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

Part two of a two part series

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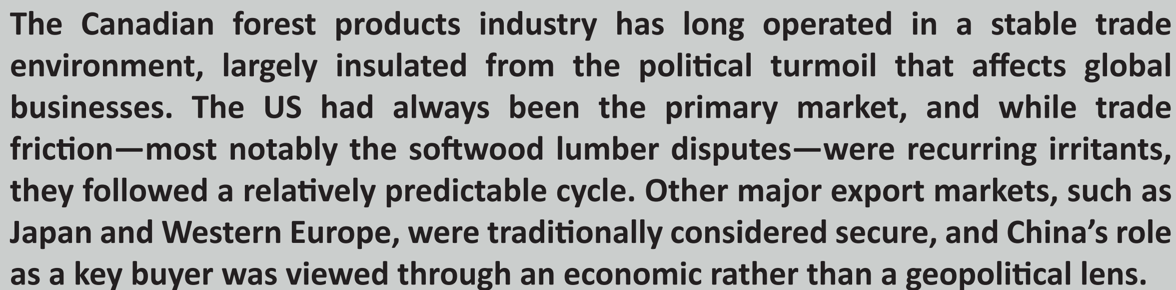

The Canadian forest products industry has long operated in a stable trade environment, largely insulated from the political turmoil that affects global businesses. The US had always been the primary market, and while trade friction—most notably the softwood lumber disputes—were recurring irritants, they followed a relatively predictable cycle. Other major export markets, such as Japan and Western Europe, were traditionally considered secure, and China's role as a key buyer was viewed through an economic rather than a geopolitical lens.

However, political forces and government intervention have accelerated the pace of change for the sector, challenging this stable trade environment. For a perspective on this, we reached out to political risk expert Robert McKellar, principal at Harmattan Risk. In his August 2024 op-ed in the Tree Frog News, he argued that political risk is not just something that happens in volatile regions—it is the exposure of businesses to political forces, whether through government policies, trade dynamics, or geopolitical shifts. He identified major political forces impacting the Canadian forest sector—including the growing China-West rivalry and Canada-US trade friction—to help companies assess the relevance of political risk for themselves. In hindsight, his foresights were well placed.

Given the election of President Trump and how quickly the trade situation evolved, we reached out to Robert a few weeks ago to re-examine these dynamics. And given the complexities, we decided on a two-part approach. In Part I, published February 25, Robert set the stage by looking at Trump's leadership style and his approach to business, he outlined how forest product companies can assess and manage political risk, and then he focused on the most pressing risk to the sector—tariffs. The other risks—lumber duties, interference in Canadian-owned US-based industries, and the impact of US-China trade tensions on lumber sales—were left for Part II.

The following Q&A distills our communications for clarity. In that Part II is a long read, below is an outline with hyperlinks should you wish to proceed directly to a given section:

- **Recap of Part I**
- **Is Trump toying with Canada or is there a plan?**
- **The latest on duties and tariffs**
- **Are Canadian US-subsidiaries at risk?**
- **US-China friction and lumber sales**
- **How to plan and manage for political risk**

Tree Frog: Recap of Part 1

Since our last discussion, US protectionism has clearly intensified. Canadian firms are no longer just navigating trade disputes; they are contending with a US administration that views economic relationships through a lens of leverage and negotiation, with annexation overtones. But before we dive into the latest developments, can you recap the key takeaways from our last conversation?

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Harmattan:

Absolutely. In Part I, we explored how the return of Trump was reshaping the US-Canada trade relationship. While tariffs and softwood lumber duties have long been a challenge, the fundamental shift we discussed was that trade policy had moved beyond the usual disputes—it was now an instrument of power politics.

We also examined Trump's leadership style and approach to business, as both are key drivers of his trade policies. Trump's transactional mindset, preference for unpredictability, and use of direct pressure tactics make his administration's trade strategy fundamentally different from conventional trade negotiations. This unpredictability is not just a by-product of his leadership—it is also a deliberate strategy designed to keep trade partners off balance and force them into making concessions. Companies cannot assume continuity in policy or rely on traditional diplomatic processes; instead, they must be prepared for abrupt shifts that reflect Trump's personal instincts rather than structured policy planning, which happens but it too is at the mercy of Trump's eccentric style.

A final point from our previous discussion was that Canadian forest companies could no longer afford to treat political risk as an afterthought. Whether through diversification, supply chain adjustments, or engagement with policymakers, companies need to embed political risk management into their long-term strategy. In a volatile environment, those that wait until a crisis unfolds to react will find themselves at a severe disadvantage.

I should add that we also discussed how companies can take a more structured approach to political risk, including strategic foresight and tactical assessments, to help anticipate and mitigate risks before they become crises. We have more on that in Part II, but the key lesson was that political risk isn't just something to react to—it's something companies can actively manage. Those that integrate political risk into their decision-making are usually better positioned to turn uncertainty into a strategic advantage.

Tree Frog:

At the time we spoke, these were emerging risks. And just weeks later, we find ourselves in an even more volatile landscape.

Harmattan:

That's right, and it underscores the import of political risk management. If companies assume that the trade environment will eventually "normalize," they could find themselves dangerously exposed. The tensions between the US and China are unlikely to fade anytime soon, and Canada's role in this shifting dynamic is something businesses need to watch closely. These elements don't replace the concerns we outlined in Part I; they just add layers of complexity that companies must now factor into their strategies.

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Tree Frog: Is Trump toying with Canada or is there a plan?

Let's start with the latest developments on the tariff front. After some last-minute talk of another hiatus, bi-lateral tariffs on Canada and Mexico went ahead on March 4th. In short order however, the big automakers obtained an exemption for a month, which was then extended to goods covered in the United States-Mexico-Canada Agreement (USMCA) and eventually Canadian lumber—even as Trump spoke about imposing tariffs on Canadian lumber and dairy products.

On April 2nd, the full 25% tariffs on Canada and Mexico might go ahead again, and initial recommendations on reciprocal tariffs are also due. And we can't forget that on March 1st, the administration commissioned a report on global industry tariffs on lumber and derivatives, due in late November. Suffice to say, the situation seems to change by the day, not just for lumber but for Canada as a whole. The US seems to be toying with Canada—or do they simply not have a plan? What do you make of the big-picture strategy?

Harmattan:

I've been reading and listening to observers more attuned to US politics than I am, and the explanations for the tariff chaos range from it being deliberate, to being what happens when whims meet reality.

On the deliberate and strategic side, a possibility that we need to consider is that sowing confusion is an end in itself. It's out of Russia's playbook and Trump has long been a Putin admirer. The idea is partly to get everyone so distracted that you can do what you really want without being noticed. It's also about exploiting divisions – as anxiety increases in the target audience, different groups coalesce and seek to defend their own interests even at expense of the wider unit, in this case a country. With respect to Canada, Trump might not have been serious about turning it into a US state, but de facto control over Canada's natural resources is another story. The link between tariff confusion and control over natural resources is unclear now, but if we start to see the US treating some provinces differently, it might indicate one avenue. That might have sounded crazy a few months ago, but not in the current context.

Then there's the whim meets reality side of the argument. 25% blanket tariffs on an ally make great headlines and play to Trump's tough guy image. Canada, and Mexico too, initially tried to placate Trump and it bought them some reprieve. But when Trump later said "not good enough" both countries' populations got mad, and Trump understands the power of public anger since that's one of his own domestic political levers. He might have faith in the long-term efficacy of tariffs, but he was staring a major, immediate trade war in the face. The effects for US consumers and industry would have been palpable, and the US

economy is already showing some worrying signs. There probably is a combination of specific tariffs that would actually help certain US sectors, their employment figures included. But it would take patience and serious assessment to find that sweet spot, and the administration is short on both. Thus, in this view, Trump overshot and had to walk back or face worse political consequences. But he's keeping up the chaos to obscure his climb-down, and of course the tariff threat is still very much on the table.

A net assessment? There might be an ill-defined intention or at least a hope in the Trump team to subvert Canada to enable gaining control over its resource wealth, but Trump's kind of chaos is a double-edged sword. Elon Musk's DOGE "reforms", Trump's capriciousness, and blatantly underqualified political appointments in key positions are hurting the US government's capability to do complex, strategic things that rely on robust intelligence, expertise, and coordination. Trump has a lot of raw power, though, and he'll throw it around to see what cracks and opportunities open up. That probably explains some of what's going on, and it helps to explain the weird opening shot ostensibly aimed at getting Canada to address southward flows of fentanyl and illegal immigration. In Canada's case both are negligible, and Canada has its own problems with illegal flows from the US.

But he really does see tariffs as an essential policy lever. Where tariffs make economic sense from the administration's perspective, in terms of addressing trade imbalances and unfair practices, and reshoring jobs within the medium-term, they are likely to stick. Trump also accepts that near-term pain in the US might be a price the US has to pay to reap the longer-term benefits, so he won't shirk every time some-one says that a given tariff would hurt jobs or affect inflation. Tariffs are certainly not just political theatre or threat-mongering.

Both aspects of tariffs, the chaotic, opportunistic one, and the policy-driven one, apply in Canada's case. We'll leave our crystal ball on the shelf for now, but there are essentially three variables at play when you look at any given tariff threat, or period of tariff threats: 1) which motive it comes from, opportunism or policy; 2) the economic cost in the US and hence political cost for Trump, and whether that is tolerable for him when weighed against the potential longer-term benefits; and 3) how the target of tariff threats responds. Show weakness and the opportunistic motive will ratchet up and threats will intensify, show some sustained mettle and Trump will weigh the costs and likely narrow things down to tariffs that make the most economic sense from his perspective.

That's a rather longwinded reply and admittedly somewhat speculative but looking at broader motives and constraints is lot more useful that trying to explain every twist and turn in what seems like an end-less barrage of them. Additionally, what goes on between the US and Canada is relevant to any Canadian industry, and it helps to contextualise any industry's issues.

As for lumber and the wider forest sector, we've seen Trump single out lumber a few times now, and we've also seen him listen to the concerns that the National Association of Homebuilders has about lumber tariffs. One could surmise that Canadian lumber is in the crosshairs from a policy perspective, but that Trump will look for ways to tackle it that do not have a near-term, steep effect on housing prices and construction jobs.

Tree Frog: The latest on duties and tariffs

One way Trump might be able to mitigate the effect of lumber tariffs is by removing constraints on domestic US logging. And of course, that's exactly what the President directed his administration to do in his March 1st executive order. More available timber is only half the equation, though—the other being industry operational capacity. Trump's tariffs and his narrative about rebuilding US manufacturing are aimed at giving US firms the confidence to hire and invest in capacity, and in the lumber context that means mills as well as the infrastructure and equipment to expand logging operations.

A recent analysis by Dustin Jalbert at RISI suggested that it would take at least five years to replace Canadian supply under the most optimistic of assumptions and more likely it would take 10 years. When one considers less commoditized lumber markets, long-held builder preferences for Canadian SPF (because it's easier to work with), and lumber's price inelasticity of demand (which translates to higher consumer costs for some time), other analysts have suggested it would take much longer.

Harmattan:

I think it's clear that Canadian lumber is an actual, not speculative or opportunistic, target. This together with opening up more forests points to some focused thinking, no doubt guided by the US Lumber Coalition, on how to squeeze Canadian lumber out. As you said, it would take time and it would need a coordinated approach, not just "here's more trees and we'll make Canadian lumber superfluous". I tend to agree with the longer time frame to supplant Canadian lumber, particularly given the housing shortage in the US and hence what will likely be relatively robust demand. But with the US lobby involved, the administration would not be flying blind.

An important question is why Trump's administration would even bother supporting or leading a serious effort to diminish Canadian lumber's market share, when Canadian supplies help to keep prices stable and therefore help with the administration's promises on affordable housing and inflation. Why not just leave it alone and let duties keep up slow burn pressure? MAGA and America First ideology contains protectionism, but a related strand is isolationism. That doesn't necessarily mean cutting off from the wider world, but it does mean reducing dependence on others so that they have less leverage over you. Lumber and other wood products might not be strategic, as in helping the US to fight wars or deter enemies, but they are a natural resource on which the US depends. Self-reliance in lumber makes compelling ideological sense, and the US has the basic ingredients to eventually achieve that. Displacing Canadian lumber would take time and might never fully happen, but the effort will have serious consequences along the way.

Tree Frog:

Let's turn to duties, which—though more familiar to the sector than tariffs—carry serious implications for market access and margins. On March 3rd, the Department of Commerce (DOC) released its preliminary assessment of anti-dumping duties, and they are poised to go up to about 20% from the current 7.7%. An announcement on its trade policy co-enforcer—countervailing duties—is still pending, but there's growing consensus that overall duties could exceed 30% this year. Would your devil's advocacy approach have anything to add to the risks in this picture?

Harmattan:

Duties seem to be playing out as anticipated by industry observers and trade officials a while ago. High overall duties have strong political support, and the US Lumber Coalition has a receptive audience in Howard Lutnick in the DOC, not to mention with the Republican senators representing six out of the 10 major softwood producing states. Most importantly, unlike with tariffs, duties are the outcome of a clunky bureaucratic process, and the ball has been rolling for a while. Questions around whether the US would abide by any dispute rulings, for example at the World Trade Organization (WTO) or the USMCA, or whether Canadian companies might get back their $10 billion in paid duties anytime soon or at all, seem almost quaint in the current political context.

I was initially planning on using the devil's advocacy approach for all four challenges, but it works better where there's high uncertainty, and with duties it's probably somewhat pedantic, at least for 2025. After this year though, it will be a more slippery question, particularly if future Department of Commerce reviews point to lower duties. Here we'll just rely on some straight-line exploratory thinking.

If US logging significantly expands and there is an early increase in US mill capacity rates (followed by new mill capacity announcements), there is likely margin for pressure on Canadian suppliers before it overly impacts US home buyers, inflation, and construction jobs, and hence Trump's standing. That extra margin to cause pain could be spent in two ways, higher duties or higher tariffs.

The implications of each track are broadly similar in that they both ultimately squeeze Canadian lumber's market share. Trump might prefer the tariff route because it is better political theatre, and he controls the dial. But if he starts to sense that a trade war with Canada is hurting Americans to the point that they start to blame him, then duties would be a way to sustain and increase pressure while providing a cloak of boring bureaucratic process. There could well be very explicit calculations on how duties and tariffs could work together for maximal pressure and minimal political risk to the administration (this assumes that Trump would have a hard time backing down from his current attack mode and hard protectionism, and that seems to be a reasonable assumption).

Ironically, price rises in the US linked to duties and tariffs give Canadian exporters a bit more headroom, so even with added pressure they can keep shipping at a profit. But that headroom diminishes at a certain point and producers run out of ways to sustain any profit margin. That differs partly depending on cost structures where mills are based. BC is a high-cost producer and mills there would tend to drop out first. Ontario and Quebec are in the middle ground, and Alberta has the most headroom. Canadian firms

with US-based operations and some overseas diversification (for example Canfor's mills in Sweden) may have even more buffer, but the business rationale would get weaker the higher and more sustained the pressure.

We'd be over-speculating if we posited what duty-tariff combinations could emerge in the future, since they will be linked to trade reviews, changes in the US economy and Trump's political instincts. But it's worth bearing in mind that after 2025 the two levers will likely be used in conjunction.

Tree Frog:

Before moving on, I think it's important to note that while our focus has been on softwood lumber—given the size of the market and the risk of both tariffs and duties—the tariff threat cuts across all forest products. And some product segments are not as vulnerable to disruption as lumber. A recent analysis by Kevin Mason, at ERA Forest Products Research, revealed that while imports of Canadian lumber account for about 25% of US lumber supply, the US is even more reliant on Canadian OSB (~30%), Canadian softwood pulp (~55%) and Canadian newsprint (~80%). To the extent that there are no easy near-term substitutions for these products, the higher the US dependence on Canadian supply the greater the proportion of the duties that will be passed onto US buyers and consumers. Further, in the same way that US builders' preference for Canadian SPF can act to some degree as a substitution impediment, Canada's superior softwood pulp quality—longer fibres from slow growing trees—is an even greater differentiator.

Harmattan:

These are important distinctions and each product and subsector deserves its own detailed risk analysis, which in turn would reveal different opportunities and complexity for integrated forest companies as well. We'll discuss this again when we look at China, whose significance is quite distinct between lumber and pulp & paper.

Tree Frog: "Are Canadian US-subsidiaries at risk?"

Do Canadian operations in the US have anything to worry about?

So far, we've been talking about Canadian lumber exports to the US. But a number of Canadian companies are also heavily invested in sawmills in the US South. There are many reasons for this, including the US South's abundant, cost-competitive timber supply relative to Canada, and its proximity to the US housing market. But avoiding the effects of softwood lumber duties would have also been on the list, and that decision benefits companies with sizeable US operations. In a sense those companies have pre-empted Trump's plan to use tariffs to get foreign firms to move operations to the US. Certain industry critics have panned these investments as un-Canadian, but from a business perspective they certainly make sense, particularly when you consider the stable US-Canada trade environment of the past.

Given Trump's admiration for authoritarian leaders, one might suspect that being a foreign subsidiary operating under US jurisdiction could come with added risks. Do Canadian operations in the US have anything to worry about?

Harmattan:

It might sound bizarre that we could see the kinds of government interference in foreign business in the US that we've seen in places like Venezuela, or in the past in other emerging market countries led

by populist strongmen. But a lot has been bizarre lately, and just given the fact that Trump is a populist, economic nationalist leader, it's actually a serious question.

Just to clarify, the basic question here is whether, and to what degree, Canadian companies could experience discrimination, even to the point of nationalization, in their US subsidiaries. This is a somewhat longer-term question because it would take time for any situation to reach that point. There is also considerable uncertainty around this, hence the devil's advocacy approach is again applicable.

We explained the devil's advocacy approach in Part I, but a brief recap is in order. First, we argue why a given challenge will be the worst plausible case, or in simpler terms why it will be severe. Then we try the counter-argument, why the challenge will only be mild or moderate. We compare the two sides and use them to form our balanced net assessment. So, bear in mind as we go that we are deliberately being one-sided in each of two opposing arguments.

The pessimist would be thinking:

- Severe discrimination against foreign investors and outright nationalization are often driven by two related problems. One, the economy is stagnant and a government is desperate for short-term boosts, including by grabbing or redistributing the assets of foreign companies. Two, partly because of a stagnant economy, the government starts losing legitimacy and sees foreign "exploitation" as an easy target to shore up its nationalist credentials.
    - Trump's economic policy could well drive the US economy into the ground. Lower taxes likely will not be offset by income from tariffs, and this will lead to more government borrowing. Tariffs likely will not lead to a sharp increase in US manufacturing before they drive prices up for American companies, making them globally uncompetitive. When the economy begins to stagnate, foreign direct investment (FDI) will not be attracted to the US even if going there helps to dodge tariffs. FDI is also repelled by weak rule of law, and Trump is a serial rule breaker.
    - Having won the election largely based on hopes that he would be good for ordinary people's prosperity, Trump's legitimacy would suffer. Within 18 months to two years, Trump could well be an archetype of a nationalising leader. In many other cases of nationalizing governments, leaders had to overcome deep inhibitions before making the leap. As an ardent economic nationalist, Trump is already halfway there.
- The Trump administration also fits the archetypal discriminator in several ways:
    - We have no reason to believe that America First applies only to the US with respect to other countries; if we broaden the concept by only a thin margin, it could easily apply to Americans in general, including American businesses in the US.
    - The administration is very comfortable flouting the law (one recent example being Musk's DOGE ignoring congressional oversight and privacy laws), and hence would be willing to ignore business legal protections to discriminate against foreign investors.
    - Trump recently demonstrated a willingness to directly intervene in the activities of private firms when he forcefully proposed that Taiwan Semiconductor Manufacturing Company (TSMC) acquire and operate Intel's chipmaking operations. TSMC did not seem to like the idea but has been playing along to avoid incurring Trump's ire. Chips might be a strategic product and thus open to political pressures, but this was a blatant case of intervention in a foreign firm's management decisions, and an indication that even legally compliant foreign firms can be exposed to Trump's whims.
    - In Trump's first term, he proved well capable of mobilizing enforcement agencies, the Justice Department, and pro-Trump media to hassle opponents and naysayers. With much more con-

trol over the government this time, especially in the wake of Elon Musk's DOGE reforms, the administration has a number of levers to make life difficult for US-based subsidiaries of foreign firms.

- In the context of America First, an anxious Trump looking for foreign scapegoats to explain a weak economy, and a proclivity to unlawful discrimination, the US Lumber Coalition and other US interests would have a compelling (if realistically specious) argument for why Canadian subsidiaries should be targeted for discrimination or nationalisation (with assets then handed to US competitors):
    - Canadian mills use better technology because Canadian companies had the margins to invest in it, because during their long tenure in Canada they paid subsidized fees to get their timber, unlike honest American companies who had to compete for theirs. Ultimately because of this unfair advantage, Canadian subsidiaries are putting serious competitive pressure on home-grown US firms.
    - Canadian firms came to the US to dodge penalties for their unfair trade practices, and their US subsidiaries are now profiting from the low taxes and light regulations that were meant to help American companies, not foreign ones. They are playing the system, and it is unfair to US-based firms who have played honest all along. America First! Remember President Trump?
    - Home-grown US companies need help in addressing these injustices, and in turn they will help Trump to look like a winner by showing what Americans can do when they're not facing underhanded foreign tactics. So, level the playing field, or better yet, kick them out and let us have their assets.
- Canadian forestry companies with US operations have the legal savvy and resources to address an array of potential challenges to their legal rights. However, if the rule of law itself becomes sketchy in a context of intense economic nationalism, then legal prowess would be moot. And Canadian subsidiaries are not part of the US Lumber Coalition and have no real opportunity to lobby on their own behalf.
- Serious discrimination and nationalization seem inconceivable now, but so did Trump's becoming president only a year before he first did. Indeed, most major political changes or events in the last decade seemed highly improbable beforehand. For example, by comparison to Brexit or the Ukraine War, that America First edges into extreme economic nationalism is hardly a stretch.

By contrast, a more optimistic perspective would consider:

- American jobs are a high priority for the Trump administration. Tariffs themselves are partly aimed at getting foreign firms to bring operations and employment into the US, and FDI in general is an important piece of Trump's plan to rebuild American manufacturing. His administration would be aware that discrimination would make the US look risky, and the idea that it would ever nationalize foreign operational assets is highly specious given FDI's importance. Companies in strategic industries such as chips, AI, and other hi-tech might feel pressure to abide by US strategic interests, but that has been the case for years and is mainly aimed at keeping ahead of China.
- It is very premature to assess Trump's economic strategy as doomed to failure. His original ideas will no doubt be adjusted as they encounter reality. Some aspects of his economic plan make sense in the context of a push for re-shoring manufacturing, and he is sticking with Biden's support for strategic hi-tech industries with long growth horizons. Additionally, even if his plans result in higher borrowing, he is also committed to cutting government costs. It is unlikely that the US economy would get to a point during his second term where Trump feels desperate enough to

start discriminating against foreign firms and/or nationalizing foreign assets. If he ever reached that point, they might not even be among his considered options – he might instead opt for a foreign war, arguably as Putin did in Ukraine, to boost his nationalist credentials and shore up his position (that carries its own risks to business).

- FDI is governed by law and hence congressional sentiment is an important variable. Even if the Republicans keep their majorities in the next mid-terms, the party still has a significant number of classical / Reaganite conservatives. Along with most Democrats, they would likely resist serious breaches of business legal protections.
- Being in the US might put a company under US jurisdiction, but investment, strong local stakeholder relationships, job provision, corporate social responsibility initiatives, tech-sharing and other signs of commitment are strong guarantees against hostile treatment.
- Finally, it is questionable if the US Lumber Coalition or US forestry companies would take umbrage at US-based Canadian competition. In the US, Canadian firms have often entered by acquiring or partnering with existing US companies and therefore do not have an obtrusively foreign, Canadian, profile. They are operating by the same rules as their local competitors, and thus there would be no basis for an argument that they had unfair advantages.

Net assessment

The argument that Trump's administration will eventually discriminate against foreign firms in the US, Canadian forestry companies among them, is largely built on an assessment of how Trumponomics will play out. If his strategy ultimately results in working class Americans feeling more pain, and being aware that US fragility has increased because Trump's policies, he probably will feel some serious heat. More than that, he would become vulnerable – his detractors' arguments that he is inept and uninterested in "real people" might start to stick. A populist's base turning against them is hardly unprecedented.

In that scenario, Trump likely would look for scapegoats far and wide, and foreign companies in the US would no doubt be among them, even if they have taken steps to not stand out as foreigners. Then the worse side of the argument would go from merely conceivable to plausible.

There are different assessments of how his economic plan might play out. We covered one in the pessimistic argument – in unmitigated form, it probably would badly harm the economy. Most observers, however, foresee mitigating influences: less radical members of Trump's inner circle, Congress including old-school conservative Republicans, and the technocratic bureaucracy even after Musk's damage. Their moderating influence, combined with a couple of positives in Trump's plan which we noted, would keep the US economy functional if not exactly healthy. Then Trump would not face the kind of pressure that creates nationalizers and discriminators.

Keeping an eye on US economic health, then, would help to provide some forewarning of a turn to economic nationalism and a tendency to see non-US companies as worthy of mistreatment, the law be damned.

Having known the US for a long while, we might find it hard to get our heads around the possibilities inherent in Trump. There is no doubt that we will be very, "bigly" surprised a number of times during his second term. The subsidiary of a Canadian forestry company getting nationalized, its assets handed over to home-grown competitors? Let's just say it's worth keeping an eye on, and having a preliminary notion of what the company could do if relevant conditions started to change.

This kind of challenge would be very new to most readers, so I should say a bit more about it. First, in some contexts, governments really are acting in the national interest when they target specific foreign

firms. Old permissions might be become outdated in the context of new economic realities, and sometimes foreign operators just underperform and won't go away on their own. In our context, interference would probably not be motivated by a serious cost-benefit analysis, but it's just worth noting that there can be sound reasons behind it.

Next, nationalization is usually the endpoint of a longer process of squeezing foreign firms (whether specific ones or those in a particular sector), and that process seldom actually culminates in nationalization, because discrimination and interference often suffice to skew the playing field to favour home-grown businesses and boost the government's nationalist credentials.

Actual discriminatory measures that governments have used in recent years include: excluding foreign firms from investment and export incentive schemes which domestic firms benefit from; quickly changing local content (supplier) and foreign ownership rules to suddenly force foreign firms to scramble for local partners, with little time to do decent due diligence; launching unexpected and onerous tax and compliance audits; colluding with politically-connected domestic competitors to attack foreigners' reputations in state-friendly media; and even launching specious criminal investigations against individual foreign managers–this hurts business because it's severely distracting. There are more levers, but this gives an idea. Ultimately, a foreign firm's competitive performance is diminished to the benefit of their domestic peers, and/or they leave, often selling their assets at bargain prices just to get out before they are further entangled.

If a foreign company starts to see harder economic nationalist rhetoric and/or a progressive implementation of the above levers in their sector or even other ones, it should start beefing up its resilience and reducing vulnerability.

There is a lot written about how to avoid or counter discrimination. Entering a joint venture (JV) with a well-connected local partner is a commonly touted solution, since the government won't want to hurt the local partner. But a JV partner can actually become a kind of insider threat, using government connections to jostle for more stake and control, and perhaps even expropriating intellectual property and assets with the government helping them to avoid legal fallout.

The best approach depends on the context, but in general, an independent subsidiary which makes itself indispensable to an array of local stakeholders can be a good balance. Business investment, jobs, job training, social investment / corporate social responsibility initiatives, local supply contracts, and careful host community and local government consultation and trust-building can make a government think twice about hassling the company. It might face a local backlash if it did. Additionally, obtaining local financing, even if it's not needed, would get domestic banks on board–they'd get hurt too if the foreign firm suffered. And transparent, consistent media relations help to ensure that the company's side of the story is out there, and the government knows it might face some public opprobrium if they mistreat the company. Again, any approach would need to be carefully designed based on the risk and the context, but these measures provide a flavour of the options.

Even the most well-planned measures cannot stand up against serious political intent to harm or exploit foreign companies.

It is important to note that even the most well-planned measures cannot stand up against serious political intent to harm or exploit foreign companies. That's why it's important to keep an eye on indications of extreme economic nationalism. If it seems to be reaching a point where serious discrimination or nationalization look like they're coming one's way, then leaving might be the best option. Plans to that effect would ideally be initially sketched and progressively filled out well before a firm felt debilitating pressure, so that it could act quickly to extricate on the best possible terms.

Tree Frog: US-China friction and lumber sales

Let's now look at China —a market that has played a pivotal role in supporting Canada's softwood lumber in the past. When the US housing market collapsed during the 2008 financial crisis, Canadian producers, particularly in British Columbia, pivoted aggressively to the Chinese market, shipping vast volumes of lower-grade lumber—much of it from beetle-killed stands. By 2013, China accounted for nearly 30% of BC's lumber exports, offering a vital outlet during a prolonged downturn in US demand. That surge of course has since faded. A slowing Chinese economy, a cooling housing market, and intensifying competition—especially from Russia—have eroded Canada's share. While China remains Canada's third-largest softwood market after the US and Japan, its future as a reliable growth engine is uncertain. And now, with Trump threatening new tariffs and escalating trade tensions, it's worth asking: could China (who is also in Trump's cross hairs) once again serve as a lifeline for Canadian lumber or will US-China trade friction damage its growth prospects?

Harmattan:

We've seen a number of economic vulnerabilities start to manifest as actual fragility in China, including a declining population. Doomsayers even posit a collapse and massive disorder within a decade. But it's miles away from scarcity, its tech sector is booming, its trade ties go far and wide, and the government has proven capable of effectively marshalling national responses to serious economic challenges. As an economy, I would expect that it will keep on being huge, whether or not it overtakes the US any time soon. So, it's still potentially an important long-term prospect for Canadian lumber, and it's an obvious cog to include in any international diversification strategy.

I certainly agree, then, that it's worth having a sense of how Trump's aggressive stance towards trade with China could affect its prospects as a market. Again, we'll try the devil's advocacy approach.

A pessimist would expect a significant decline in sales of Canadian lumber in China, and much reduced future opportunity, for several reasons:

- Canada was China's largest supplier of softwood lumber until 2014, when it was surpassed by Russia. That change occurred a year or so after Xi Jinping took the reins in China. His focus on strategic contention with the West led to a closer relationship with Russia, and to reducing reliance on Western imports. The preference for Russian lumber will likely sharply increase as China reacts to what it would regard as a wider Western assault on its economic prospects.
- Additionally, US tariffs will likely damage Chinese growth. China is already suffering from slowed growth for reasons like the property bubble, local government debt, industrial overcapacity and,

since covid, low consumer confidence and deflationary pressures. China is putting tremendous stock in exports to absorb excess industrial capacity and generate national revenue, and the US remains a vital market. Trump kicked off with 10% tariffs on China on 1 February, and China responded quite cautiously. Then he cranked it up to 20% in early March. China responded with new tariffs on a range of US agricultural products, likely hoping to strike at the US heartland where Trump has a strong base. Additionally, China shed its cautious rhetoric and effectively challenged the US to take its best shot. There is also mockery in Chinese media about the difference between the 60% tariffs Trump promised during his campaign, and the baby steps he's taking by comparison. This would be "triggering" for Trump, to put it mildly.

- A serious trade war is looming. Trump will likely meet China's latest response with escalation, and the full blown 60% tariffs that he initially promised no longer just look like campaign rhetoric. That or anything close to it would injure China's growth prospects, and severely affect consumer and investor confidence. China's lumber market would sink alongside the wider economy.

The optimistic counterargument

- The Chinese leadership is not likely to lump all Western countries in with the US when it ascribes blame for US tariffs. Indeed, it is just as likely to use the broader US tariff strategy to try to peel Western countries away from the US by offering closer and more stable economic ties. The strategic preference for Russian lumber might persist, mainly to support Russia against Western sanctions, but a sharp displacement of Canada's remaining share of the Chinese market by Russian lumber is unlikely.
- It remains to be seen whether a tit for tat tariff battle with China becomes a trade war with massive tariffs. Trump prides himself on being deal maker as much as a scrapper, and he has shown considerable respect for Xi on personal level. His style so far has been to escalate, and then to let things sink back to a new normal. He would be acutely aware of the economic impact in the US if he unleashed a sustained trade war with China. Thus, we can expect brinksmanship to subside.
- Finally, China has been cultivating extensive trade ties with the rest of the world, via the BRICS, Shanghai Five and other alliances, as well as its Belt and Road initiative. This has partly been to protect the Chinese economy from US and Western economic coercion, and it has put in place a range of alternatives which China can shift to and build on to mitigate the effect of any trade war with the US.

Net assessment

There likely will be a moderate impact on China's lumber market over the medium to long term. A full-scale trade war would be destructive for both sides and we can expect Trump and Xi to use their apparent mutual personal respect as a pretense to prevent it. A market contraction won't be too painful since the China opportunity has already diminished over time. However, in the context of a sustained squeeze in the US, any incremental decrease in a significant foreign market is going to reduce overall headroom for Canadian exporters. Additionally, China is a natural target in longer-term diversification initiatives, and the effects of US-China trade friction will delay the time when a renewed push into China, including competing head-on with Russian lumber, is worth the risk and expense.

Tree Frog:

With respect to the wider forestry sector, it's noteworthy that while China might be a long-term market opportunity, it also poses a competitive threat. Over the past two decades, China's state-supported pulp & paper (P&P) industry has grown into a global giant, contributing to the decline of mills in both North America and Europe. Even so, China remains a major importer of Canadian softwood pulp, relying on it

for high-quality tissue and packaging production. Thus, concerns about unfair trade practices, which I suspect will be a sub-plot in US-China trade friction, sit alongside the opportunity that China represents.

Harmattan:

It's a good lesson that not everything is black and white, in two ways. First, some of what Trump is trying to do is in others' interests too, not just the US'. China has played hard and fast with global trade rules for a long time, yet it took national security concerns to make Western governments take China's trade practices seriously. Canada might be a recent victim of Trump's opportunistic use of tariff threats, but it would benefit from US actions against serial dumpers and subsidisers, China included. Second, different links in a sector's wider value chain can have different interests. Lumber and P&P sit side by side, for example, yet for lumber China is potentially a good long-term opportunity, while for P&P it's partly a market, but also a competitive threat.

For Canadian trade officials and the government more generally, there is a conundrum. If they play hard ball with the US, they'd better have some alternative markets in mind that could offset constraints on US access. China is a huge potential offset. But embracing it as such, including by not cooperating with US trade policy towards China, means submitting to China's aggressive trade practices. There are no doubt middle ways that can avoid such a stark choice, and hopefully things won't get to a point where the US and Canada can't work together on shared issues even as they argue on other ones. Theoretically, conundrums like this are the bread and butter of government people working on trade strategy, but it will take finesse to find the best way forward.

A similar conundrum, although at reduced scale, would present itself to an integrated forestry company that spanned lumber and P&P. Consider too that while P&P faces Chinese pressure, Canadian pulp producers have a solid position in the Chinese market. What stand on China should it support? There isn't very much that one company could do to influence overall Canadian trade policy, which balances opportunities and repercussions across all exporting sectors. But a company would have some influence, and it would need to think carefully about its policy preferences in relation to product mix and growth priorities.

Tree Frog: How to plan and manage for political risk

There's more to be said about these four challenges, the broader political context, and, for that matter, the specific issues facing individual products and companies. But this wasn't intended as a comprehensive analysis. Rather, this piece was intended to introduce the concept of political risk and provide a framework for understanding and managing it—so its impact on business health can be minimized. This is especially relevant given the accelerating pace of change in the forest sector.

You described in Part I a tactical assessment—a form of political risk intelligence that companies use when they're facing, or are in the midst of, a challenging political environment. This contrasts with longer-term strategic assessments aimed at anticipating such periods before they arise. You also applied a tactical lens to guide our earlier discussion of challenges in the context of a potential second Trump term. So, let's now return to a broader question: how should companies think about and plan for political risk? What kinds of exercises or processes can they use to stay ahead of emerging risks, and how do these efforts translate into concrete decisions?

How should companies think about and plan for political risk?

Harmattan:

I'll keep my reply top level, since it's easy to go down rabbit holes here. First, not all political risk exercises are relevant in our context. With Canadian forest products, we're not dealing with multinationals entrenched all over the world, nor are we dealing with seriously dangerous threats like politically-con-

nected organized crime targeting a foreign entrant. So that eliminates some political risk management requirements, at least until the sector becomes more international. Also, bear in mind that stakeholder analysis is an important exercise, but it pertains more to operations in a specific country or location when a company must manage direct relationships on the ground, so we'll leave it aside for now.

In our context, we'll focus on exercises that support business navigation, or steering around and through trouble, sometimes even to new opportunities that hadn't been considered until a company was forced to really think about new moves. These are strategic and tactical assessment, and monitoring.

On the strategic side, a company would identify broad political trends and forces that could affect the business and develop estimates of how these might unfold. The more worrying patterns and scenarios are things we need to plan for. We develop strategic options, and as the future creeps towards the now, we increasingly invest in the ones most appropriate for what seems to be unfolding. For example, an astute company could have foreseen the possibility of a Trump-like government even from as far back as 2014. From Trump's very first win, a second, highly protectionist, term was a definite possibility. The company could have increasingly beefed up plans for international diversification and/or entering new and less vulnerable product segments, just as examples, so that by the time the estimated situation arrived, the company had skirted most of the possible damage and even found new horizons.

We did a tactical assessment in this paper. The future has become the now and it's worse than we thought. We need to understand what's going on and adapt to it. If we were to follow through on that process, we'd end up with two sets of options, immediate "what would we do tomorrow", and medium-term. There won't be many choices with immediate actions. We just need to survive. After that, options can be more nuanced and tailored to how the situation might unfold, and a normal track is from easy and cheap options to more complex and expensive ones.

For example, if high lumber tariffs hit, an integrated forestry company could initially explore opportunities to share the burden with customers and communicate the advantages of Canadian SPF to segments who might not fully appreciate why it's unique. If tariffs are not a flash in the pan, slightly further out, the company could shift product emphasis, for example to products or applications where it had more leverage with US customers. If tariffs persist and the plan to squeeze Canadian lumber seems to be rolling out, it could expand its direct US presence to hang onto US customers (bearing in mind the risks we discussed when looking at economic nationalism). Somewhat longer-term, it could ramp up two things that are useful in any context, international diversification and developing high-tech wood applications that create new wood markets. Note how the further out you go in tactical planning, the more you're re-entering strategic territory.

An important point about tactical planning is that we can get panicked in risky situations and overreact. We might exit a certain segment, sell assets or lay off staff, and then find that things turn around or stabilize and we're at a disadvantage. It's a balancing act – we want to stay ahead of events, but we don't want to make costly or irrevocable moves too early. Options also need careful evaluation. What we generate in a political risk exercise needs to be considered in the wider corporate context.

Finally, monitoring applies to both strategic and tactical levels, and one monitoring program would handle both. Strategic monitoring looks at the big picture factors identified in that assessment, for example how Russian-European relations evolve, the West-China rivalry, and political transformation in the US. Tactical monitoring would have fast-moving targets like US tariff announcements, and slower ones like US-China trade relations. Fast targets get routine attention, slower ones periodic. At both strategic and tactical levels, the changing outlook tells us which options are becoming more urgent or relevant, and which ones we can keep on the shelf. At some point we need a new blank slate assessment at each level to reset our intelligence picture, but monitoring can keep that picture from getting stale in the meantime.

A complete political risk management capability includes these intelligence processes, but also how intelligence is acted on by the relevant company management. Unused intelligence is just box ticking.

Tree Frog:

Do you have any final thoughts on political risk management that might be useful for our readers, not necessarily linked to Trump and Canadian forest products?

Harmattan:

I'll focus on a general but critical point. Companies often don't develop ways to understand and deal with political risk until it's too late. Why? Because it's boring, abstract, weird, and such capabilities don't make products and drive operational efficiency.

Here's a story. Working from the client's office in Algeria, I gave a senior manager a book on political risk management. He looked at it like it was a rubber mouse, laughed and stuck it on a pile of papers where it was going to get lost in about two hours. Algeria is a very demanding place from a political risk perspective, and I was there as part of a consulting team helping with a political risk assessment, yet this basic opportunity to learn about it for himself just seemed funny. It was too out there for him, with a firmly business school mindset that saw business as a separate, secluded domain of reality where "company, customer, competitor" were all that mattered.

Speaking to a range of people in the bureaucracy, media, NGOs, company local staff, and among other foreign companies and the client's Algerian partners, it became clear that our client was its own worst enemy. They had an outsized number of serious problems which other companies had never even thought possible. When you compared their approaches to learning and planning for the non-commercial realm into which they fit, it was similarly night and day. I suppose our project was helping to change that, but I suspect it was mainly a box-ticking exercise. They stumbled on, but at half the pace they could have had if they'd had a strategic, proactive approach to political risk.

Even when companies set up their own political risk analysis and planning units, it can still remain box ticking.

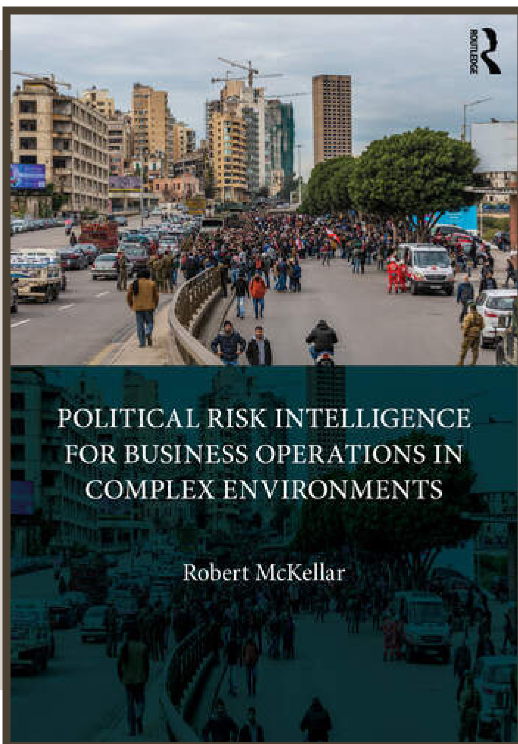
Perhaps surprisingly, even when companies set up their own political risk analysis and planning units, it can still remain box ticking. Senior management might now be able to say that they are "managing political risk" when in fact the new unit churns out reports in a vacuum. It is not invited to the operational or strategic table, so it never really learns enough about the company to tailor its work to be relevant. Then,

when managers do read its work or get briefings, they cannot see the practical value in it and ignore the unit even more. But it can persist for quite a while and provide the veneer of managing political risk, in case a board member or a major investor asks about it.

By contrast, I was involved in a case for a company starting a new operation in Tunisia shortly after the Arab Spring revolution there. There was no political risk person or team in the company, but senior managers were fully aware of the concept and its relevance, and tracked their own lessons in politically risky places to make sure they didn't repeat the same mistakes. Senior people in engineering, finance, human resources and the pure business side were political risk practitioners in their own right. They had a holistic view of the business in its wider socio-political environment, and they had solid collaboration around political risk, so intelligence and planning were not siloed. They were a great client to work with because we fit right in with them, as opposed to being seen as outsiders doing some strange sorcery.

In short, political risk intelligence and management might seem arcane, but it is the knowhow that keeps companies un-surprised and ready to deal with some of the most complex issues they'll ever encounter. As the above example shows, it's not just a specialist field either. There are some specialist elements on the intelligence side, such as a strong sense of how politics and geopolitics work, and the "how to" of deriving actionable insight from ambiguous signals. But managers can easily learn enough to become discerning intelligence users, and they are ultimately the ones who actually manage political risk.

So, my final recommendation would be to hone this thinking even in the absence of specific pressures. That would have been a good idea 10 or 15 years ago, and the world is a lot more complex now.



To learn more about political risk intelligence and management, readers can visit Harmattan Risk, where there are a number of educational papers.

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