



## COALITION FOR FAIR LUMBER IMPORTS

**FOR IMMEDIATE RELEASE**

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### **Coalition for Fair Lumber Imports Comments On Softwood Lumber Agreement Anniversary and Impact of Canada's Continued Violations**

**Washington, DC, October 11, 2007** – The Coalition for Fair Lumber Imports today commented on the status of the U.S.-Canada Softwood Lumber Agreement on the one-year anniversary of it taking effect. The U.S. industry continues to believe that this balanced agreement represents the best alternative to the resumption of countervailing duty and antidumping duty trade litigation, and that the agreement can benefit the entire North American lumber industry. This however requires that all parties honor their commitments under the agreement. Unfortunately, Canada has failed to honor key components of the agreement by, among other things, not collecting required surge mechanism export taxes, permitting shipments beyond agreed quota levels, and providing new SLA-inconsistent subsidies to its industry.

“It is extremely disappointing that the list of Canadian violations is extensive only a year after the two trading partners entered into to this seven-to-nine year accord,” said Coalition for Fair Lumber Imports Chairman Steve Swanson, adding that “Canada’s extensive agreement violations have caused significant harm to U.S. companies, their workers, and communities.” “This pattern of non-compliance with critical parts of the agreement must stop,” said Mr. Swanson.

Canadian government data indicate that Canada’s under-collection of required export taxes totals at least US\$123 million and that Ontario and Quebec producers have over-shipped their quotas by hundreds of millions of board feet. As the required tax and quota limits on shipments are the minimum necessary to address Canada’s unfair trade practices, Canada’s agreement violations severely harm the U.S. lumber industry. Significant layoffs have occurred throughout the United States, wages have been reduced, and U.S. mills are running at severely curtailed production levels or even going out of business.

“Full and effective compliance and enforcement of the agreement is necessary for it to be a lasting alternative to litigation,” stated Coalition Executive Director Zoltan van Heyningen. “The Coalition remains fully committed to making the softwood lumber agreement with Canada work. But Canada must realize that it is putting the agreement at

risk by failing to comply with its terms. It is simply wrong for Canada to unilaterally and without consultation negate the balance of the agreement. Canada should immediately reverse course by honoring both the terms and the spirit of this important agreement,” concluded Mr. van Heyningen.

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**About the Coalition for Fair Lumber Imports**

The U.S. Coalition for Fair Lumber Imports is an alliance of large and small lumber producers from around the country. The Coalition is united in opposition to Canada's unfair lumber-trade practices, including its gross under-pricing of timber. For more information, please visit the Coalition's website at [www.fairlumbercoalition.org](http://www.fairlumbercoalition.org).

## **CANADA IS JEOPARDIZING THE SOFTWOOD LUMBER AGREEMENT BY FAILING TO COMPLY WITH IT**

Canadian authorities are testing whether the United States will insist on full compliance with the October 2006 U.S.-Canada Softwood Lumber Agreement (SLA). Full compliance is necessary for the SLA to be a lasting alternative to litigation as a means of addressing unfair trade practices, and Canada's violations are putting the agreement at risk. It is extremely disappointing that the list of violations is extensive less than a year after the two trading partners entered into the seven-to-nine year accord. Canadian government data indicate that Canada's under-collection of required export taxes totals at least US\$123 million and that provinces have over-shipped their quotas by hundreds of millions of board feet. As the required tax and quota limits on shipments are the minimum necessary to address Canada's unfair trade practices, its SLA violations severely harm the U.S. lumber industry.

- **Canada Is Not Collecting Required Surge Mechanism Export Taxes:** Canada is violating SLA surge mechanism requirements. The surge mechanism requires Canada to impose additional export taxes if British Columbia's or Alberta's exports to the United States exceed 111% of their allocated U.S. market share in any period. Canada is calculating erroneously high share levels, and as a result has through June foregone an estimated US\$85 million in required export taxes.
- **Canada Is Permitting Shipments Beyond Agreed Quota Levels:** As with the surge limits described above, quotas applicable to Ontario and Quebec exports are based on allocated shares of the U.S. lumber market. Since Canada is, as with the surge limits, overstating allocated shares, it is permitting exports over permitted quota levels. These quota over-shipments total hundreds of millions of board feet.
- **Canada Is Under-Collecting Primary Export Taxes:** Canadian government data indicate that Canada has not been collecting the full 15% primary export tax on BC and Alberta shipments to the United States or the full 5% tax on Quebec and Ontario shipments. The Canadian data, on their face, represent a Canadian government acknowledgement that it has collected only around 90% of required primary tax proceeds. Available data indicate that Canada failed to collect approximately US\$38 million in required primary taxes from the time the agreement came into force in October 2006.
- **Provinces Are Providing Forbidden New Subsidies:** Canadian provinces have announced and begun disbursing to lumber producers new subsidies that are forbidden under the agreement. Quebec is implementing a plan to provide hundreds of millions of dollars in grants, subsidized loans and other subsidies for, among other purposes, "business modernization." Ontario is doing the same. The SLA expressly forbids these types of new subsidies. They exacerbate and prolong current, ruinous lumber market conditions by sustaining large segments of uneconomical Canadian lumber production.

The provinces are making it clear that they will preserve sawmills that would close in a market system. In May, the largest Canadian lumber producer, Canfor, announced that it was closing its Mackenzie, British Columbia "super mill." But

BC authorities induced the company to keep the mill running by promising to reduce the prices that it pays for government timber ("stumpage"). More recently, the Saskatchewan government committed to provide tens of millions of dollars to Domtar to keep two sawmills open. (It is a testament to the non-market character of this initiative that the provincial government was forced to assume a dominant ownership position in these mills.)

- **Canada Is Violating Data-Disclosure Commitments:** The SLA obligates the Canadian and U.S. governments to exchange data that are crucial to monitoring agreement compliance. For example, each month Canada is required to reveal 1) average prices for lumber on the basis of which export taxes were to be collected and 2) information about calculation of monthly quotas. Canada has not been satisfying these important transparency commitments.
- **Provinces Apparently Plan to Pay Companies to Harvest Timber Used to Create Lumber:** Through the provincial stumpage programs, Canadian lumber producers are able to purchase timber -- the dominant cost factor in the production of softwood lumber -- at a fraction of true market prices. Provincial documents indicate that British Columbia and Alberta plan to use their own or Canadian federal government funds to *pay companies* to harvest timber used to produce lumber in connection with programs to address the mountain pine beetle infestation. This would constitute a flagrant SLA violation.
- **Alberta Plans to Cut Its Stumpage Rates Even More.** Alberta has announced arbitrary changes in its administered timber-pricing formula that will reduce its already-low stumpage (timber-price) rates even more. The SLA prohibits modifications like this that move provincial stumpage systems even farther from a market approach.
- **BC Reportedly Plans to Circumvent Export Tax Requirements by Further Restricting Log Exports:** Press reports indicate that British Columbia intends to adopt a more restrictive set of log export restraints. Already, the current log export ban protects the timber-price subsidies and adds to existing subsidies by artificially depressing Canadian log and timber prices. The proposed changes would deepen this problem, and, provocatively, the level of the restrictions is expressly to be pegged to the level of U.S. export taxes -- the higher the tax rate, the more logs the BC Coast mills have available to them, and the lower the benchmark price for timber. The new log export restrictions would thus offset SLA export measures and thereby represent forbidden circumvention of agreement requirements.
- **Canada Is According Special Independent Remanufacturer Treatment to Non-Independent Remanufacturers:** Canada has "certified" that hundreds of companies are lumber remanufacturers that are independent of lumber producers that have rights to buy public timber (tenureholders). This certification makes the certified companies eligible for favorable treatment for export tax purposes. However, many of the certified companies either do not remanufacture lumber at all or are related to large tenureholders. This mis-certification is forbidden and facilitates evasion of SLA export taxes.