

TRUMP'S SECOND TERM AND POLITICAL RISK IN THE CANADIAN FOREST SECTOR

Kelly McCloskey, M.B.A., B.S.F., RPF(ret)
Editor, Tree Frog Forestry News

Robert McKellar, M.B.A., M.A.
Principal, Harmattan Risk



In February and March 2025, Tree Frog's Kelly McCloskey reached out to political risk management expert Robert McKellar for a two-part op-ed, titled *Trump's Re-Emergence and Political Risk in the Canadian Forest Sector*. Robert set the stage by looking at Trump's leadership style and his approach to business, and outlined how forest companies can assess and manage political risk. He also highlighted four challenges facing Canadian forest product companies in Trump's second term: tariffs, duties, economic nationalist treatment of Canadian subsidiaries, and the impact of US-China trade tensions on lumber sales.

Since that series was published, many of those risks have materialized. The Trump administration has imposed the expected softwood lumber duties—higher than feared—and added a 10% Section 232 tariff on Canadian lumber and other wood products. Combined, these measures amount to a staggering 45% levy on Canadian softwood exports. Lumber prices have remained low, production curtailments are mounting, and the sector is entering one of its most challenging periods in decades. While the Canadian government (and some provincial governments) has provided some interim support and is attempting to re-engage the US on a broader trade deal, lumber is not currently on the table. As a result, companies face not only a deepening financial crisis but a structural one.

With that context, we sought Robert's perspective again—not as an extension of our earlier conversation, but as a fresh stock-taking and forward-looking reflection. His earlier analysis anticipated many of the outcomes now unfolding, and showed that political risk management provides a practical approach to anticipating and adapting to political and economic disruption. As the forest sector confronts these and other policy-driven headwinds, the approach Robert outlined—combining strategic foresight, tactical assessment, and continuous monitoring—is a valuable guide to what may come next.

TF Good to have you back, Robert. When we last spoke, you highlighted four major risks under Trump’s second term: rising tariffs, renewed duties, economic nationalism affecting Canadian operations, and the spillover from US–China tensions. Most of those have now come to pass, and in some cases the impact has been worse than expected. Let’s start with tariffs. *Where do things stand today and what does the current environment suggest about what lies ahead?*

HR Thanks, and it’s good to be back. In February and March, Canada—and potentially its forest sector—was facing the threat of “fentanyl tariffs”, reciprocal tariffs, and Section 232 product-specific tariffs.

The 25% fentanyl tariffs relating to illegal cross-border immigration and drugs were parked soon after Trump threatened them, but Canada was hit with reciprocal tariffs in the summer. As it currently stands, Canadian goods covered by the US-Mexico-Canada (USMCA) free trade agreement are exempt even from the US’s 10% baseline tariffs. Reciprocal tariffs of 35% are applied to goods not covered in the USMCA, but these do not apply to lumber.



That leaves Section 232 tariffs — national security-related, product-specific tariffs applied to a number of goods earlier this year including steel and aluminum – affecting all US trading partners to varying degrees, Canada included. The US Department of Commerce (DOC) started investigations into the national security impact of foreign lumber and derivative product imports in March. The DOC beat their November report deadline, and on September 29, the administration proclaimed that lumber imports from any country will face a 10% tariff from October 14 (certain wooden furniture faces even steeper tariffs).

This is bad news for Canadian lumber producers, especially alongside much steeper duties, but unlike duties, these tariffs also affect European suppliers and thus don’t directly discriminate against Canada.

Looking ahead to the broader trade picture, the three signatories of the USMCA will move from preliminary discussions to an in-depth trade review in summer 2026. The Canadian government has been cautious about stoking tensions in advance of talks, including by rescinding several retaliatory tariffs and withdrawing some trade complaints related to softwood lumber. Despite the Trump administration’s suggestion that a revised agreement could be “a much better deal for all sides”, there are already signs that the US will use the talks as leverage on non-trade issues.

Negotiations are unlikely to make things worse for Canadian lumber, but a return to pre-Trump-2 market access is unlikely.



USMCA negotiations are unlikely to make things worse for Canadian lumber, and things might actually improve, but a return to anything approaching pre-Trump-2 market access is unlikely.

Our February-March op-eds also explored what seemed like a coordinated US plan to displace Canadian softwood in the US. This stemmed from twin White House directives issued on March first. One launched the 232 investigations into lumber imports, and the other tasked relevant agencies to develop a plan to open up US public forests for logging.

We now know the 232 investigation results. The logging directive, on the other hand, was not aimed at getting one specific report or answer, but rather it launched a technical, legal and bureaucratic planning process. Department of Government Efficiency (DOGE) reforms hit agencies with anything to do with the environment, forests included, quite hard, since Trump saw them as potentially constraining his “drill baby, drill” ambitions, and this likely hampered technical implementation planning. However, there is some momentum on the legal front as the administration has started the process of rolling back protections on several public forests across the country.

The administration is meeting challenges, but it has shown that it is willing to act on its ambitions before obtaining legal clarity. Precise timelines to actual new logging remain elusive for now, but the intention is alive and well.

Finally, our February-March paper also considered how feasible it would be for the US to become its own softwood lumber supplier. Expert commentary indicated that 10 to 15 years was a plausible time range, but it assumed sustained commitment, investment, and expertise, not to mention policy continuity beyond Trump’s second term. Those are significant “ifs,” and it is a relatively safe bet that the US will not be sourcing all of its softwood lumber at home in 10 or even 20 years. However, any momentum in that direction under Trump could have enduring, if incremental, effects on US supply and capacity.

TF Turning to duties—you noted last time that countervailing and anti-dumping duties have long been a structural feature of the trade relationship, and that this very structure ensures they will continue to oscillate rather than disappear. Each review cycle, you said, brings the potential for rates to rise or fall, but seldom for lasting resolution. *With that in mind, how do you view the current round of increases, and what pattern do you expect to emerge going forward?*

HR Duties on Canadian softwood lumber heading to the US did indeed increase, as expected back in March. In 2024, anti-dumping and countervailing duties together added to about 14.5%. As of August 2025, the combined duties rate is just over 35%. Thus, duties have more than doubled.

Even the previous combined level of 14.5% was lauded by the US Lumber Coalition for the impact it had on Canadian competition, and 35% duties will have an even steeper effect. Unlike the 232 tariff, these duties specifically target Canadian producers, so Canadian softwood will face more intense price competition in the US — not just from domestic American rivals but also European and other offshore competitors.

If the US wants to keep up the pressure, it can adjust the tariff lever to cause whatever level of pressure it feels is appropriate.

With respect to US competition, while US Southern Yellow Pine (SYP) is not normally a direct substitute for Canadian SPF, as the price difference increases, users will increasingly be compelled to make do with SYP in order to defend their margins.

Duties could be adjusted downwards in future years — though the extent and timing are uncertain — as part of the US Department of Commerce’s routine administrative review process, especially if lumber prices rise or the subsidy margins shrink. But in the meantime, they will cause considerable damage. And regardless of duties, if the administration wants to keep up the pressure, it can adjust the tariff lever to apply whatever level of combined pressure it deems appropriate.



TF *You also warned about a subtler but potentially far-reaching possibility—economic nationalism within the United States.* You noted that Trump’s “America First” posture could extend beyond tariffs and duties to how Canadian-owned subsidiaries are treated in the US, affecting everything from access to incentives to public perception.

HR The idea of the US government interfering with, discriminating against, and potentially nationalizing Canadian operations might have seemed outlandish in previous years. It’s the kind of problem we associate with “People’s Republics” bent on anti-colonial economic justice, not a country long regarded as rock solid on liberal trade principles and private property protection. But times have changed and it was worth exploring the question.

The argument in the last piece was that Trumponomics could diminish US economic health and lead to a search for scapegoats. Combined with the administration’s protectionist bent, this could lead to the targeting of foreign subsidiaries in Canada—Canadian lumber operations included. This pattern is not exactly a truism in political science, but it is tried and tested. In the bulk of cases of economic nationalist hassles, the economy was weak, people were frustrated, and the government saw encroaching on foreign firms as a way to shore up support, mainly by playing the “us versus them” card but also through the very tactical economic gains that came with taking over foreign operations and assets in a given sector.

There is no direct evidence yet of that particular story playing out. It is too early to say if and to what extent Trump’s policies, including on taxation, immigration, and tariffs, will affect the economy. There are concerns that tariff-driven inflation, reduced consumer confidence and slowing job growth driven by business uncertainty could combine to produce a recession. However, recent growth figures were better than expected, and topline indicators do not make the US seem unusually fragile compared to most peer countries. The US is not in robust economic health, but it is hardly a basket case either.

Trump is betting that tariffs will lead to foreign direct investment but the US is looking increasingly politically risky.

On a longer time scale, though, Trump’s economic plans are risky and most experts see them as detrimental to long-term resilience. Tariffs are the most significant gamble. The administration’s argument that they generate government revenue is valid, but they are a major new tax burden for most American businesses and consumers. Trump is betting that tariffs will lead to foreign direct investment (FDI)



and new manufacturing jobs in the US, as companies seek to get inside the tariff wall. The idea is that this would more than offset any economic drag from tariffs. So far, several trading partners have indeed announced FDI commitments to obtain less onerous trading arrangements. But foreign companies would ultimately be the ones to make investment decisions, and the US is looking increasingly politically risky. Among a number of concerns relating to the US business environment, two stand out.

The first is the erosion of the rule of law under Trump. He is regularly at odds with the courts, including over the legality of tariffs, although the administration has considerable room to manoeuvre even if current legal bases are judged to be unfounded. As expected before his election, he has weaponised the Department of Justice (DOJ) to seek judicial revenge on past opponents, with ex-FBI Director Comey being a recent, blatant example. The Department of Government Efficiency or DOGE (or at least its remnants since Musk's departure) and US Immigration and Customs Enforcement (ICE) both operate with near impunity, and state and city governments have been unable to block Trump's imposition of federal and military law enforcement despite its questionable legality. These are just a few examples of a general disregard for the rule of law and institutional norms. Court cases pile up, but the administration sees them as the cost of doing business and intends to drag them out as long as possible. It also attacks judges who try to take a firm stand. Companies like to know that the law is beyond personal whim, vindictiveness, or ambition—since the law is ultimately what protects them from incursions, predation, and unfair treatment. In the US these days, the law is no longer untouchable, nor is it a significant constraint on government behaviour.

That brings us to the second concern, the US's "detain first, ask questions later" approach to customs and immigration enforcement since Trump's second term began. A number of human rights groups have likened ICE to the equivalent of a dictator's secret police, and there is clear evidence of human rights violations, unlawful detention, and simply malicious, anti-foreign behaviour. Any business traveller or would-be expat manager with stamps in their passport from countries that could be deemed anti-American—or foreign workers or technical specialists in the US on a special visa that might not be well understood among front-line border inspectors—has some reason to be worried about detention. ICE's raid on Hyundai's factory site in early September put the US on par with China in terms of detention risk for foreign company staff (although in China people can linger in jail indefinitely). An irony in Hyundai's case is that its new factory was helping the South Korean government to demonstrate its willingness to invest in the US as part of getting a decent trade deal. As an aside, there were some mistakes and corner-cutting in some visas, but there is no evidence that Hyundai or that particular project did anything to warrant a full-scale ICE raid and the detention of hundreds of project staff, many of whom were deeply traumatised.

Any business traveller with stamps in their passport from countries deemed anti-American has some reason to be worried about detention.

US economic fragility would be a driver of economic nationalist pressure, as noted. It is not clear now how Trump's policies will affect the economy, but the above two concerns by themselves are going to affect the inward FDI which was supposed to have offset tariffs' effects on US businesses. Thus, one pillar of Trump's economic strategy is already getting somewhat shaky, and while we are not seeing nationalist discrimination now, we are a step closer to a situation in which Trump could start to scapegoat foreign entrants.

Economic nationalist discrimination or nationalization aside, Canadian firms in the US are in the same boat as anyone else when it comes to the decline in the rule of law and indiscriminate immigration enforcement. The latter risk might seem somewhat irrelevant to Canadian firms with a long presence in the US. But people who were confident that they had valid visas or work permits have been caught up in the anti-immigration web in one city, disappeared into the system, and then spat back out in a distant detention centre before anyone even knew what happened to them. A mere suspicion of irregularity is enough for a problem, and given the conditions that people face in detention, it is a serious duty-of-care challenge. Canadian firms with US operations should make sure that expat staff's papers are in perfect order and anyone with a potential problem should avoid crossing into the US until it is sorted out.

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

There is an irony in the uptick of political risk in the US. Most developing and transitional countries that seek FDI as a way to boost growth and technology transfers undertake arduous reforms to clean up governance to make the country look safer and more investible. Trump's administration is also desperate for inward investment (or else tariffs really are just a tax burden with little upside), but it is doing the exact opposite. The administration is banking on the sheer size of the US market to make foreign firms overlook or downplay political risk. After Xi Jinping's rise in late 2012, the Chinese Communist Party (CCP) in China made the same bet, and in the process China went from being an "enter at all costs" destination to "this place is getting weird and we need to diversify". The US is looking pretty weird these days too, and it is not going to get much better for the foreseeable future.

TF Finally, on China—you foresaw the walk-back in trade tensions once Trump had made his political point, suggesting his confrontational style could give way to pragmatism. That seemed plausible and held for a time, but recent weeks have brought renewed friction between Washington and Beijing. *Are we seeing a lasting rupture, or simply another turn in Trump's cycle of confrontation and retreat—and what does it mean for Canadian forest products in the region?*

HR First, let's just recap the relevance of China and how things have unfolded since the last paper, then I'll comment on the latest flare-up. In March, the question was if and to what extent China could be wounded by US tariffs or a trade war, thereby affecting its market for Canadian softwood. Lumber demand in China has tapered off over the last decade or so, and cheap Russian softwood has displaced some of Canada's share—but the country still remains a major market and would be in the crosshairs of any diversification strategy. We could have picked Japan or Europe too, since they are also major lumber markets, but China was the market facing the prospect of serious US economic aggression linked to strategic rivalry. The administration is hawkish on China, especially on an economic level—perhaps geostrategic too—but Trump seems unbothered that China is happily filling the soft-power void he is creating.

We did in fact see a brief, all-out, US-China trade war. Trump paused global reciprocal tariffs on April 9, probably in response to a spike in US bond yields. At the same time, apparently to divert attention from a climb down, the administration slapped up a tariff wall on China. China responded, although not as precipitously. Both sides endured some pain before a partial ceasefire on May 11. The Peterson Institute for

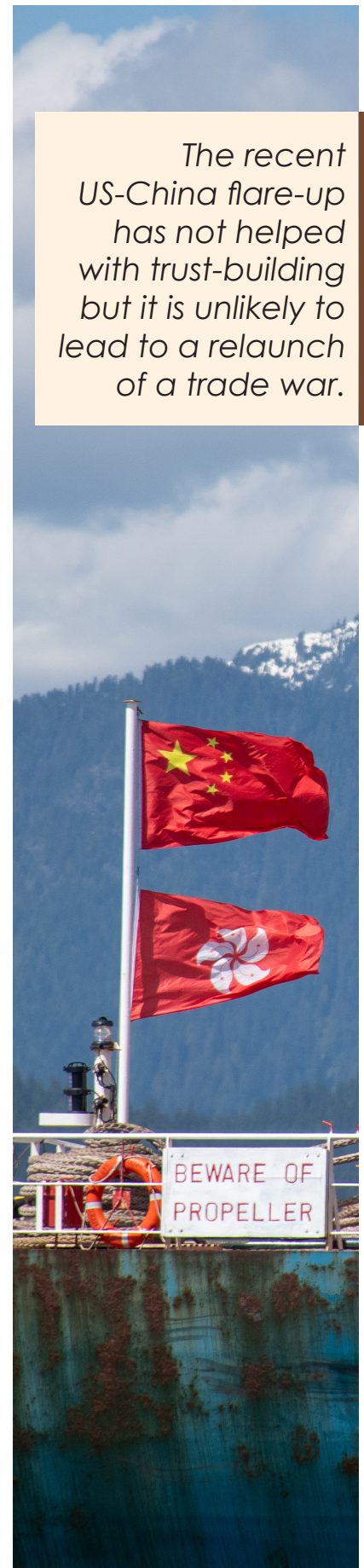
International Economics estimates that the US's total, stacked tariff rate on China currently stands at about 58% (it estimates China's tariffs on the US at 33%). Other estimates on US tariffs put them at about 50%. This range is high, but a far cry from the 145% tariffs imposed in April. There are talks scheduled for November, when the US will also be unilaterally reviewing the situation.

Over the last week we've had this flare-up, and it bears some discussion. On the surface, the basic bone of contention was China's October 9 statement that starting December 1 it will impose new export controls on critical minerals, expanding the set of minerals under controls, and requiring buyers to undergo an export approval process which includes stating the intended end use. If the new controls go into effect, they could hinder the pace of Artificial Intelligence (AI) development in the US and among its Western partners, and affect US high-tech military production. In response, on the 10th, Trump threatened to impose 100% tariffs on China, on top of existing tariffs. What is less reported is that over the last couple of months—including since a generally amicable call between Xi and Trump on September 19—the US significantly increased the number of Chinese firms facing US export controls. China sees this as a contravention of a tacit agreement to keep unilateral moves to a minimum until a more permanent deal can be worked out. China was also frustrated by the Section 232 tariffs on lumber and wooden furniture – China is the biggest exporter of wooden furniture and the tariffs will hurt. Thus, the CCP likely felt that a response was due, and critical minerals are its biggest stick. Since the issue kicked off, both sides have been playing a tit-for-tat game with port fees, mainly as a form of mutual signalling in connection to the main dispute.

There is a large element of posturing in this spat, as often happens in advance of key talks and potential turning points, and there are a few important dates coming up. Trump is still slated to meet with Xi at the APEC conference in Korea in late October, and both sides are likely trying to show some mettle and bargaining power beforehand. The US is going to be formally reviewing the trade truce with China in November and talks will be ongoing up to that point (and probably after). And China knows that Trump would be somewhat anxious about the question of tariffs' legality heading to the Supreme Court in early November, and might have seen this as a good time to inject some uncertainty. A certain amount of mutual testing and muscle-flexing was nearly inevitable, especially given Trump's penchant for drama.

The spat certainly has not helped with trust-building, but it is unlikely to lead to the relaunch of a trade war like we saw last April-May. Back then, both sides felt significant pain. With their economies still very intertwined, they know that a de facto trade embargo is simply untenable. I think the main explanation for what happened was that the US overplayed its hand in continuing to sneak in new anti-China trade restrictions during a time when both sides were supposed to try to keep things calm, and China basically signalled to stop playing games. This is a very fast moving issue and

The recent US-China flare-up has not helped with trust-building but it is unlikely to lead to a relaunch of a trade war.



it's hard to say with any certainty how it could affect talks and decisions over the next few weeks, but I don't think it's going to be a game changer. That said, for companies with a significant stake in China, it's certainly worth keeping an eye on.

Let's return to the potential effect of tariffs on China's market, just using current tariffs as a reference point. Prior to and early in Trump's presidency, when all we knew was that he said he would hit China with 60% tariffs, observers had postulated that this could lead to a two percent reduction in China's GDP. That might play out. The CCP has been painfully aware of industrial overcapacity and the urgent need to boost domestic consumption which has sagged since covid, but it has not tackled the problem head on. China remains very reliant on exports, yet it has moved faster than expected in diversifying trade away from the US. Many emerging markets in all regions have seen recent growth in trade with China, and China-ASEAN (Southeast Asian) trade has soared since Trump's term began. China has even sought to improve relations with India as a precursor to better trade ties. In short, China has been preparing for Western and US economic coercion for years, and its groundwork in developing alternative markets is paying off. Still, it is its own biggest potential market by far, and unless the CCP can boost consumer confidence, it will not be able to significantly offset the effect of US tariffs. Thus, between a one to two percent hit to GDP is plausible over the next year just based on current US tariffs.



The story for Canadian lumber is not particularly positive, since any economic headwinds will affect overall demand and the consumer confidence required to enliven China's sluggish housing market, one of the biggest sources of lumber demand. From the perspective of international diversification, though, China remains a viable and important target. Effective global strategies do not assume that all markets are going to move at the same pace, and bigger prospects justify patience and slowly laying the groundwork for an eventual window of opportunity.

TF Across all four fronts, the landscape has hardened rather than eased—confirming that the risks we discussed earlier were neither speculative nor short-term. There could be some glimmer of hope in upcoming trade talks or future reductions in duties, but both are uncertain and not imminent. Let's move on and take a wider look at where the sector stands and what its options are.

I'll start by noting one thing that exacerbates the current situation and that is the surprising persistence of low US lumber prices despite tariffs and duties. The explanation lies in several converging factors: the surge of lumber entering the US market prior to the implementation of new tariffs and duties, effectively

buffering short-term supply; lower housing starts due to high interest rates and economic uncertainty; and Trump's protectionist trade actions themselves, which have added to housing costs and become a further drag on demand. *If US housing demand were to rebound and price pressures return, would the US Administration be inclined to look at increasing lumber supply to avoid another affordability crisis?*

HR Good question. We've seen Trump back down twice in recent months because of the adverse effects of his trade policies. The absurdly high reciprocal tariffs on a large number of countries were probably a negotiating gambit, but I think Trump would have preferred to keep them in place longer to wave a bigger stick. Market perceptions of the potential damage to the US economy, manifesting not just as a near stock market crash but also an unprecedented hike in US bond yields, caused some panic in the administration and cooler heads prevailed. Trump took his foot off the gas and has played a somewhat safer game since.

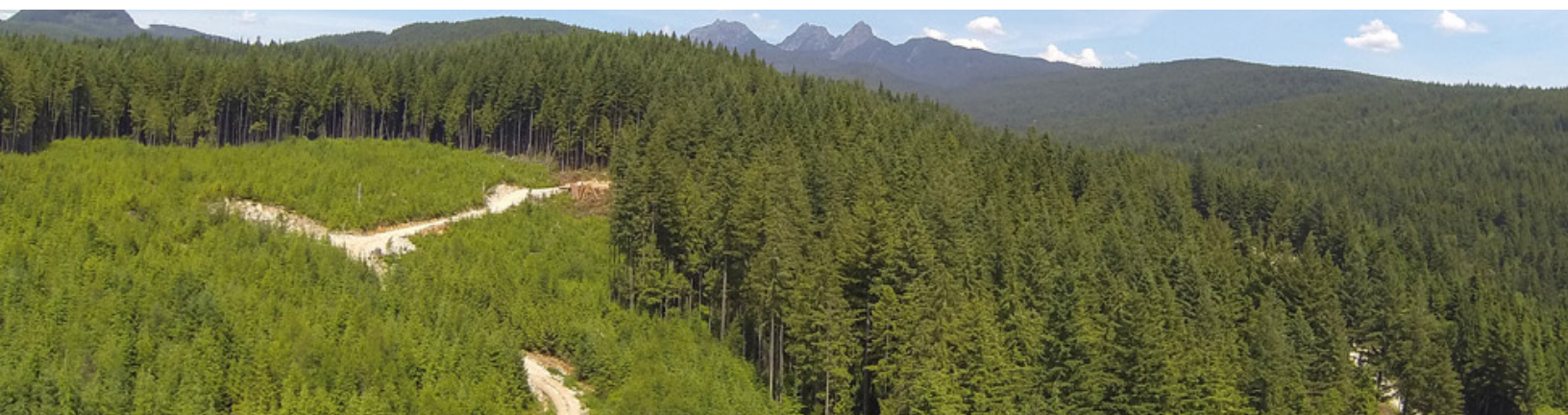
Then the ceasefire in the trade war with China was mainly a US climbdown. Again, the administration knew that a trade wall between the US and China was not sustainable but would have preferred to initiate talks on its own terms, with a big, high profile bromance episode between Trump the Deal Maker and President Xi. The Chinese wouldn't play ball, and the US had to make a choice between serious near-term harm to US businesses or accepting China's preference for lower key, mid-tier discussions. Trump even got the "taco" (Trump always chickens out) label around that point—which I thought was misguided. Trump is a tactician and while his opening salvos might be intended for psychological impact, where he has political skin in the game he is persistent.

So, Trump can and does adjust as his plans meet reality. There are a couple of considerations when it comes to lumber and housing. One is how much nuance really makes it onto Trump's radar. In the above instances, he was facing dire challenges and the people around him would have been unusually direct in trying to steer him back from the brink. It's not clear if housing prices would get the same attention, or at least not enough to cause him to risk looking "taco" on a position clearly spelled out in White House policy. It's a slow-burn issue and there could be enough leeway that he could just play his usual blame games to avoid political damage.

TF There are basically two interests in contention here, US lumber producers as represented by the US Lumber Coalition, and home builders who are represented by the National Association of Home Builders. Both are well represented in rural, red states and both have some clout with Republican politicians, but for now at least, the US Lumber Coalition seems to have gotten more traction. If home affordability starts to become a more acute political issue, we might see it swing the other way.

HR As I said, Trump doesn't have a problem with changing his mind if the political stakes are high enough, so that's definitely worth keeping an eye on. But any change in demand, and hence prices, would have to come quickly to save the Canadian sector some serious pain.

Trump doesn't have a problem with changing his mind if the political stakes are high enough.



TF And that's unlikely. ERA Forest Products' Kevin Mason noted in an October 10 Tree Frog News op-ed, "demand is not coming to the rescue for this industry, thus capacity rationalization and supply discipline are crucial." Mason notes that even with punitive duties pushing up costs for Canadian producers, many mills continue to run at a loss just to maintain cash flow or to avoid the cost of idling. In this environment, rising duties and tariffs only do so much; without demand strength or supply adjustment, prices remain pinned.

But here's the key: if and when demand revives, prices are likely to respond sharply. That rebound should in turn strain the administration to either loosen constraints (reduce tariffs or duties), or risk inflation picking up in sectors tied to construction and housing. In other words, the combined pressure of recovery and protectionism could force Trump's hand—unless supply is managed proactively. And since Trump's plan to open up public forestland to boost domestic lumber production will likely be constrained, and take years materialize, that could be an upside for Canadian exporters.

HR Given that there has already been movement towards removing legal protections for public forests, the answer lies in how quickly that can be converted into action. If the public forest logging plan gained traction and the US lumber mills are able to up their production, it could give the administration the space it needs for maximal, long-term protectionism in lumber. I noted earlier that DOGE cuts likely degraded implementation expertise in relevant US agencies. That could slow down the logging plan and buy more time for Canadian exporters.

But if housing prices started to become a serious political issue, the administration would have an incentive to rebuild that expertise, and Trump has called on friends in the private sector before (Elon Musk, as one example) to do things he thought the government couldn't do well. I would expect that the US Lumber Coalition, the Forest Landowners Association and the American Loggers Council—all of which have urged Trump to "act on the national forestry crisis"—would be more than happy to help on the logging and sawmilling planning side. We still can expect the US market to present open windows here and there, but with sufficient political incentive, Trump would likely find a way to accelerate the logging plan.

TF Alas, the Canadian forest sector clearly finds itself in an existential moment. *As an outsider to the sector, and indeed even to Canada, how do you see the crux of the matter and the way ahead?*

HR I am indeed an outsider, and used to dealing with more globalized industries. But sometimes asking a Homer Simpson what he thinks about a complex situation can be valuable if only because it gets away from industry preconceptions and mindsets. So, with that caveat and qualification, here goes.

The US Lumber Coalition has had a variety of complaints about Canada's lumber industry, but they can be summed up as a perception that the whole Canadian industry has been tailor made, including through Canadian government policy, to sell to the US. From a purely liberal economic development perspective that makes perfect sense, but if we adjust our lens somewhat, we can see a Canadian industry that lacks a significant market in its own country homing in on one nearby market for most of its raison d'être. Rightly or wrongly, this could make US producers feel as though they were the target of some foreign conspiracy, but more germane to this discussion, it points out a fundamental flaw in the Canadian industry's historic assumption – that the US market would remain big, accessible and profitable for the indefinite future.

Is there life after the US, or after an era in which it absorbed most Canadian lumber?

That begs the question: is there life after the US, or after an era in which it absorbs most Canadian lumber? Early in my career, I was a strategic marketing consultant and worked on a case in which the question was, “We are wholly about this one product for this one segment, and we seem to have saturated that segment, so is this it?” We looked hard for alternatives and found a number of them, but when the client saw the results their reply was that they might as well start flipping burgers, because everything else combined did not come close to their previous sales. We had noticed that too, of course, and came armed with a number of suggestions on how to tailor their product for specific subsegments and country markets, such that the company could charge more for the value, thereby reducing reliance on sheer volume. They had to transform themselves and it was not easy, but down the road they were doing quite well and life was a lot more interesting.

In August, the Canadian government announced a \$1.2 billion package to help Canadian forestry to undergo its own transformation—\$500 million to support product innovation and market diversification, and \$700 million in loan guarantees, plus \$50 million for re-training. Size and scope of the program aside, it addresses two sides of the imperative: value-added wood products so Canadian producers can earn more with less, and new markets to sell to (re-training is important too, but for what, depends on decisions in the other two). The basic formula is similar to the one applied by that old consulting client after they had eaten up their original market, and it makes sense.



There are a number of challenges, as one would expect given the immediacy of the problem. Canada’s production has been tailored for the US market. Not many other societies are used to using softwood in construction. Walk down a street in the Middle East or Africa, just as an example, and cinderblocks, metal sheets, concrete and rebar are all over the place. Softwood has a number of advantages, including sustainability, but it would take considerable market education—plus pricing competitive with substitutes—to develop new markets for lumber and its derivative products. Becoming

known as a consistent and strategic supplier, as opposed to just chasing opportunistic, incremental sales, is also critical. As a part of that, production capacity would need to be able to adapt to specific country market preferences and standards (something European companies have been better at, since they didn’t have the US next door). All of that takes long-term commitment, including a presence on the ground overseas, and companies would need to be confident that the countries they focus on justify that commitment.

A bigger challenge, and one I think is more important in terms of long-term prosperity, is adding value. There has been considerable R&D in wood-based products and applications, but a lot of ideas remain obscure to would-be users. The forestry sector is going to have make hard choices about a product road-map so that it can start marketing more value-added products sooner than later. A robust pipeline would flow from market-ready products to a pool of more exotic potential applications that would be taken forward as markets evolve, thereby ensuring that the sector was ready for different potential demand futures. As with country markets, forestry firms would also need to educate product markets, in this case with a clear message about product applications and benefits, not least in terms of sustainability. Then country and product need to be considered together for a clear global strategy.

TF Robert, you make a compelling case for diversification and value-added production. But the Canadian forest industry—often with government partnership—has been doing both for decades. The classic example is Japan: opening its housing market to platform-frame construction was a multi-decade effort of code work, technical training, and patient promotion. The payoff wasn't immediate, but the long-term result has been sustained, high-value demand. More recent examples are emerging too—the steady uptake of mass-timber systems and industrialized wood building, the incremental spread of wood-forward specs in repair and remodelling (R&R), new engineered wood products such as advanced siding and hybrid composites, and niche wins in prefab—each following a similar pattern. Progress is uneven, outcomes are uncertain and not imminent, but the direction of travel is clear and the returns accrue to those who invest.

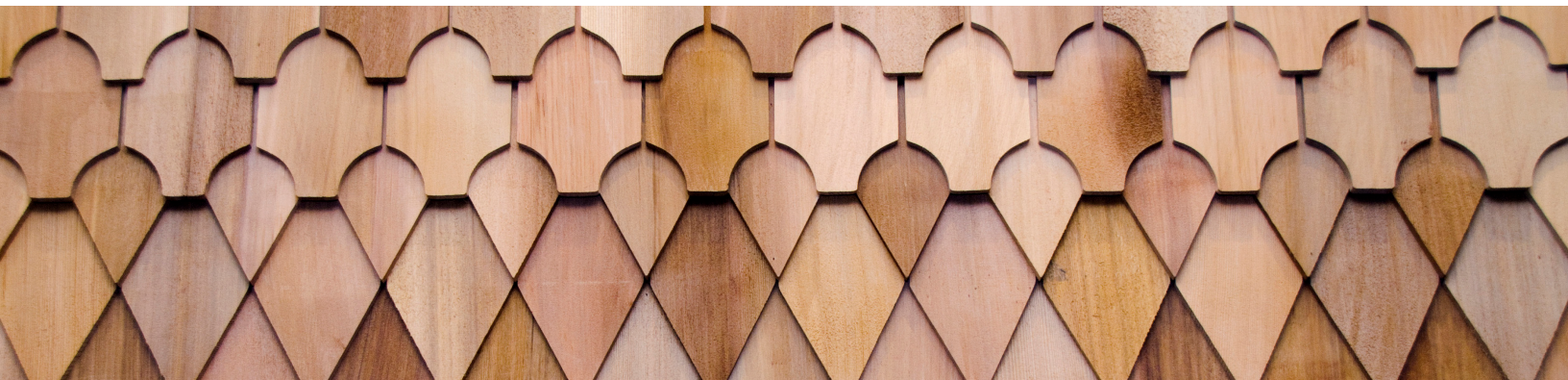
The hurdles to opening new markets and developing new products remain substantial.

That said, the hurdles to opening new markets and developing new products remain substantial. Structural barriers—from building codes and standards to procurement rules—combine with higher production costs and long, complex logistics to raise the bar for Canadian suppliers. These headwinds don't make diversification impossible, but they do make it slower: progress comes through sustained technical work, patient market development, and incremental wins rather than rapid, broad penetration. In short, both tracks—market diversification and value-added—have been pursued in earnest. *Perhaps the question now is how to accelerate and scale them under today's constraints?*

HR Which raises the harder question: if diversification and value-added take time and can only move the needle gradually, then what? I'm not really clear what the options are if we see US protectionism as a long-term problem, and I think we should. Are we talking about lobbying to try to keep the US window half open, more Canadian firms becoming US producers, downsizing and consolidation and a much diminished and mainly domestic sector, pushing harder into emerging fibre-based and engineered products, going all-in on pulp and biomass and competing like heck for the Chinese and European market... or some of each, with no guarantee it still won't add up to a fraction of past revenues?

If diversification and value-added take time and can only move the needle gradually, then what?

Assuming the protectionist mood in the US is not going away for a while (and that's a relatively safe bet, as I explain later), there are two basic choices: start thinking in almost revolutionary terms, or eke out a diminishing status quo for as long as possible. The value-added plus globalization equation might have different results if there were no other option for long-term viability – adversity is the mother of invention, as they say, and I think that applies here. Imagine that someone discovered softwood tomorrow, including all of its potential as a material and its sustainability benefits. It would be like coming across an untapped gold mine. We have it, so what do we do with it?



There is a mindset challenge in any crisis period, and it applies here. The US lumber market has shaped strategies, operations and corporate cultures in the Canadian forestry sector, right up until now. Take away the US market, and the sector is going to have to define itself. It will need to become confident at the nexus of technology and global business—more agile, inventive, and forward-looking.

That is unsettling but it can also be liberating. Five or 10 years of hard work and intelligent risk-taking down the road, the sector might well discover that Trump was the kick in the butt needed to realize its full potential, and we might find that to be far more than just being the “lumber basket” of the US market. Whatever happens, it no longer depends on the US—it’s simply another, albeit important, country market now.

TF Unsettling indeed! I agree that some transformation is essential—but then, it always has been, driven as much by opportunity as by pressure. The options you noted are things that the sector has been pursuing for years, to varying degrees. Perhaps then, it’s now a question of both degree and urgency! Still, I’d argue that transformation can’t come before stability: ensuring near-term survival is what gives the sector the runway to change. And there is still life in the US market: US producers won’t be able to fully meet demand for decades at best, especially during healthy housing markets. No doubt, the Canadian sector—industry and government—will still lobby for prominence in trade negotiations, seeking some degree of assured long-term access to the US market.

HR I agree, we can’t discount near to medium-term opportunities to mitigate decline. I would just caution that companies do not get stuck in the trap of seeing those interim, tactical steps as a permanent solution or a new status quo, even if things do seem to calm down or stabilize. Tactical mitigation should sustain the base for transformation, not become the transformation itself.

Remember, the whole premise of this and our previous op-ed is persistent US protectionism, and that is the root of my emphasis on change. I don’t think US protectionism is a flash in the pan. It’s part and parcel of the wider nationalist populist ideology and mindset, and the US has been heading in that direction since Obama, who, ironically, acted as a catalyst for an American right which feared his popularity and what he represented. For years now, the US has been split almost right down the middle between those for-and-against hard right, nationalist populism, and future elections are a roll of the dice even if democracy remains fully functional.

And it is not a good time for American democracy. The Trump administration has been trying to undo checks and balances: it blamed its loss to Biden on voting fraud and would play the fraud card again (and hence might not accept a future electoral defeat); it’s been testing different permutations of voter restrictions to find a formula that will give it an edge; and it would not be surprising if it used a politicized Justice Department to try to hamstring or intimidate critics in advance of an election.

Even if Trump doesn’t attempt a third term, Vance or someone else on the hard right will probably be on the ballot. Combine razor thin margins with a disregard for democratic norms... you can see where this is going. I wouldn’t discount a potential majority rejection of Trumpian politics and a shift back to the centre, but Trump



or a post-Trump figure would have to blatantly and badly screw up the economy before his voter base turned on him.

We could be stuck with a very difficult US for a long time, and the forest sector can't bet its future on a return to normality. The US really needs to become, as I said, just another country market, or the Canadian industry will be grasping at straws in a tenuous, shrinking space.

We'll know how much interim stability we might get when trade negotiations start in earnest next summer. But again, the sector should see any good news from that as a launchpad for transformation, not a signal to ease off on the urgency. Even if the US market did return to normal and looked rock solid, the forest industry should know that it is not immune to major political risk, and that sitting still can become a near-fatal vulnerability.

TF In your previous op-eds on this topic, you outlined a tactical assessment process—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. *So, given what we now know, and how these issues have played out—how should companies think about and better prepare for the future?*

HR At the International Pulp Week conference in June, I addressed that very question, so I'll draw on that for a few suggestions here. These are not just applicable to the situation in the US. The world has been changing at an accelerating pace since the end of the Cold War, politically and in terms of technologies that affect social evolution. When you add in climate change, the result is volatility and uncertainty. Companies need to get better at decision-making and managing ambiguity. It's less about specific methods or processes than about a mindset.

We need to move away from seeing the world or any given part of it as a fixed landscape, and instead see it as a dynamic, living system that's not going to wait for us to figure it out. That means thinking not in terms of projections, but rather in terms of hypotheses. We set hypotheses about the future, monitor the available evidence, discard duds, and orient planning towards the ones that seem to be playing out. And we do this continuously, not just periodically.

The planning challenge herein is balancing consistency with an ability to adapt. If we bounce around trying to align with whatever seems to be happening, we won't achieve much. Conversely, if we set goals in stone and stick to them no matter what, we might be betting the farm on the tenuous chance that the future plays out as we'd hoped. There needs to be some strategic bets, but they need to be offset with options that can be developed depending on the direction of change. If we have up-to-date options, contingencies and back-up plans, then we can afford to experiment without fear of failure—and ultimately trying new things is the best way to sense, and prepare for the future.

TF Robert, thank you for your candour and insights.

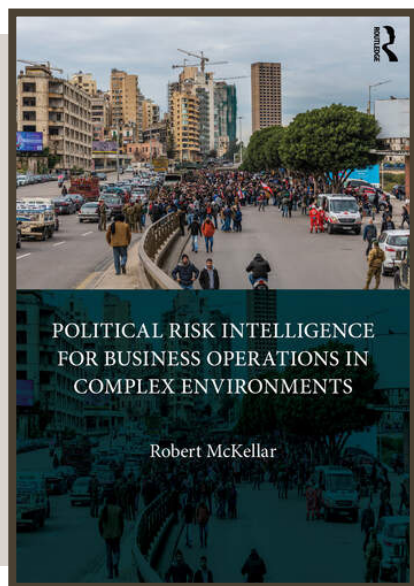
As in our earlier discussions, your comments are a reminder that managing political risk isn't about predicting the future so much as preparing for it. The tools, as you've said before, already exist inside most companies—they simply need to be applied more consciously to political and policy uncertainty. What matters is not just collecting information, but knowing how to interpret it, act on it, and stay steady as the landscape shifts.

For the forest sector, that perspective feels particularly timely. Few industries are more exposed to political variables—or more in need of the capacity to make sense of them.

HR Canadian forest companies do indeed already have the foundational skills and experience to effectively think about political risk. It does take a new perspective, though, along with organizational changes to put political risk on the radar and to create a strong link between robust assessment on the one hand, and decisions and plans on the other. But this is usually a matter of working smartly with what companies already have, not launching new units nor importing new expertise. Companies can be their own best political-risk managers, and that competency will be critical for the sector as it faces continued uncertainty and extends beyond familiar horizons.

Canadian forest companies already have the foundational skills and experience to effectively think about political risk

TF Sounds simple—but building the discipline to apply these tools takes intention, and at times, outside perspective. Most companies already have the ingredients for strong political-risk awareness; the challenge is linking them into a coherent, sustained practice that informs real decisions. Turning awareness into strategy isn't automatic—it takes time, reflection, and sometimes a sounding board. For readers wishing to explore this further, Robert's book and additional resources are available at Harmattan-Risk.com.



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

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.

He can be reached at robert@harmattan-risk.com.