



## COALITION FOR FAIR LUMBER IMPORTS

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Scott Shotwell or Deborah Regan  
202.862.4505 or 202.862.3686

### **WTO Again Finds Canadian Lumber Subsidies U.S. lumber industry applauds second WTO subsidy vindication**

**Washington, D.C.** – Reports of the WTO confidential ruling issued today confirm that the Canadian provincial governments subsidize the Canadian softwood lumber industry and that countervailing duties against Canadian softwood lumber are permitted under international obligations. The WTO apparently also called for a new methodology in calculating the amount of the lumber subsidy that is consistent with the United States' WTO commitments. The report only applies to the U.S. countervailing duty rate of 18.79 percent on Canadian lumber. The WTO ruling, formally expected in two weeks, is subject to appeal by the U.S. government.

“The Coalition for Fair Lumber Imports is very pleased about the WTO’s recognition that the Canadian lumber industry receives a financial contribution from their government and that financial contribution is specific, affirming the U.S. lumber industry’s charge of unfair trade,” said Rusty Wood, Chairman of the Coalition for Fair Lumber Imports and President of Tolleson Lumber Company. “The WTO panel’s finding that the U.S. may impose countervailing duties against subsidized Canadian softwood lumber is a fundamental victory for the United States. The only question remaining is how to calculate the amount of the subsidy. Our data show that however the subsidy is calculated it is massive.”

In previous lumber battles, the Department of Commerce used internal benchmarks as recommended by the WTO panels. In 1986, the Commerce Department reached a preliminary finding that Canada's industry received subsidies of 15%. Canada settled promptly, avoiding a final decision. In 1992 and 1993, after Canada unilaterally terminated the 1986 settlement, Commerce found heavy subsidies again requiring an 11.5% duty. “New data show that subsidies have increased dramatically,” Wood said.

In its most recent softwood lumber countervailing duty investigations, the U.S. government used a cross-border comparison of administered Canadian timber prices and competitive U.S. timber prices to measure the amount of subsidies provided to the Canadian lumber industry, a methodology which had been utilized by the WTO in prior cases. The cross-border comparison of stumpage prices was used to establish a market price because the Canadian government administratively sets the price as much as 95 percent of the harvestable timber in Canada. All parties agree that the provincial governments sell nearly all of the public timber used to manufacture lumber at prices determined by law and administrative rules, not competition. The remaining five percent

of timber is competitively sold in restricted markets that are greatly influenced by the low prices of government timber. The WTO ruling suggests that the U.S. government use a different methodology to measure the countervailing duty rate as it did in its previous findings of Canadian softwood lumber subsidies.

“Today’s report should send a strong and very clear message to Canadian officials. The Canadian government practice of giving its timber to the Canadian lumber industry at prices far below open and competitive market prices is an actionable subsidy. The Canadian tenure system, stumpage system, and mandates that require the companies harvest trees and process lumber irrespective of market demand distort the trade of lumber to the disadvantage of U.S. workers and Canadian taxpayers,” concluded Wood. “Canada should solve this problem now: just sell the timber in an open and competitive market.”

The Coalition for Fair Lumber Imports represents hundreds of large and small lumber producers across the United States, accounting for 75 percent of U.S. lumber production, and forest landowners. For more information on the Coalition for Fair Lumber Imports, visit our website at [www.fairlumbercoalition.org](http://www.fairlumbercoalition.org)

#### BACKGROUND:

There have been five prior international dispute panels rulings concerning softwood lumber. In four of those cases, Canada's claims were dismissed:

- 1) In 1986, the GATT case was dismissed after Canada settled.
- 2) In 1992, a GATT panel rejected Canada's argument that timber could not be subsidized (the same argument the WTO rejected again in today’s reported ruling).
- 3) In 1994, a NAFTA panel reviewing the finding that Canadian lumber injured U.S. mills was dismissed as moot.
- 4) In 2001, a WTO panel threw out as premature Canada's challenge to a potential U.S. finding that log export restrictions are a subsidy. This issue is not even raised in the current countervailing duty case.

Only in one instance – a 1994 decision of a U.S.-Canada Free Trade Agreement panel reviewing the subsidy finding – did Canada prevail. The 1994 ruling held that Canadian governments give their timber to Canadian producers for less than market value, but that the non-competitive practices could not be defined as a subsidy under US law. Congress has since clarified that these practices are a subsidy.