

rates. With regard to stumpage he claimed there was a discrepancy in cost between the two countries in the order of one to forty or fifty. Although the U.S. International Trade Commission had determined two years ago that Canada's system of stumpage charges was not a subsidy, in his opinion the determination was "just wrong". He warned that in this new round on softwood lumber, the U.S. industry was not as divided as it had been last time.

Congressman Sam Gibbons spoke directly about his bill on natural resource subsidies. He asked rhetorically whether anyone could not be against an "injurious subsidy". Contrasting the two systems, he claimed that the U.S. system represented an auction to the highest bidder of the right to cut on public land, whereas Canada offered a licence to cut and some Americans would say this sale "was not at fair market prices". In addition, much American wood was cut on private lands, where the owner had to secure a competitive rate of return for the use of the land. He admitted there was room for honest differences of opinion. In the final analysis what had to be established was the "relative costs of logs when they met the saw blade". He also added that foregoing a payment was itself a form of subsidy.

The Canadian spokesman offered an extensive and comprehensive response, with some differences of emphasis in the two sessions. He too acknowledged that the lumber industry in British Columbia and the U.S. north-west was "bleeding to death", but he claimed that the situation was asymmetrical, in that the relative importance of the lumber industry for British Columbia and for Canada generally was much greater than for the United States. He questioned the figures given relating to the growth in Canada's share of the market, pointing out that B.C.'s share had not grown and that the U.S. north-west had lost out to producers in Eastern Canada and the U.S. South. It was important to recognize, he maintained, that the market for lumber was highly fractured and that greater use of row housing and of concrete as a building material had significantly reduced the overall demand for softwood lumber.

Turning to production costs in the two countries, the Canadian spokesman pointed to the wide range of stumpage prices which U.S. producers had to pay, ranging from \$13 to \$100 a thousand board feet. He reminded the U.S. participants that toward the end of the 1970s U.S. companies had bid up stumpage prices in the Pacific north-west in the belief that continuing inflation would quickly lower the real costs. But the fall in the demand for lumber combined with the significant decline in the rate of inflation had left the U.S. companies committed to excessive costs and the federal government had later had to agree to reduce the stumpage price. His question to the American participants was whether Canada should be forced to adopt a bad system of stumpage to protect itself against U.S. retaliation.

With regard to the U.S. complaint regarding the lower cost of shipping lumber from Canada to U.S. ports such as those in the southern states, this too was "a self-inflicted" wound. The Jones Act forced American producers to ship their lumber in

U.S. bottoms crewed by highly-paid Americans, whereas Canadians could ship on foreign bottoms whose charges were much lower.

The third factor—the high price of the U.S. dollar—was likewise not due to action by Canada. British Columbia's system of stumpage had not changed for two generations, yet it was only during the last few years that the relative growth in Canadian exports as a portion of the U.S. market had occurred. This was for him firm evidence that the problem was not related to the stumpage system, and was related rather to the high price of the dollar.

For Canadians it was disturbing to hear Americans challenging their own quasi-judicial procedures for identifying subsidies. The claim had been made two years ago when the ITC had reviewed the situation that the U.S. system was fair and transparent. It was alarming now to face suggestions that U.S. law should be changed so as to make it possible to secure an adverse ruling against Canada.

The Canadian spokesman reminded Americans that only two decades ago, at a time when the United States government had shown alarm at possible shortages of vital raw materials, the Canadian lumber industry had been asked and had given assurances that Canada would be a dependable source of softwood lumber. The corollary of this earlier request by the United States was an obligation to give fair consideration to Canadian producers.

During the exchanges which followed the principal presentations there were references to several bills before the Congress calling for restrictions on Canadian lumber exports. Congressman Gibbons insisted that bills requiring physical limits were unlikely to pass into law. For this reason, discussion focussed primarily on Gibbons' bill to control resource subsidies.

Two paragraphs in particular were the focus of particular interest. The first (lines 4 and 15-17 on page 2 of H.R. 2451) determines that "a resource input subsidy exists if...a product...is not freely available to United States for purchase...". As the Canadian spokesman pointed out, this clause causes a problem in British Columbia because for a couple of generations the export of logs has been forbidden in order to ensure that processing work was reserved for B.C. workers. British Columbia would not be prepared to change this basic requirement, although in his view it could be shown that the cost of logs at the sawmill in B.C. were comparable to those in the Pacific north-west. Such a demonstration was, however, not easy, since production costs varied considerably, depending on where the wood was cut.

The second paragraph (lines 3 to 6 on page 4) excludes "the cost or value of any activity" undertaken to remove the product. Under a strict interpretation, this clause could eliminate major costs such as road building and reforestation as costs of production. With regard to this latter paragraph, Congressman Gibbons asserted that he had not made up his mind about the language. His aim was to protect the United States from two-tier pricing. He said that he understood that stumpage in