



COALITION FOR FAIR LUMBER IMPORTS

FOR IMMEDIATE RELEASE

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Coalition for Fair Lumber Imports Supports U.S. Government Action to Seek Enforcement of U.S.-Canadian Softwood Lumber Agreement

Washington, D.C., August 07, 2007 – The Coalition for Fair Lumber Imports today welcomed the announcement by the United States Trade Representative that the United States has initiated official arbitration proceedings against Canada to resolve issues relating to Canada’s non-compliance with certain terms of the U.S.-Canada Softwood Lumber Agreement. This announcement was accompanied by a U.S initiative to implement measures designed to enhance the monitoring of imports of softwood lumber products from Canada to ensure that they fully comply with the terms of the bilateral agreement.

The United States was forced to initiate this arbitration proceeding in light of Canada’s repeated refusals to properly implement the agreement. The United States and the U.S. lumber industry have not asked for any concession from Canada, rather they merely demand that Canada honor its commitments. Canada is in clear violation of the agreement as it has: failed to fully collect the required border taxes, including surge taxes on exports from British Columbia and Alberta; failed to properly administer the export quota system; and failed to stop providing new tax payer-funded subsidies to its industry.

Under the terms of the agreement, either party can request a binding dispute settlement ruling by the London Court of International Arbitration. A ruling in the favor of the United States would result in significant export tax liabilities for Canadian softwood lumber exporters and a tightening of permissible export quotas to comport with the terms of the agreement. Currently available data indicate that through May 2007, Canada’s mounting under-collection of required export taxes totals at least US\$116 million and provinces’ over-quota shipments is estimated to be 522 million board feet.

Coalition Chairman Steve Swanson stated that “the Coalition supports the initiatives taken today by the U.S. Government as Canada has unilaterally and without consultation undermined the softwood lumber agreement by refusing to implement key terms.” Swanson continued, “the required tax and quota limits on shipments are essential to remedy Canada’s unfair trade practices. Canada’s failure to honor its commitments under the agreement continues to severely harm the U.S. lumber industry which is

suffering curtailments and layoffs caused by production cutbacks that are occurring at twice the rate in the United States compared to our subsidized Canadian counterparts.”

In addition to the violations being challenged under the arbitration process, Canada is also failing to honor several other provisions of the agreement. The Coalition is disappointed that U.S.-Canada consultations failed to resolve Canada’s current breaches of the agreement terms. “Canada agreed to a very specific set of terms during the negotiation, and these obligations are clearly reflected in the final text of the agreement. All we ask is that Canada lives up to its commitments and honors the terms of the agreement. We will continue to defend our rights by working with the U.S. government to ensure that we get everything we bargained for,” concluded Swanson.

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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, joined by hundreds of thousands of their employees, and tens of thousands of woodland owners. 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.

CANADA IS JEOPARDIZING THE SOFTWOOD LUMBER AGREEMENT BY FAILING TO ADHERE TO ITS TERMS

For the Softwood Lumber Agreement (SLA) to be a lasting alternative to trade litigation, the parties must ensure full compliance. Unfortunately, the Canadian government presently is not doing so and is thereby putting the agreement at risk. It is extremely disappointing that the list of violations is extensive a few months after the two trading partners entered into this seven-to-nine year agreement. Canadian government data indicate that through May 2007 Canada's under-collection of required export taxes totals at least US\$116 million and provinces' over-quota shipments total at least 522 million board feet. As the required tax and quota limits on shipments are minimally 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 its 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. Through June, Quebec and Ontario had exported an estimated 522 million board feet over their quotas.
- **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 collected only around 89% of required primary tax proceeds and failed to collect approximately US\$31 million in required primary taxes from the time the agreement came into force in October 2006 through April 2007 (the latest month for which data are available).
- **Provinces Are Providing Forbidden New Subsidies:** Canadian provinces have announced and begun disbursing new subsidies to lumber producers 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 is closing its Mackenzie, British Columbia "super mill." British Columbia authorities have announced a plan to reduce Canfor's costs on the basis of which the mill will remain open. Alone, the Mackenzie sawmill accounts for

around 2.5% of Canadian softwood lumber shipments to the United States -- an enormous factor in a commodity market like lumber.

- **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) total export tax collections, 2) average prices for lumber on the basis of which export taxes were to be collected, and 3) 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, most 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.