

TRUMP'S RE-EMERGENCE AND POLITICAL RISK IN THE CANADIAN FOREST SECTOR

Part one of a two part series

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At Tree Frog News, our mission is to curate and share news relevant to the North American forest sector, giving our readers the insights they need to respond to current challenges. While we don't write the news, we occasionally seek out content not normally covered by mainstream media.

For example, in August 2024, we reached out to political risk management expert Robert McKellar at Harmattan Risk for comment on the increasing pace of change in the forest sector, shaped by political forces and government intervention. Robert's op-ed offered a thoughtful analysis of how inherent political risks—especially those linked to Canada-US trade friction—could rapidly unsettle an industry long reliant on stability. At the time, Trump's potential political comeback was still largely speculative.

Robert's analysis highlighted that political risk is not limited to volatile or exotic regions but is inherent in every business environment—even in sectors traditionally seen as "safe." He challenged the assumption that the US market is an enduring safe haven for Canadian exports, warning that rising protectionist rhetoric and sudden policy shifts could expose firms to disruptive events like unexpected tariff impositions. Moreover, he stressed that political risk management should be an integral part of a company's

strategic framework through ongoing intelligence gathering, senior leadership involvement, and proactive contingency planning. Ignoring these risks, he cautioned, could force companies into costly, reactive measures. Finally, Robert argued that political risk is not merely a challenge to be managed—it can also drive strategic change. Confronting these risks head-on offers firms an opportunity to diversify markets, reconfigure supply chains, and bolster long-term resilience.

Since that op-ed, the political landscape has shifted dramatically. Trump's re-emergence is no longer a remote possibility but a concrete reality that has intensified uncertainty across the sector. With these developments in mind, we reconnected with Robert to update his analysis and explore how the risks he foresaw have become even more pronounced. The following Q&A with Robert McKellar, principal at Harmattan Risk, distills various communications for clarity.

Tree Frog:

A lot has changed in the six months since you wrote about political risk management in the Canadian forest products sector. In the media and thus the Tree Frog News, we've been hearing a lot about US lumber duties and tariffs and their potential impact on both sides of the border. But before we talk about that, can you comment on what's changed from a political risk perspective?

Harmattan:

Back in August 2024, I pointed out that the sector had long enjoyed stability, largely because Canada's primary market—the US—had been open, rational, and predictable. That sense of stability was rooted in a belief that even occasional trade disputes were manageable within a predictable framework. But as we noted then, political risk is not just about places, but also about periods, and things can change even in places we're very used to.

And yes, since that time, we've witnessed a dramatic evolution. During Trump's first term, early signs of his transactional and protectionist approach began to emerge, subtly eroding those old assumptions. With his second win, his team has had ample opportunity to contemplate and start to implement an aggressive policy agenda that is transforming the US market from a secure, predictable environment into one characterized by heightened political risk. What used to be sporadic trade disputes look like they'll become a regular feature—driven by an administration that uses tariffs and duties as tools for immediate political leverage.

President Trump is now a critical variable in the fortunes of Canadian companies in the US, and indeed a major factor in the evolution of the international system. Getting a sense of the man and what he means

is probably the most direct route to contextual insight for what follows. I'm not an expert on Trump or even US politics. But like most political risk consultants, I have been fascinated by his rise and character, and have kept an eye on the more discerning observations. What follows is a brief sketch.

First, Trump has a very transactional attitude to relationships. In his view, people do not do something for nothing, and the value of a relationship is defined by the tangible benefits it generates. The merit



of alliances, partnerships and even many personal relationships has little to do with shared principles or values, maintaining a reputation for trust and friendship, or even the effectuation of long-term mutual interests. Instead, the value is what the other side pays in exchange for what they get from Trump and whichever institution he leads, whether his company or his country. As a self-proclaimed master of deal making, Trump also likes to get the better end of the stick. His thinking is not zero sum, but he definitely prefers “I win more” to “win-win”.

In the context of his transactionalism, a natural question is what he thinks he gets in return for his time, stress, and opportunity costs in being the US president. Prestige is an important currency to most politicians, and it is vitally important to Trump. His life has been played out in the public eye and some observers posit that he experiences life as a reality TV show in which he is competing with other characters for share of viewers’ attention. The US presidency is the ultimate stage, and he is committed to playing the part and making the most of it.



What about Trump’s ideals and values as they relate to politics? There is an argument that Trump has never been ideological and that his opinions shift according to how he can benefit from taking one side or another. But this perspective fails to account for some consistencies in his views and values. As a wealthy entrepreneur he dislikes regulation and taxes. He is American and sees the overall fortunes of his country as a factor in his own fortunes. Thus, he has his own brand of nationalism. His overall orientation was hardly classic conservative Republican, but his libertarian, small government instincts and nationalist orientation made the American right

his principal entry point into US politics. Even before his first candidacy, American politics was changing, and there was a divergence between conservatives and the harder right. Trump is not an easy fit with either side. He is no political philosopher by any stretch, and the wider conservative package represented by the likes of John McCain would have felt stilted and constraining. The raucous and exuberant character of the hard right appealed to his showmanship instincts, but his libertarian bent made him uneasy with its moralistic intrusions on personal choice and private life. Nonetheless, it was the hard right strand which was more welcoming.

During his first campaign and especially once Trump first became president, he went from playing catch up with ideology to defining it. As a populist leader he took his cues from his support base and combined that with his own instincts to define his own ideology, MAGA, or simply Trumpism. He still must wrangle with and cater to moralists and evangelicals in his support base, but MAGA is more or less a standalone package.

As ideologies stand, MAGA is reasonably coherent—both the US and ordinary working-class Americans have been shafted by globalisation, and by supposed allies who have milked the US and hidden under its security umbrella for decades in exchange for...practically nada (remember, he likes to win more than the other guy). MAGA is not aimed at making America great again in terms of being the principal global hege-

mon, but it is aimed at returning the US to a time of enduring prosperity and becoming the most savvy and successful wheeler and dealer country. Trump sees prior administrations as having sold US interests down river in the interests of maintaining alliances that hemmed in illiberal, authoritarian opponents. If the US stops worrying about ethics in global affairs and just lets others run their own show, then it stops seeing bogeymen everywhere and does not need to maintain costly alliances to contain them.

MAGA accepts global multipolarity and even welcomes it because it relieves the US of costly commitments. But Trump does see China as a problem because it seems to have the will, and increasingly the means, to be more than just another pole. It could become what the US was for decades, the very dominant global power capable of dictating terms to others. This would be insufferable for Trump, even if he has no particular ill will towards China and no problem with its onerous style of government. Thus, Trump is a China hawk, and this leads to a significant contradiction in MAGA's foreign policy – the US needs allies to contain China, but MAGA sees alliances as costly and one-sided. Trump's transactionalism in international relations might help the US to get better deals, but it provides no basis for the enduring coalition that would be required to constrain China's ambitions. This will be a major quandary for Trump because China is eager to welcome into its fold US allies who get fed up with being treated like annoyances.

Tree Frog:

That's helpful but likely hard to operationalize for a forest products company. Does Trump deliberately try to cause uncertainty and anxiety to unbalance others as a negotiation tactic, or does this just happen because he is whimsical, capricious and thinks out loud?



Harmattan:

Trump can be very loyal to people he trusts, and his empathy with the American working class is probably not just contrived. He has been shocked by up-close images of war and has expressed a great sense of responsibility when it comes to ordering military action. But he can be exploitive and manipulative and does not mind kicking people when they are down. He defines insiders and outsiders. Insiders get help and second chances. Outsiders are not necessarily bad but are not entitled to his empathy.

Is he crazy? Trump's critics like to say so. He probably fits the diagnosis for narcissism, but so do many politicians although mostly not to the same degree. He is highly impulsive and easily distracted. He can

hold a serious grudge to the point of full-blown obsession. Whether or not the full package constitutes an abnormal pathology or just a uniquely eccentric character is hard to establish from a distance. Some of both would be a reasonable guess.

His apparent bent for chaos, or in other words causing high uncertainty and confusion, is probably partly because it's a negotiation tactic to unbalance the other side, and partly because he actually is whimsical, capricious and thinks out loud. The two combined are a volatile mix.

I recently read a piece in [The Economist](#) about the Trump team's bargaining approach with Ukraine, and even this short blurb was instructive: "Ukrainian officials say their encounters with Mr Trump's team are so confusing that they have been watching documentaries for clues about his negotiation style. The only thing that is clear is the level of MAGA aggression. Since February 12th there have been three versions of a deal: a 'bad' one, a 'better' one, and a 'disastrous' one, pushed by a rotating cast of interlocutors from Team Trump, some of them Wall Street types."

Going back to the bigger picture, this new reality forces Canadian firms to confront a more uncertain environment where sudden shifts in trade policy can disrupt established market relationships overnight. Companies can no longer rely solely on historical stability; they must now invest in robust, integrated political risk management to anticipate, mitigate, and adapt to these challenges. It's a shift that demands not just reactive measures, but proactive strategic planning that can transform uncertainty into a catalyst for innovation and resilience.

Tree Frog:

The Canadian forestry sector has experienced political risk and uncertainty in the past, not just through trade disputes with the US, but also changes in the Chinese market and the pressures created by sustainability and environmental imperatives. You've said before that political risk isn't just something to react to—it can be a driver of strategic change. Given what we're seeing now, what should Canadian firms, and governments for that matter, be doing to stay ahead of these risks?

Harmattan:

I noted your inclusion of governments as a stakeholder. Although our focus in this discussion is companies, both the federal and provincial governments would indeed share an interest in understanding what Trump means for the forestry sector and are concerned about the effect on Canada's economy. Governments and companies don't have exactly have the same broader imperatives, but there would be considerable overlap in the assessment and management of political risk.

Returning to the question, let's first talk about how we learn what the risks are, discern how bad they might be, and keep track of them so we can adjust to changing outlooks. We'll apply one of these methods when we discuss the challenges presented under Trump, so bear with me for a moment while I get into some nuts and bolts.



There are a range of possible political risk intelligence and planning exercises. One could, for example, have applied different methods of foresight analysis 10 or more years ago to at least perceive the possibility of a Trump-like leadership and the attitudes it holds. A strategic assessment that looked at broad patterns would have provided a sense of how the future might unfold. This in turn would have informed the development of contingent options which could have been beefed up, the more plausible a Trump-like world became, so that companies would have been reasonably prepared for, and less exposed to, the risk therein.

Tactical assessment is another example, and it is aimed at helping a company to make sense of a new situation and adapt to changing circumstances. One could say that the tactical approach applies when the future has arrived. If it looks a lot more challenging or different from what we expected, we need to quickly clarify what is going on and what it means for us.



Strategic foresight is still essential to managing the implications of Trump's presidency, and a company shouldn't lose sight of the forest for trees (even in the forest industry...). If we're in bad situation now, we need to get a grip on it and deal with it. But if we get fixated on the short-term, we can actually make moves that constrain our options later. So strategic and tactical assessment shouldn't run in isolation. Trump's presidency, after all, doesn't expire until January 20, 2029. We are indeed in a pressing situation at the moment, so our main focus here will be on the tactical side.

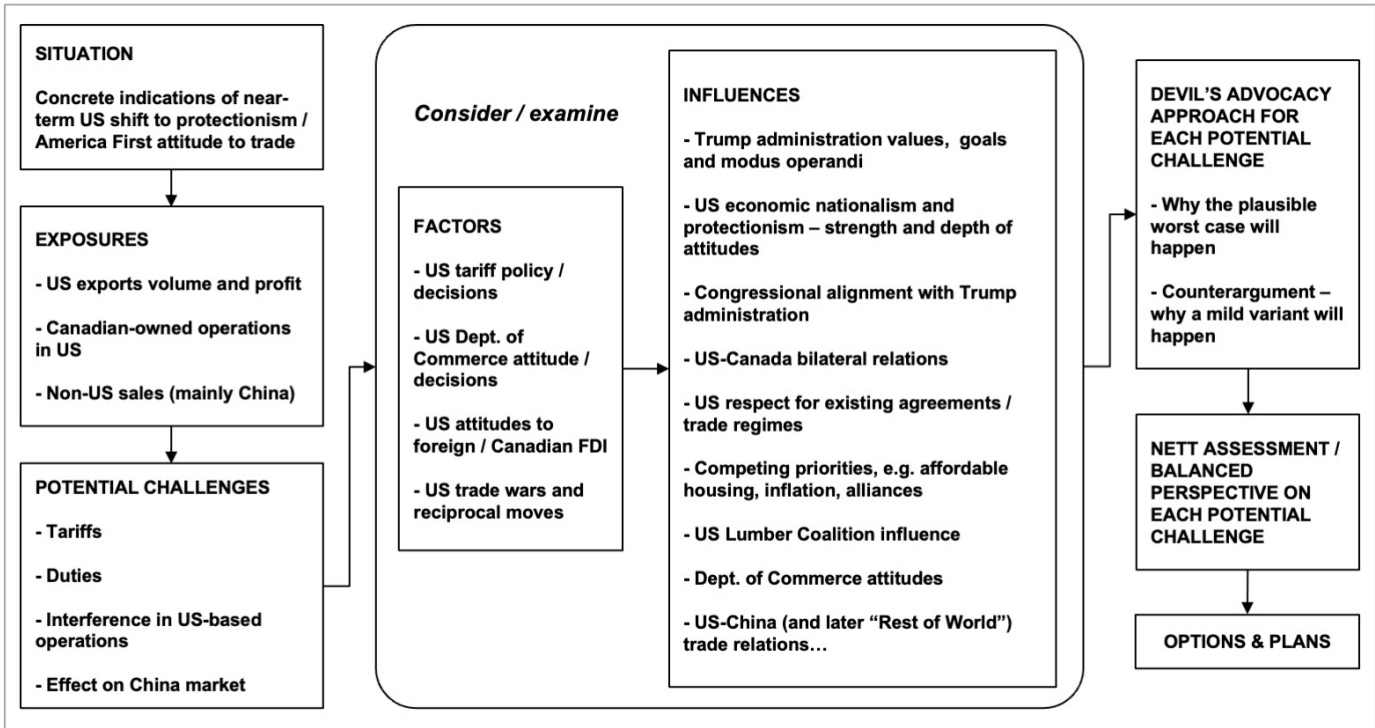
Even in tactical assessment there are different ways of doing it. We'll use one here which accounts for two limitations, time and uncertainty. We don't have the luxury of taking the time to apply an elaborate approach, at least as a first cut. And the situation is too volatile for straight-line methods – if we latch onto early assumptions we could fail to test alternative possibilities. So we'll use a basic devil's advocacy approach to assess the potential scale and implications of the challenges or risks we could face.

Using devil's advocacy, we first argue why a challenge will be about as bad as it could get, and then with equal commitment we do the counter-argument, why it will be relatively mild. Then in the net assessment, we compare the two sides, edge towards the more plausible one, but balance it out with the more robust points from its opponent. This forces us to test initial assumptions, and while it is no guarantee that we "get it right", we are less likely to get it wrong.

The last point above is critical to understand. In a fluid situation, it is unlikely that our initial assessment will get it right. We might not be far off, but we cannot assume that our answers will hold up over time. After the initial exercise, we keep an eye on relevant factors, and even revise them if others look relevant. This is monitoring, and it is vital to keeping our assessment up to date and aligned with what's really emerging. Bear in mind, what we're doing here is only initial, and not a one-off piece.

The devil’s advocacy aspect of our approach is its most salient feature, but the wider thought process is depicted in this chart. For example purposes, we used this process and as you can see in the chart, We identified four potential challenges that warrant attention in the near to medium term, which we’ll be working through.

Technical Assessment Thought Process¹



Tree Frog:

Of the four risks you noted, tariffs are probably the most fluid, unpredictable, and immediate for the forest sector, particularly given Trump’s statement yesterday that the “tariffs are going forward on time, [and] on schedule”. So, let’s start there.

As background—for our readers—in early February the US stated its intention to impose 25 % tariffs on Canada and Mexico but delayed the decision to March 4. A few weeks later, Trump announced his intention to pursue reciprocal tariffs aimed at countering other countries’ tariffs and unfair trade advantages, which could include government subsidies and non-tariff barriers. Additionally, Trump has recently talked about 25% tariffs on specific sectors and industries apparently wherever they come from, to be applied from April 2nd. So far these include semiconductors, pharma, cars, and lumber.

¹The above is somewhat simplified. First, the factors and influences we list aren’t necessarily complete, and as noted what is relevant can change over time. Second, in practice the examination of factors (and influences) and the articulation of potential challenges is a two-way process. We develop ideas on what problems we could face, then look at what could cause them and how these variables might behave. But we also look at the political situation and see what problems (and opportunities) it could cause. We bounce back and forth a few times shaping both our potential challenges and relevant variables. When we get it more or less right, we proceed with the analysis, looking in detail at how the selected variables could shape each challenge. Finally, while the process leads to options and plans, we talked about the need for monitoring, which would follow this initial assessment process. Monitoring tells us which options to start developing and which ones can be kept on the shelf. It’s not just our intelligence picture that changes over time, but also our actual plans on how to deal with the emerging situation.

As for the effect of tariffs, duties on Canadian softwood lumber have shown that Canada loses US market share when duties are higher, and Canadian firms are the first to curtail or close when market prices are low. Indeed, even the threat of tariffs has an impact as US buyers seek to reduce the immediate uncertainty by placing more of their orders state-side and there's even news that some Canadian firms have put their investment plans on hold. Canadian companies would therefore take a serious financial hit with tariffs, but just as seriously they would give ground to US and offshore competitors and non-wood substitutes, and that could be hard to recover even if tariffs are eventually lifted.

Given the range of tariff actions proposed, what are the possible outcomes—worst case, best case, and what is most likely?

Harmattan:

As we're starting the substantive assessment, remember here and throughout that we're using the devil's advocacy approach. We will indeed be putting ourselves into the mind of a true believer of each side of the argument until we get to the net assessment when we pull back out into our normal perspective. If we forget that, then it's easy to think that any given argument is weirdly one-sided.

Starting with the worst case, or why the tariff challenge will be about as bad as it could get, a pessimist would note:

- The Trump administration has already imposed 10% tariffs on China, and it is likely that the 25% tariffs on steel and aluminum will go ahead on schedule. Thus, bi-national and industry tariffs are not just a stick to wave, and even if in some cases they are, to be a credible stick the US needs a track record of using them.
- Reciprocal tariffs would require a detailed assessment of different countries' trade barriers and unfair advantages and could end up applying to specific products and industries rather than a whole country. Canada likely would see some reciprocal tariffs on dairy and some agricultural products. Lumber could also be included because of the US perception of government support through lower stumpage fees and the US might even see provincial government marketing support as an unfair advantage.
- This mix of tariff possibilities might be shifting by the day, but falling out of it is a plausible chance that Canadian forest products face high tariffs in anywhere from a few weeks to a few months. Bi-national tariffs could go ahead. Even if they do not, Canadian lumber could be hit by the 25% global industry-level tariffs. If neither of those come to fruition, then lumber and other forest products would likely be a target within reciprocal tariffs. If two or all three types of tariffs are imposed, it is unclear whether they would be cumulative. In any case, the more tariff balls in the air, the higher the chance of being hit in the head.
- A painful but plausible irony would be that reciprocal tariffs could include lumber for the very same reasons that the US applies lumber duties, yet reciprocal tariffs go ahead anyway, potentially doubling the punishment for Canada's alleged unfair practices.
- In general, self-described "Tariff Man" Trump has publicly made tariffs central to his economic strategy and, in his case just as importantly, to his persona as defender of US interests. He showed a willingness to use tariffs in his first term, and his credibility this time in office is even more closely linked to their actual use.



Looking at the counterargument, or why the tariff challenge will be relatively mild, an optimist would consider that:

- Regarding bi-national tariffs and specifically the threat of 25% across-the-board tariffs on Canada and Mexico, there are solid reasons to see the threat as less than credible:
 - Trump shelved the 25% bi-lateral tariffs very shortly after they were announced in early February after Canada and Mexico responded with moves, which some observers thought were quite minor, to address complaints about illegal immigration and drugs. Trump seemed to be looking for a symbolic win more than a substantial change in his neighbours' national policy. This episode seems to support the argument that tariffs are as much a stick to be waved as a key element of economic policy. Thus, one can expect a gap between talk and action, and when action does occur, the results are likely to endure only until Trump can claim that he extracted a concession.
 - Sweeping bi-national tariffs would conflict with the Trump administration's domestic priority of reducing inflation. Tariffs will increase domestic prices. Trump supporters might enjoy watching him wring concessions out of other countries, but they also trust him to make their lives easier. His administration would understand its socio-economic performance is a lynchpin of its credibility with its voter base.



- Another competing US interest is sustaining a coalition against China. The US will be ramping up its trade war with China and bearing down on measures to contain Chinese influence, and it cannot have much effect by itself. High tariffs on long-time partners such as Canada would be a signal to other countries that the US is no “nicer” than China, and that a reasonable strategy would be to play the US and China against each other rather than support US goals.
- Tariffs on Canada would also hurt US industries. The US automotive industry is a good example (although cars were among the four industries that could face global tariffs, this is likely to be walked back after Trump's team considers it). It's integrated throughout North America, and under global pressure from Chinese EVs. Higher costs in its value and supply chains would hurt and contribute to inflation and job losses in the US. Car makers are only one example of an industry which has become closely integrated across the border, and which have a strong US lobby.
- Trump is unlikely to throw the bombshell of 25% tariffs into the Canadian political equation when the Conservative Party's Pierre Poilievre stands a plausible chance of winning the next election. While he does not closely reflect Trump's values, Poilievre would be the most right-wing Prime Minister Canada ever had and would be a potential ally on a number of issues.

Because of his apparent friendliness towards Trump or Trumpism, Poilievre has already had to work on his positioning in the wake of Trump's tough talk on tariffs and about Canada becoming a 51st state. Poilievre's prospects would be reduced if Trump enacted the tariff threat, and to stand a reasonable chance of winning he would need to credibly position himself as an antagonist to Trump.

- Regarding tariffs on lumber, either at the industry level or as part of a package of reciprocal tariffs, likewise there are reasons to take the threat with a grain of salt:
 - Lumber tariffs would hurt the Trump administration's ability to provide more affordable housing, another of its domestic priorities, by ultimately raising the price of a built house.
 - A number of US market sub-segments heavily rely on Canadian forest products as the primary input. These include OBS, pulp and newsprint, which would face considerable price increases with high tariffs. This would contribute to the overall inflationary effects of tariffs and injure the Trump administration's ability to reduce inflation.
 - Trump's lumping lumber into the global industry tariffs could well have been because he was not aware that duties already accounted for Canada's supposed misdeeds. Once he realises what the combined effect of those tariffs and duties would be on US business and prices, he would probably just let the matter be handled with duties.
- In general, Trump has been liberally flinging out things that he has been "thinking about" without these being formulated, yet at least, as rational policy. His style seems to be emergent, in that he puts out ideas and then moves more on the ones that make it past an encounter with reality. It seems unlikely that his administration has thoroughly assessed the potential impact of tariffs on the US, and plans announced thus far could well be mitigated.

Net assessment

Remember, at this point we're not taking sides anymore, but rather drawing on the above two arguments for a more balanced perspective.

Canadian forest products are likely going to face some form and level of tariffs within the next few weeks to months. They will likely be substantial, although 25% might be pessimistic. The effect will be some reduction in Canadian forestry companies' US market and overall commercial performance. Canada would challenge the decision and might have some success in reducing tariffs if Canada makes concessions on other bi-lateral issues.

When considering only the initial threat of bi-national tariffs of 25%, the plausibility of implementation seems quite low. The Trump administration would have known that 25% tariffs would be costly to the US too. Canada and Mexico, being so tightly bound to the US economy, made easy initial targets to demonstrate American heft and to score some easy wins. Some portion of 25% could be applied to show a stick, and bi-national tariffs could be on the table again if specific bi-lateral issues arise, and thus companies should not take their eye off this ball even if it is unlikely in its full, initially stated form.



The above is the good news. Now the bad. When we add in the two other possible ways that tariffs could arise, reciprocal tariffs and industry-specific tariffs, it seems likely that Canadian lumber will see one form of tariffs or another. That it was mentioned in Trump's statements about tariffs on the four aforementioned industries indicates that someone, somewhere along the line, explicitly made a case for their inclusion. Chips and pharma are relatively hi-tech and one can see a strategic rationale for including them. Lumber is important but it is not strategic. But Canadian lumber imports have been a bugbear of the US lumber industry for decades, and in the current nationalist and protectionist atmosphere, its arguments against Canadian importers would have carried weight. Thus, lumber was probably not mentioned casually (as perhaps cars were), and Canada, as opposed to any other lumber exporting country, was the likely target because no other country competes so directly with US lumber. Whether or not Trump's team recognises that softwood lumber duties already cover some US concerns about Canadian trade practices, and subtracts them from lumber tariffs, is uncertain, but again, we have three balls in the air, and it would be overly optimistic to think that one won't land.



The effect of high tariffs on Canadian lumber on the US economy and affordable housing, depending on their level, would probably not be a serious consideration for the Trump administration. Lumber tariffs would be a self-inflicted wound but taken in isolation it would be relatively minor at a national level. Additionally, Trump's team seems to be quite confident in their overall notion that tariffs are a form of national revenue and hence offset any damage they cause in the US. They will be cautious with big moves, as indicated by their 10% tariffs on China rather than the initially planned 60%, but lumber tariffs are not nearly as risky.

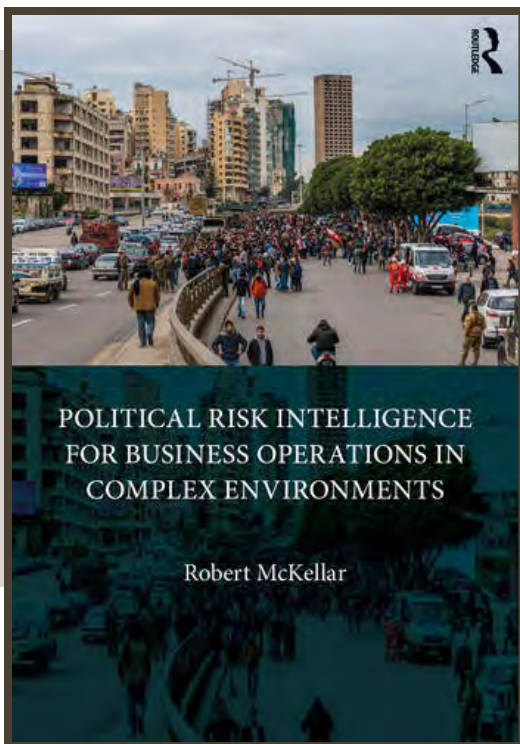
The above is a reasoned estimate of possible actions and combinations, based on the example tactical assessment undertaken, which as stated may not include all the factors and influences involved. It's also not tailored for a specific company, and individual companies are encouraged to undertake their own analysis with their own products and assumptions in mind. A clearer picture will only come with time and companies can keep honing their assessments by keeping their eye on the evolution of US tariff intentions, separating off-the-cuff rhetoric from potential moves that can be traced back to solid rationales or committed interests. Recall when we discussed method (see footnote 1), that monitoring and adjusting the outlook is critical following the initial assessment.

Tree Frog:

Thanks for your perspective and candour on the tariff risk, notwithstanding the negative outlook. Of course, for softwood lumber, this is only one of several economic pressure tactics being employed the US administration. Most notable, being the anticipated rise in US countervailing and anti-dumping duties in 2025 as part of the US Department of Commerce's ongoing administrative reviews. Analysts project that these reviews could result in a doubling of duty rates, exceeding 30% by August 2025. Other potential challenges include economic nationalist pressure on Canadian operations in the US, and the effect of Trump's trade war with China on forest product sales there. But we'll save that discussion for next week.

Harmattan:

Thank you for the occasion to consider a fascinating case of political risk. Next time we'll continue with the other challenges identified, duties being of course being one that we didn't need an assessment process to find. We'll also wrap up the wider assessment thought process with a sense of how to monitor and plan for the issues we discussed, and offer a few broader ideas on how political risk management could help going forward.



Robert McKellar is the principal at Harmattan Risk, an international risk intelligence and planning firm. A longstanding London-based firm, Harmattan Risk is relocating its operations to Turkey and Canada. McKellar is also the author of Political Risk Intelligence For Business Operations In Complex Environments (Routledge 2023). He holds an MA in political science from Simon Fraser University in Canada and a Masters of International Business from Grenoble School of Management (previously ESC-Grenoble) in France.

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