Statement to Senate Committee on Foreign Affairs and International Trade of behalf of the Coalition for Fair Lumber Imports

May 1, 2007

I. Introduction

Thank you for inviting the Coalition for Fair Lumber Imports to meet with your Committee to discuss the Canada – U.S. Softwood Lumber Agreement (2006). Zoltan Van Heyningen, Executive Director of the Coalition, regrets his inability to be here but he has asked me to attend and to provide you with the information you are seeking. I have a brief presentation and I will be pleased to answer any questions you may have.

II. What is the Coalition?

The U.S. Coalition for Fair Lumber Imports is an alliance of large and small lumber producers from across the United States. The Coalition is supported by hundreds of thousands of their employees who are united in support of a fair and competitive North American lumber market. Every U.S. sawmill worker supports 4 to 5 downstream jobs in the United States. Additionally, tens of thousands of U.S. private woodland owners have a significant stake in bringing about a fair and competitive North American lumber market.

It has been suggested in the media that the Coalition's members are not competitive. This is incorrect. The Coalition's members are competitive producers who are fully capable of competing with fairly traded imports from Canada. Coalition Chairman Steve Swanson has noted that "Independent studies confirm that U.S. sawmills are among the most efficient in the world."

Mr. Swanson has explained that:

> "All that we have ever requested is a level playing field. Open and competitive Canadian timber markets would provide that. It is disappointing to see the competitiveness red herring repeated again."

I have attached as Annex 1 to the printed text which the Coalition gave to the Secretary a copy of a report supporting this statement.

III. Coalition Position on Canadian Trade Practices

The Coalition supports the SLA and believes that it continues to provide the basis for avoiding renewed international trade litigation between Canada and the United States so long as the parties meet their obligations under the Agreement.

The Coalition recognizes that compromises were made on both sides to arrive at a balanced agreement. The SLA is not perfect – no one got everything they wanted. It is worth recalling that the first Executive Secretary of the GATT, Sir Eric Wyndham White said the best agreement is one which is mutually unsatisfactory.

The United Steelworkers Union recently suggested that the U.S. is trying to re-negotiate the SLA. This is not the case. United States parties simply insist on compliance with the Agreement. In requesting consultations Ambassador Schwab has merely sought to ensure that the Government of Canada and the provincial governments are observing their obligations under the Agreement.

IV. Resolution of Trade Irritants

The Coalition believes that if both parties faithfully implement the SLA it will remain a viable alternative to trade litigation for many years to come.

The United States Government has legitimate concerns with the Canadian practices and adherence to the SLA which USTR Schwab raised with Minister Emerson in her letter of March 30. (Annex 2)

The Agreement gives the United States the right to raise such concerns and to seek clarification with respect to matters that it believes affect the operation and faithful implementation of the Agreement. The Coalition will urge USTR to exercise its right if it appears there is a need to do so.

U.S. and Canadian government officials held consultation meetings in Ottawa on April 19. Unfortunately, reports indicate that Canadian officials refused to engage in actual constructive discussions during this meeting. In light of this, it appears unlikely that a speedy resolution short of arbitration is attainable.

At the same time, stakeholders in British Columbia have expressed concerns that the massive post October 12, 2006 subsidy programs announced by Ontario and Quebec raise serious doubts as to Canada's commitment to honour this Agreement. B.C. Forests and Range Minister Rich Coleman in a Vancouver Sun article on February 21, 2007, reportedly expressed disappointment with the actions taken by Quebec and Ontario. Minister Coleman said "It does make it difficult for our U.S. partners to understand that we are serious about the deal." (Annex 3)

I was present at the CN and Alberta Sustainable Resource Development sponsored Canada-U.S. Trade Relations Forum**:** The Canada-U.S. Softwood Lumber Agreement 2006 in Edmonton last month and this sentiment certainly came across quite clearly.

B.C. is not alone in its concerns about behaviour in other parts of Canada. Discussions with Quebec industry representatives suggest that they consider that manipulation of stumpage fees in B.C. – and more recently Alberta – are impacting lumber prices throughout North America including in Eastern Canada.

Let me deal with just one concern -- the failure to enforce the export measure rules in Articles VII and VIII of the SLA. At issue is how Canada is calculating export volume limits above which the Agreement's "surge mechanism" is triggered for "Option A" provinces, and also Canada's calculation of quota volumes for "Option B" provinces. A key basis for calculating surge “trigger volumes” and quota volumes is a concept called “Estimated U.S. Consumption.” Annex 7D of the Agreement explains how Estimated U.S. Consumption is to be calculated for purposes of trigger volumes and quota volumes, and it provides for an adjustment in the calculations when past calculations show a significant disparity between estimated and actual U.S. consumption of softwood lumber.

The United States is concerned about Canada’s current position that this adjustment requirement does not apply to calculation of trigger volumes for the Option A provinces. I understand that this current position of the Canadian government represents a reversal of Canadian officials’ initial view that there is no distinction in the Agreement between calculation of Estimated U.S. Consumption for, respectively, trigger volumes and quota volumes. In other words, the Canadian government was, in early January 2007, fully prepared to apply equally, and immediately, the necessary adjustment called for under the Agreement to Option A regions British Columbia and Alberta, as well as to Option B regions Quebec and Ontario.

As a long time observer of Canadian federal-provincial relations and this dispute, it is inconceivable to me that in an Option B jurisdiction like Quebec would be prepared to accept a discipline that is not also imposed in some way on an Option A jurisdiction like British Columbia.

The Coalition considers that instead of reversing its position on critical components of the Agreement under provincial pressure Canada should honor all of its commitments under the Agreement. This includes administering the Agreement in a transparent manner through the timely and transparent exchange of data as contemplated and required by the Agreement. Currently, statistical reports from Canada are confusing and irreconcilable, and thus do not engender the level of trust needed to make this Agreement work.

The United States is also concerned about Canada's current position that this adjustment requirement for Option B does not apply at all until July 2007. Again, I understand that this represents a departure from Canadian officials' initial understanding.

The Coalition believes, based on trade data published by the Canadian Department of Foreign Affairs and International Trade, that the B.C. Interior region exceeded its trigger volume in January and March 2007 such that Canada should have collected nearly US$20 million more from BC Interior exporters. In addition, the Coalition believes that Ontario exceeded its quota volumes in February and March.

This is the type of compliance issue that will not simply melt away. It cannot be ignored in the hope that time will resolve the problem – delay only makes it worse as justice delayed is justice denied. The volume-adjustment measure that I just described was a critical part of the balance that made the SLA acceptable to U.S. parties. The understanding that the Canadian government reversed its initial understanding that the measure has applied since the Agreement's outset with respect to all covered provinces makes U.S. parties' insistence on full compliance particularly acute.

V. Conclusion

USTR Schwab has requested consultations on the identified matters because the United States believes that these measures at issue violate Canada's SLA obligations. The United States is using the consultative mechanism in the SLA to try to efficiently and expeditiously resolve these issues.

The Coalition supports the U.S. request for consultations. Coalition Chairman Steve Swanson explained:

> "… the SLA can and should be an enduring solution to the unfair trade problem. But the SLA can and should be an enduring solution if its requirements are observed. The Canadian government presently is not applying export measures as required by the agreement and provinces are providing forbidden subsidies. It is imperative that these issues be resolved quickly, and we support ongoing efforts to resolve them."

Our initial submission to you indicated that Coalition Members hoped that the then-impending consultations would effectively and expeditiously address these concerns and that a satisfactory resolution would be found so that they could all go back to their primary role of producing and selling softwood lumber products in an open, competitive and fair North American softwood lumber market.

However, the Coalition is disappointed by reports from U.S. negotiators that Canadian officials declined to engage constructively in consultations.

If the consultations cannot prevent formal arbitration, it would be very wrong to blame the Coalition or Ambassador Schwab's team.

The ball is in Ottawa's court – through good faith engagement these matters can be resolved. Stonewalling because the provinces and not Ottawa appear to be in control, will force the issues from a consultative process into arbitration and reinforce uncertainty and questions about the Agreement's durability, and at least delay the opportunity for peace within the North American industry that the Agreement represents.

I would be pleased to answer any questions you may have.

ANNEX 1

Global Lumber Benchmarking 2004 -- Prices, Log & Sawmilling Costs Vary Widely

Wood Markets Monthly, Dec/05-Jan/06

Global Lumber Benchmarking 2004

Prices, Log & Sawmilling Costs Vary Widely

The U.S. West Coast, Australia and the B.C. Interior are the three most profitable sawmilling regions in the world: earnings (EBITDA) at these **"average mills"** surveyed in 2004 were almost 2.5 times higher than the overall global average earnings of US$24/m³ (US$45/Mbf, nominal count). For **"top-quartile"** (or best) sawmills, three regions in North America (U.S. West, Canada — the Prairies and the B.C. Interior) and three Southern Hemisphere countries (Australia, New Zealand, South Africa) had the best global performance, with each region's earnings above US$70/m³ (US$110/Mbf, nominal), indicating extremely strong financial results.

These insights are just some of the strategic results from the just-released *2005 Global Lumber Benchmarking Report* that points to very different timber costs and operating costs/earnings both between and within major geographic regions.

The *2005 Global Lumber Benchmarking Report* was researched and produced by International WOOD Markets/R.E. Taylor & Associates, PricewaterhouseCoopers and The Beck Group, and covers softwood timber and sawmilling costs for structural lumber in 24 regions or countries from four major world areas (North America, Europe/Russia, the Southern Hemisphere and China, based on 2004 costs and revenues) for both average and top-quartile sawmills.

Currency-rate volatility represented the greatest impact on costs for many regions in 2004. For example, the euro increased by 32% against the U.S. dollar, while the Canadian dollar appreciated by only 21%. Other countries had even greater currency gains against the U.S. dollar (South Africa at a whopping +62% and New Zealand at +43%), while a few countries had minor currency changes (Brazil at -3% and Russia at +9%) relative to the U.S. dollar over the same two-year period. For exporters, rising oil costs have added to ocean and land transport costs, hurting net margins.

LOG COSTS

Delivered softwood log costs are the highest cost input for most structural sawmills in the world (including unpruned logs in the Southern Hemisphere). In 2004, log costs in the regions surveyed averaged US$57/m³ (US$300/Mbf, Scribner), about 70% of total costs for average sawmills (before chip revenue). By country, delivered log costs ranged from a high in Finland (US$85/m³ — net, inside bark — at market price) to less than US$25/m³ in Central and Eastern Russia (cost for timber licensees).

Southern Hemisphere log costs were significantly lower than those of Western Europe and the U.S., but were closer to Canadian SPF timber. The main reasons for this were lower logging costs (flatter ground, reduced labor costs), shorter hauling distances and larger average log diameters.

As in 2002, **European log costs** for typical whitewood structural logs represented the highest in the world. Even in the Baltics, "market prices" for logs rose significantly — to a "European-equivalent price" — in 2004, in contrast to 2002 when they were heavily discounted. Western Russian structural logs delivered to Northern Europe have also risen substantially in price. Relatively low harvesting and transportation costs in Europe are offset by very high stumpage prices for European timber owners (due to supply/demand forces).

North American costs for logging and hauling are higher than in other regions, due either to higher labor costs or more difficult terrain/longer hauling distances. Coastal B.C. and U.S. West Coast log costs are higher because they are tied to higher-quality timber, often from more remote or rugged locations.

Northern China's domestic log cost for structural whitewood timber is very high: average prices are now around US$65/m³ depending on the size, quality and region. Imported logs are markedly higher (i.e., NZ radiata pine logs are up to US$100/m³ and Russian logs are US$80–$120/m³, depending on the grade). As a result, China processes some of the most expensive logs in the global softwood lumber industry (but uses low-cost labor to compensate).

SAWMILLING COSTS

Global "average" sawmilling costs vary much less between regions than timber costs. In 2004, the figure was just over US$60/m³ (~US$100/Mbf, nominal count). Average sawmills in most European countries were below this level despite the strong currency disadvantage to the U.S. North American sawmilling costs are generally at this global average, and Southern Hemisphere costs vary widely on both sides of the average, with Chile showing the lowest sawmilling costs after China.

Southern Hemisphere sawmills tend to have low labor costs (South Africa, Brazil, Chile), but varying degrees of technology (very low in South Africa and Brazil; higher elsewhere). Sawmilling costs range dramatically, from some of the lowest in the world (Chile) to the highest (Australia).

European sawmill costs were remarkably consistent, as in 2002 (but only slightly higher in U.S.-dollar terms), a combination of varying regional labor rates and technology mixes, as well as the requirement to be a low-cost producer to offset very high log costs. **Many non-Europeans may not realize that the largest-**

capacity, lowest-cost sawmills in the world are located in Europe — no longer only in B.C., Washington or Oregon. At the same time, European sawmilling processes are much more flexible, in that logs are first merchandized in the mill yard — sorted into over one hundred pre-graded and similar-sized "batches" that can be used to produce-to-order either commodity or specialty items in almost any size, length or grade, right in the sawmill. In contrast, most North American mills surveyed are limited to producing two-inch dimension lumber in random widths and lengths as it develops from the planer, and have continued to be pushed out of lucrative export markets such as Japan by the more customer-focused, market-driven Europeans. The only element missing for the average European sawmill in 2004 was a strong domestic market, as European lumber prices did not keep pace with rising log costs. However, top-quartile European mills with a heavy export component fared much better when export sales (especially to the U.S.) were factored in.

North American sawmilling costs are quite similar across the SPF regions of Canada, and are also comparable to mills in the U.S. South/Inland West. In 2004, the U.S. West Coast had some of the lowest sawmill costs in the world (newer technology, larger-volume mills), while the B.C. Coast had some of the highest (older mills with more head-rig equipment to process higher-valued but high-cost logs). The drop in the U.S. dollar's value against the Canadian currency gave U.S. mills an improved position in U.S.-dollar terms relative to 2002.

China sawmill costs are the lowest in the world, but the average Chinese sawmill is tiny and inefficient, and uses old or low technology. Despite low-cost labor (~US$100/month), these mills have no operational scale and must rely on a diet of high-cost domestic and imported logs — thus moving them closer to the high end in the global delivered log cost spectrum.

LUMBER REVENUE

Lumber revenue is highest in the net importing countries/regions — mainly Australia, Western Europe (Germany) and the U.S. The U.S. West's lumber revenue is higher than average due to a more unique species mix and lower transportation costs to market (offset by higher-than-average log costs). The strong prices achievable in the U.S. and Australia in 2004 were in contrast to markets in Europe, in which poor compensation was provided to average mills.

SAWMILL EARNINGS

The 2004 survey of "average" sawmill EBITDA earnings (earnings before interest, taxes and depreciation/amortization) by country provides some surprising results:

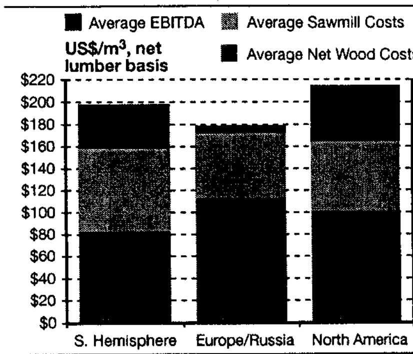
- The global EBITDA average was US$24/m³, net lumber basis (US$38/Mbf, nominal).
- The Southern Hemisphere and North America were well above the average, and Europe was well below it.
- Most of Western Europe had low EBITDA results (and recorded EBITs of close to zero, or small losses) for "average" mills. The U.S. West Coast, B.C. Interior and Australia recorded the largest margins.

SUMMARY

The amalgamated results of many countries and regions by continent (figure 1) show the following general trends for "average" mills:

- **Net wood costs** (logs converted to lumber and less chip/sawdust revenue) are highest in Europe (excluding Russia), driven by the strong euro and rising stumpage costs. Russian log costs are the lowest in the world, thereby lowering the Europe/Russian average cost.
- In **sawmilling costs**, there is a much narrower variance, especially between North America (US$63/m³; US$100/Mbf, nominal) and Europe (US$59/m³; US$95/Mbf, nominal equivalent). Europe's sawmilling cost advantage (evident in 2002 for average mills) was partially eroded in 2004 due to the euro's 30%+ appreciation against the U.S. dollar.

Figure 1
GLOBAL SAWMILLING COSTS & MARGINS BY CONTINENT, AVERAGE MILL • 2004



Source: R.E. Taylor & Associates Ltd./PwC/Beck

- In terms of the **highest EBITDA** by region, the Southern Hemisphere and North America had strong results (as in 2002) — up substantially over Europe, where the industry faces serious competitive issues, oversupply and stagnant domestic markets.

A brief summary of **top-quartile mills** includes the following themes:

- **Delivered log costs** were very similar to those of average mills.
- In **sawmilling costs**, there is a wider variance between North American regions and Europe, with the latter's costs much lower. However, some of the higher-margin sawmills in North America incur higher costs (in order to achieve higher revenues) than both European and Southern Hemisphere mills, so direct comparisons are not completely possible.
- With respect to the **highest EBITDA earnings**, the Southern Hemisphere and North America achieved strong results (as in 2002) — far higher than in Europe, where even the most productive and efficient mills are generating only modest returns due to the competitiveness of the industry (export-oriented mills did much better, however).

The 2005 Global Lumber Cost Benchmarking Report (2004 Costs) *is a 235-page multi-client study and is now available for sale (pricing and a brochure are available at www.woodmarkets.com).*

Annex 2

Letter from Ambassador Susan Schwab to The Honourable David Emerson, P.C., M.P.

March 30, 2007

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

March 30, 2007

The Honorable David Emerson
Minister for International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario K1A 0G2

Dear Minister Emerson:

Pursuant to paragraph 4 of Article XIV of the Softwood Lumber Agreement between the Government of the United States of America and the Government of Canada done at Ottawa on September 12, 2006, as amended ("the Agreement" or "SLA 2006"), I am writing to request formal consultations with the Government of Canada on several matters, as described below.

A. <u>The Annex 7D, Paragraph 14 Adjustment to Expected U.S. Consumption</u>

Expected U.S. Consumption, a proxy for the size of the U.S. market for softwood lumber, is to be calculated each month in accordance with Annex 7D of the Agreement. Paragraph 14 of Annex 7D of the Agreement provides that if the difference between actual and Expected U.S. Consumption in any Quarter is greater than five percent, an adjustment will be made to Expected U.S. Consumption in the subsequent Quarter in which quotas are being determined.

Canada appears to have failed to make the adjustments required by the Agreement to account for the differences between Expected U.S. Consumption and actual U.S. Consumption. For instance, during the third Quarter of 2006, the difference between actual U.S. Consumption and Expected U.S. Consumption was greater than five percent. Pursuant to Article VII of the Agreement, Export Measures are applied when the Prevailing Monthly Price of lumber is below US$355/MBF. In the first Quarter of 2007, Export Measures, including quotas, were to be determined because the Prevailing Monthly Price of lumber was below US$355/MBF. Thus, Expected U.S. Consumption in first Quarter 2007 was to be adjusted downward by the amount of the difference between actual and Expected U.S. Consumption in third Quarter 2006.

Further, Canada appears not to have adjusted all regional Volume Restraints and all regional Trigger Volumes and consequently appears not to have applied the correct Export Charge to exports of Softwood Lumber Products. Pursuant to Article VII and Annexes 7B and 8 of the Agreement, Expected U.S. Consumption is one element in the calculation of monthly regional Trigger Volumes under Option A and monthly regional Volume Restraints under Option B. For example, as a result of the adjustment to Expected U.S. Consumption, B.C. Interior, an Option A

Region, appears to have exceeded its Trigger Volume by more than one percent for the month of January 2007. Consequently, as provided under paragraph 1(b) of Article VIII, Canada must apply retroactively to all exports of Softwood Lumber Products from B.C. Interior to the United States in January an additional Export Charge of 7.5 percent *ad valorem*. To date, Canada has not done so. In addition, Ontario, an Option B Region, exceeded its Volume Restraint in February 2007.

Accordingly, the United States wishes to consult on Canada's application of Export Charges and Volume Restraints, including as a result of:

- Canada's failure to adjust Expected U.S. Consumption, as required by paragraph 21 of Article XXI and paragraph 14 of Annex 7D of the Agreement;

- Canada's resultant failure to adjust all regional Volume Restraints and all regional Trigger Volumes, in breach of Articles VII and VIII and Annexes 7B, 7D, and 8 of the Agreement;

- Canada's resultant failure to assess retroactively additional Export Charges on all exports of Softwood Lumber Products from B.C. Interior to the United States, in breach of Articles VI and VIII of the Agreement;

- Canada's resultant breach of Articles VI and VII and Annex 7B of the Agreement, in that Ontario exceeded its regional Volume Restraint; and

- Canada's application of the paragraph 14 adjustment to Expected U.S. Consumption to all Quarters in which quotas have been or will be determined. In this respect, the United States wishes to note that during the fourth Quarter of 2006, actual U.S. Consumption was more than five percent less than Expected U.S. Consumption. Accordingly, Canada is required under the Agreement to adjust Expected U.S. Consumption in the second Quarter of 2007, as well as all regional Volume Restraints and all regional Trigger Volumes.

B. <u>Certain Provincial and Federal Assistance Programs</u>

Additionally, the United States wishes to consult on the following provincial and Federal actions and/or programs, each of which may constitute a breach of paragraph 1 and the chapeau of paragraph 2 of Article XVII of the Agreement, and which is not covered by any of the exceptions enumerated in paragraph 2.

1. Ontario

(a) the Forest Sector Loan Guarantee Program[1] (FSLGP)

(b) the Forest Sector Prosperity Fund[2] (FSPF)

(c) the C$75 million in annual funding for the construction and maintenance of primary and secondary forest access roads[3]

(d) the Northern Ontario Grow Bonds Pilot Program[4]

(e) the Ontario Wood Promotion Program[5]

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[1]A description of this program can be found at http://ontariosforests.mnr.gov.on.ca/spectrasites/viewers/showArticle.cfm?objectid=633B70EE-0DD1-4D7E-BACB4707C6B36A11&method=DISPLAYFULLNOBARNOTITLE_R&id=633B70EE-0DD1-4D7E-BACB4707C6B36A11 (as of March 30, 2007).

[2]A description of this program can be found at http://ontariosforests.mnr.gov.on.ca/spectrasites/viewers/showArticle.cfm?objectid=8D3CA09E-6A51-4018-B21BF85D61027CBD&method=DISPLAYFULLNOBARNOTITLE_R&id=8D3CA09E-6A51-4018-B21BF85D61027CBD (as of March 30, 2007).

[3]A description of this program can be found at http://www.mnr.gov.on.ca/MNR/Csb/news/2006/feb22bgp_06.html (as of March 30, 2007).

[4]A description of this program can be found at http://www.mndm.gov.on.ca/growbonds/Default_e.asp (as of March 30, 2007).

[5]A brief description of this program can be found at http://www.mnr.gov.on.ca/MNR/Csb/news/2006/feb22bgp_06.html (as of March 30, 2007).

2. Quebec

Programs announced in March 2006[6]

(a) the C$436 million for "reduction in the cost of operations and silvicultural investments,"[7] which include C$210 million "to reduce the cost of operations and silvicultural investments;" C$100 million for a "refundable tax credit of 40% for construction of and major repairs to forest access roads and bridges;" C$120 million for a "15% capital tax credit on investments made until 2009 by primary wood processing companies," plus the C$45 million extension of this program through December 31, 2012 that was announced on February 20, 2007; and C$6 million for "income averaging for operators of private woodlots"

(b) programs providing "support for regional development,[8] which include C$75 million for "funding of priority measures for forest management;"a C$30 million fund providing "support for single-industry towns experiencing economic difficulties;" C$10 million in "support for workers in forest-based communities;" and an "extension of tax credits for processing activities in the resource regions"

(c) the C$44 million program "in support intended specifically for forest workers"

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[6]A description of these programs can be found at http://www.budget.finances.gouv.qc.ca/budget/2006-2007/en/Discours/communique4a.pdf (as of March 30, 2007). *See also* http://www.budget.finances.gouv.qc.ca/budget/2006-2007/en/pdf/Highlights.pdf and http://www.investquebec.com/en/index.aspx?page=2027 (as of March 30, 2007).

[7]These programs are listed at http://www.budget.finances.gouv.qc.ca/budget/2006-2007/en/pdf/BudgetBrief.pdf (at page 16) and http://www.budget.finances.gouv.qc.ca/budget/2007-2008/en/pdf/BudgetDiscours.pdf (at p. 26) (as of March 30, 2007).

[8]A description of these programs can be found at http://www.budget.finances.gouv.qc.ca/budget/2005-2006/en/pdf/BudgetPlan.pdf (at pages 56-70) (as of March 30, 2007).

(d) the C$425 million "loan envelope to support and accelerate the modernization of businesses"

Programs announced on October 20, 2006[9]

(e) the loan program "maintained for business modernization projects with certain adjustments, particularly removal of the requirement that countervailing duties be provided as a guarantee"

(f) the C$197 million program for "a new approach to forestry management"

(g) the C$45 million program "in support for communities affected by the forestry crisis," which "adds to an existing budget of C$30 million forecast for supporting single-industry towns and regions, bringing the total up to C$75 million"

(h) the C$54.8 million program "in support for forestry workers"

3. Federal

On February 8, 2007, the Government of Canada announced a two-year, C$127.5 million program entitled the "Forest Industry Long-Term Competitiveness Initiative."[10] The United States wishes to consult on two components of this program, specifically:

(a) the C$70 million for "promoting the forest sector innovation and investment that is needed to position the sector for the future;" and

(b) a C$40 million fund for "expanding market opportunities for Canadian wood-product producers."

The provincial and Federal actions and/or programs listed above include any amendments or extensions, and any related or implementing measures.

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[9]A description of these programs can be found at http://www.mrnf.gouv.qc.ca/english/press/press-release-detail.jsp?id=5843 (as of March 30, 2007).

[10]A description of these programs can be found at http://www.nrcan.gc.ca/media/newsreleases/2007/200712a_e.htm (as of March 30, 2007).

I look forward to your prompt response so that we may arrange a mutually agreeable time and place for the consultations. The United States hopes that the two governments are able to reach a satisfactory resolution of these matters during the consultations.

Sincerely,

Susan C. Schwab

ANNEX 3

Summary to USTR Schwab's Letter which Lists Subsidy Programs at Issue

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Summary to USTR Schwab's Letter which Lists Subsidy Programs at Issue

USTR Schwab's March 30, 2007 Request for Consultations to Minister Emerson raised the following concerns:

- Canada has refused to properly administer the anti-surge mechanism
  - Canada is not applying the Export Charges and Volume Restraints as set out in the Agreement.

- Canada continues to provide subsidies to their industries
  - Ontario provides the following support programs
    Forest Sector Loan Guarantee Program
    Forest Sector Prosperity Fund
    Funding for primary and secondary forest access roads
    Northern Ontario Grow Bonds Pilot Program
    Ontario Wood Promotion Program

  - Quebec provides the following support programs
    Funding for the reduction in the cost of operations and silvicultural investments
    Support for Regional Development
    Funding for forestry workers
    Business Modernization

  - In February 2007 Canada announced $127.5 million over 2 years to promote forest sector innovation and investment and to expand market opportunities for Canadian wood-product producers.