

the average of Year One and Year Two UFB shipments) at the fee level of U.S.\$40.39 above the applicable UFB rate set out in Article II.3 of the Agreement.

3. If any portion of LFB lumber allocated to a B.C. company which has been re-priced pursuant to 1(i) and 2(i) above is transferred² to a company in another province or is returned for temporary reallocation, Canada shall collect a fee equivalent to the upper fee base level on the issuance of a permit for export to the United States of volumes of this softwood lumber.

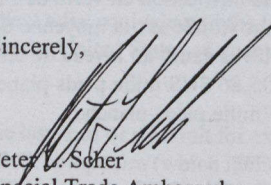
If the proposed amendments contained in this letter are acceptable to the Government of the United States of America, this letter and your reply to that effect shall constitute a full settlement of the arbitration pursuant to Article V of the Agreement on British Columbia's June 1, 1998 stumpage reduction. Accordingly, I propose that upon entry into force of this amendment, the Parties shall jointly notify the Panel that a mutually satisfactory resolution has been reached and shall request that proceedings be terminated immediately. This settlement is without prejudice to the position of the Parties on the consistency with the Agreement of changes to stumpage.

I have the honour to propose that if the proposed amendments contained in this letter are acceptable to the Government of the United States of America, pursuant to Article VIII of the Agreement, this letter, in the English and French languages, each text being equally authentic, and your reply to that effect, shall constitute an amendment to the Agreement, which shall enter into force on the date of your reply.

Accept, Excellency, the renewed assurances of my highest consideration.

I have the honor to confirm that the proposed amendments contained in your letter are acceptable to the Government of the United States of America, and that your letter and this reply shall constitute an amendment to the Agreement pursuant to Article VIII of the Agreement, which shall enter into force on this date. I further have the honor to confirm that your letter and this reply shall constitute a full settlement of the arbitration pursuant to Article V of the Agreement on British Columbia's June 1, 1998 stumpage reduction.

Sincerely,



Peter V. Seher
Special Trade Ambassador

²The transfer system can be used by primary producers and remanufacturers to transfer allocations (with lumber) to wholesalers, and by primary producers to transfer allocations (with lumber) to remanufacturers for lumber to be further remanufactured prior to exportation to the United States.