability to overcome constitutional barriers to an increased direct federal role in forest regulation, Pearson dissolved the Department of Forestry and began the process of ending the shared-cost programs.³⁴

1966-78: Regional industrial development programs

Federal expenditures in the forest sector continued to be made, however, but now took on the form of regional development incentives. Grants to the forest sector under various regional development programs accounted for about 17 per cent of total regional development expenditures between 1965

30 Thorne, Stevenson and Kellogg, *Funding Mechanisms for Forest Management* (Toronto: Canadian Council of Resource and Environment Ministers, 1981).

31 Royal Commission on Canada's Economic Prospects, *Final Report* (Ottawa: Queen's Printer, 1963) and *ibid.*, *The Outlook for the Forest Industries* (Ottawa: Queen's Printer, 1957).

32 An Act Respecting the Department of Forestry, 8-9 Eliz. II, c. 41, 1960, replaced the Canada Forestry Act and received unanimous approval in Parliament.

33 See National Forestry Conference, *Background Papers and Proceedings* (Ottawa: Department of Forests, 1966).

34 Pearson told the Canadian Institute of Forestry that the decision to abolish the Department of Forestry originated in the constitutional limits placed on federal powers in the area and in provincial opposition. See E.S. Fellows, "Forestry's Future Frustrated or a Condensed History of Canadian Forester's Concern for Forest Renewal" in *Forestry Chronicle* 62, no. 1 (1986): 35-50, and F.L.C. Reed, *The Role of the Federal Government in Forestry* (Edmonton: University of Alberta Forest Industry Lecture Series no. 5, 1980).

and 1971, with the emphasis again being placed on access road construction.³⁵

By the early 1970s the federal government was once again prompted to intervene in the forest sector by its perception that the forest industry was in a crisis situation. Attempts were made to alleviate mill closures stemming from over-capacity in several declining industry sectors such as the dissolving pulp industry in Quebec in 1970, and a concern for the need to modernize outdated plants and equipment surfaced with the takeover of the Ocean Falls and Prince Rupert operations of Crown Zellerbach and Columbia Cellulose by the British Columbia government in response to threatened plant closures in 1974–75. As a result, DREE began a process of ad hoc modernization subsidies to producers which culminated in the Federal-Provincial Pulp and Paper Modernization programs signed with most eastern provinces between 1978 and 1982.³⁶

Concerns for the future of the industry were elaborated by several federal government agencies and advisory committees during this period, including the Economic Council of Canada³⁷ and the Science Council of Canada.³⁸ Attempts to define the nature of the industry's problems and the appropriate policy response included the inclusion of the forest sector in the twenty-three sectoral task forces established by the Trudeau government to develop a basis for a national industrial strategy in the days leading up to the 1978 First Ministers Conferences on the Economy.³⁹

35 Forestry expenditures were included in the Regional Development Incentives Act (RDIA) programs, the Agricultural and Regional Development Act (ARDA) programs, the Fund for Rural Economic Development (FRED) programs, and in most federal research incentive programs like IRDIA, PAITC, and IRAP. See Price Waterhouse Associates, *A Study of Taxation Practices Related to the Pulp and Paper Industry: Phase II – Other Fiscal Measures, Volume II* (Ottawa: Government of Canada, 1973). The decline of forest issues in federal priorities during this period was reflected in the fact that the primary responsibility for the administration of remaining federal forest programs was transferred from the Department of Forestry to several different agencies, including new departments of Forestry and Rural Development, and of Fisheries and Forestry, before ending up in 1970 divided between a small branch of the Ministry of the Environment and a division of the Department of Regional Economic Expansion.

36 On this program, see Michael Jenkin, *The Challenge of Diversity* (Ottawa: Science Council of Canada, 1983); and Nitin Tarachand Mehta, "Policy Formation in a Declining Industry: The Case of the Canadian Dissolving Pulp Industry" (Harvard: Ph.D. thesis, 1978).

37 Economic Council of Canada, *Papers of the National Economic Conference, 1973* (Ottawa: Information Canada, 1974).

38 Science Council of Canada, *Seeing the Forest and the Trees* (Ottawa: Information Canada, 1970).

39 First Ministers Conference on the Economy, *Report of the Consultative Task Force on the Forest Products Industry* (Ottawa: Canadian Intergovernmental Conference Secretariat, 1978); and Richard French, *How Ottawa Decides: Planning and Industrial Policy-Making 1968–1980* (Toronto: Lorimer, 1980).

Between 1974 and 1980, as this policy exercise ground to a halt,⁴⁰ the federal government, through DREE, spent a total of \$205 million on forestry projects, of which a full one-third was spent on access road construction, as well as another \$250 million in cost-shared funds with the provinces on pulp and paper modernization.⁴¹ As the federal regional development programs began to wind down under government concerns for visibility and recognition of its spending,⁴² the need for some clarification of the federal role in the forest sector became urgent.

1978–89: Two national forest sector strategy initiatives

The lack of an effective federal government policy in the forest area generated a federal response in the re-elected Trudeau government's 1980 decision to undertake major policy reviews in several key natural resource sectors, including the forest sector. Part of the staples-led economic development strategy unveiled in the 1981 federal budget, the National Energy Program, and other major federal resource initiatives of the early 1980s, the Liberals envisioned a major role for the federal government in promoting backward and forward linkages for the forest sector industries through government procurement associated with resource development mega-projects.⁴³ The Liberals undertook to call a third major National Forest Congress in Toronto in 1980⁴⁴ to aid in the development of a new policy for the forest sector which would have room for a major federal role in directing the scope of forest sector development. As the parliamentary secretary to the minister of the environment stated at the time, the federal government was very concerned with establishing a federal presence in

40 See Douglas Brown and Julia Eastman, *The Limits of Consultation: A Debate Among Ottawa, the Provinces, and the Private Sector on an Industrial Strategy* (Ottawa: Science Council of Canada, 1981).

41 Thorne, Stevenson, and Kellog, "Funding Mechanisms for Forest Management," p. 16.

42 On the decline of regional development programs and the federal government's concern for visibility, see G. Bruce Doern, "Spending Priorities: The Liberal View" in G. Bruce Doern, ed., *How Ottawa Spends Your Tax Dollars: Federal Priorities 1981* (Toronto: Lorimer, 1981), pp. 1–55; N.H. Lithwick, "Regional Policy: The Embodiment of Contradictions" in G. Bruce Doern, ed., *How Ottawa Spends Your Tax Dollars 1982: National Policy and Economic Development* (Toronto: Lorimer, 1982), pp. 131–46; and Donald Savoie, *Federal-Provincial Collaboration* (Kingston: McGill-Queen's Press, 1982).

43 See Canada, *Economic Development for the 1980's* (Ottawa: Ministry of Finance, 1981); Task Force on Major Capital Projects in Canada to the Year 2000, *Major Canadian Projects, Major Canadian Opportunities* (Ottawa: Department of Industry, Trade, and Commerce, 1981); and G. Bruce Doern, "The Mega-Project Episode and the Foundations of Canadian Economic Development Policy" in CANADIAN PUBLIC ADMINISTRATION 26, no. 2 (summer 1983).

44 Canadian Forest Congress, *The Forest Imperative* (Montreal: Canadian Pulp and Paper Association, 1980).

forest sector development and in ensuring that provincial policies favoured national goals and not "parochial provincial interests."⁴⁵

Nevertheless, when the government finally announced its new strategy in 1981⁴⁶ although its preamble and background sections accurately reflected the federal concern for economic and industrial development, the proposals for actual government action were very restricted. In fact, the proposals were limited to those which had been recommended by the provincially dominated Canadian Council of Resource and Environment Ministers (CCREM) in a separate policy exercise carried on *outside* the formal federal policy process.⁴⁷

The CCREM had established its own task force in 1977 to attempt to define the respective roles of the federal and provincial governments in Canadian forest policy. By 1979 it had developed an eleven-point proposal for a national forest policy⁴⁸ which the 1981 federal strategy echoed virtually in its entirety. The CCREM proposal explicitly acknowledged the leading role of the provinces in forest policy development, and limited the federal role to lessening international trade barriers, ensuring a positive climate for investment, maintaining forestry research and development, supporting provincial reforestation programs, and providing national forestry statistics.⁴⁹

The similarities between the 1981 Liberal strategy and the 1987 Conservative strategy, of course, are obvious. Despite having both begun a process of policy development oriented towards increasing the federal role in forest policy, both governments ended up with documents limiting the federal role to forest research, export enhancement, and, most importantly, providing continued funding for *provincial* forest management efforts, without any input into the establishment of those programs themselves.

45 Roger Simmons, *Federal Forestry Commitments in the 1980's* (Edmonton: University of Alberta Forest Industry Lecture Series no. 7, 1980).

46 Canadian Forestry Service, "A Forest Sector Strategy for Canada."

47 The CCREM had been involved in forestry matters since its origin in the secretariat to the Resources for Tomorrow Conference in 1960. On the CCRM and CCREM see Michael Whittington, *CCREM: An Experiment in Interjurisdictional Co-ordination* (Ottawa: Science Council of Canada, 1978).

48 Canadian Council of Resource and Environment Ministers, *Forestry Imperatives for Canada: A Proposal for Forest Policy in Canada* (Montreal: CCREM, 1979); and Canadian Council of Resource and Environment Ministers, *Forestry in Canada: Background Paper for the Federal-Provincial Consultation on the Economy, Ottawa January 25, 1978* (Montreal: CCREM, 1978).

49 On the role of the CCREM, see Stephen McBride, "Canadian Forestry Policy 1979-84" (paper presented to the annual Meeting of the Canadian Political Science Association, Guelph 1984).

Conclusion: observations on the federal role in Canadian forest policy and Conservative efforts at reform

This brief overview of the historical development of federal forest policy demonstrates a number of points concerning the overall interests of the federal government in the Canadian forest sector and the nature of the limits on the federal government's ability to act in this sector. It also allows several observations to be made about the most recent federal government National Forest Sector Strategy and the Conservative government's approach towards policy-making in this and other key natural resource industries.

Federal interest in industrial development

The record of federal efforts to influence national forest policy shows that, after 1930, successive federal governments of differing political persuasions have all been motivated by a concern for the health, vigour, and continued profitability of the forest industry. That is, each effort – in 1949, 1966, and 1978 – has been motivated by the perception of an impending production or financial crisis in the industry or by the desire to promote additional industrial investment in resource exploitation. Each effort has involved the federal government in the provision of financial assistance to the industry either in the form of infrastructural development or subsidies for industry rationalization and modernization.

Limits on federal actions

On each occasion the federal government has responded first by the imposition of temporary, ad hoc measures and then attempted to move towards the implementation of a policy framework which would allow room for a continued, ongoing, federal presence in the regulation of forest sector activities. On each occasion, however, while the government may have been successful in establishing a short-term presence in the sector, provincial opposition has resulted in the limitation of the federal role to providing funding for provincial programs and direct involvement in only a relatively minor range of areas like research and development, trade promotion, and public awareness.

The main impediment to an expanded federal presence in the forest sector has undoubtedly been the constitutional division of powers which has placed both ownership of the forest resource and the right to legislate in this area in the hands of the provincial governments. These provincial rights have been exercised through the Canadian Council of Resource and Environ-

ment Ministers and the Canadian Council of Forest Ministers, which have had the final say in the outcome of both the 1981 and 1987 policy initiatives. On each occasion, these groups have blocked federal government efforts to expand its influence in this sector. Despite repeated federal efforts to circumvent the provinces through the establishment of a "national strategy" specifying a lead role for the federal government, it has been unable to force the provinces to accede to its proposals due to the constitutional entrenchment of provincial jurisdiction in the sector.

The 1987 National Forest Sector Strategy revisited

Unlike many other areas of federal-provincial relations, like the energy and regional development fields, in which the Conservatives moved quickly to limit the federal presence and transfer responsibility to the provinces, this was not the case in the forest sector where the government attempted to enhance its role in the policy process. This apparent discrepancy, however, disappears when the federal government's interest in industrial development is taken into account. Unlike the oil and gas sectors, for example, where industry associations argued the sector was chaffing under onerous federal regulation, the forest industry in 1983–85 promoted the perception of an impending industrial crisis and in briefs to major investigations like the Macdonald Commission, demanded federal action.⁵⁰

Where the Mulroney government appears to have miscalculated somewhat in its approach to developing a new federal forest policy was in the assumption it appears to have made that the 1981 Liberal strategy had failed due to the general climate of confrontational federal-provincial relations which characterized the last term in office of that government. The further assumption which appears to have been made is that by promoting a generally co-operative climate of intergovernmental relations, the federal government could convince the provinces to accord it an enhanced role in the forest sector. As the results of the Conservative forest policy process have shown, however, neither confrontation nor collaboration has had very much to do with the resulting policy. Much more important has been the constitutional framework in which the policy has developed.

At present, however, the Conservatives appear to have reconciled themselves to this constitutional reality and to have learned the lessons of this and other policy failures in the federal-provincial domain – such as the failed aboriginal rights initiative and others. Critics of Conservative govern-

50 See, for example, Canadian Pulp and Paper Association, *Response to Challenges and Choices, the Interim Report of the Royal Commission on the Economic Union and Developmental Prospects for Canada* (Montreal: Canadian Pulp and Paper Association, 1984); and Council of Forest Industries of British Columbia, *Submission to the Canadian Forest Industries Advisory Committee: Recovery and Renewal* (Vancouver: Council of Forest Industries of British Columbia, 1983).

ment policy, like the Canada-U.S. free trade agreement, the Meech Lake accord, the Western and Atlantic Energy accords, and the new Atlantic and Western Development Board initiatives, have claimed that the federal government has abdicated its responsibility to lead and direct national development in the national interest. In the forest sector, however, as the long record of failed federal forestry initiatives has shown, this has not been the case. Rather than transfer responsibility to the provinces, the federal government has consistently attempted to expand its role in this sector in response to demands from the industry in times of crisis.⁵¹ The failure of these successive efforts, however, continue to reflect the limitations imposed upon the federal government by the fact of exclusive provincial constitutional jurisdiction in this crucial sector of the Canadian economy. In this sector, at least, the only avenue open to the federal government to accomplish its policy objectives is intergovernmental consultation and co-operation.

51 That these efforts at expansion have been intensified during times of crisis in the industry is borne out by the fate of the FRDAs. Negotiated during the downturn in the industry in the early 1980s and contributing substantial funds to provincial reforestation efforts, by 1989, as the industry recorded record profits, the federal government's attitude towards these expenditures had changed. Although five of the FRDAs expired in 1989, by mid-March senior Forestry Canada officials had no confirmation of their renewal. See Kimberly Noble, "Ottawa Accused of Dragging Feet Over Reforestation in Ontario" in *Globe and Mail* February 24, 1989, p. B7, and Interview with John Forster, director of development agreements, Forestry Canada, March 16, 1989.