

standing timber based upon the selling price of selected timber. The difference between costs (including the "imputed cost" of timber) and revenues was then apportioned over total lumber production to set the 15 per cent subsidy rate.

#### MEMORANDUM OF UNDERSTANDING (1986-91)

On December 30, 1986, the United States and Canada entered into a Memorandum of Understanding (MOU) on Softwood Lumber, pursuant to which Canada agreed to impose a 15 per cent charge on softwood lumber exports to the United States. This charge could be reduced or eliminated if Canadian provinces implemented replacement measures increasing stumpage fees or other costs imposed on timber production. U.S. lumber interests withdrew their petition, and the DOC terminated the investigation, stating that its preliminary determination was "henceforth without legal force and effect."

During the period of the MOU, British Columbia and Quebec adopted replacement measures that included both increasing stumpage fees and transferring to industry additional legal responsibilities and costs for silviculture and forest management. Canada and the United States consulted, and agreed on the value of these replacement measures, with the result that exports of softwood lumber products produced in British Columbia (about three-quarters of all Canadian lumber exports to the United States) were totally exempted from the 15 per cent export charge. The rate for exports of products from Quebec was reduced in stages to 3.1 per cent. Also during the period of the MOU, Alberta significantly revised its forestry-management programs, resulting in substantial increases in costs to industry, but the two countries did not consult on the value of these replacement measures before the termination of the MOU. Thus, the vast majority of Canadian softwood lumber exports to the United States — in excess of 92 per cent — was subject to substantially increased stumpage fees and related charges by the time the MOU was terminated.

In February 1991, a high-ranking official of the DOC testified before Congress that the MOU was "sufficient to offset" all alleged subsidies on Canada's softwood lumber exports to the United States as calculated in the 1986 preliminary decision.

On September 3, 1991, Canada exercised its right under the termination provision of the MOU, and notified the United States that it was terminating the MOU, effective October 4, 1991. Before taking this action, Canada used the U.S. government's own timber cost-accounting system to compare governments' forestry costs and revenues in the four major timber-producing provinces. The analysis showed that each province obtained stumpage revenues far in excess of its allocated forestry costs.

Since October 4, 1991, all replacement measures and other forestry management changes adopted during the period of the MOU have remained