ministers last January to come up with a substitute package, but in the end each province decided to submit its own individual proposal, which would have common elements such as increases in stumpage fees, and in other timber fees and product taxes aimed at lumber shipped to the US. "I am not at liberty to say exactly what stumpage and revenue changes we have agreed to make," said an official from Alberta. "There will have to be more discussions with the US. It would be a mistake to be too specific right now about what we're offering." Ontario's Minister of Natural Resources, Vincent Kerrio, said that Ontario preferred to see the export tax remain until politicians could be certain what damage their agreement with Washington was doing to Canadian lumber producers. "As long as it's an export tax, and we're in free trade talks, we might have some way of negotiating it away. Once it is buried in stumpage or other provincial charges, we're in no position to change it," he said *(Globe and Mail,* June 3).

On June 5 the *Globe and Mail* reported that Ontario premier David Peterson, following an Ottawa meeting, said that "five or six" premiers had told him that they felt Ontario had been right to oppose the softwood export tax and to want to fight the battle in the US courts. Canada's market share had dropped in the US as a result of the added annual cost of $500 million to Canadian lumber at the US border, the report said.

The government of Quebec announced in early July that it would begin in August to compensate its provincial lumber producers for extra costs they were incurring as a result of the export tax. Payments, which would be retroactive to April 1, were to be equal to the increase in provincial stumpage fees which took effect April 1. Although they would apply only to exporters of softwood to the US, payments would be carefully tied to stumpage, in order to prevent claims by the US industry that Quebec was simply pouring the export tax revenues back into the industry as a subsidy, a move which would violate Ottawa's agreement with the US Commerce Department, the report said *(Globe and Mail,* July 3).

Also early in July, lumber remanufacturers in British Columbia claimed that door frames, pressure-treated wood and other wood products which they made and sold to the US market were being taxed by 15 percent on their finished values rather than on the value of the raw softwood material. An appendix listing some value-added softwood products which were to be exempt from tax on finished value was incomplete, the manufacturers claimed. "When you consider that only one-third of the value of a window frame comes from the raw material used, and two-thirds is value-added, you can see how punitive it is to tax on the finished product," said forest consultant Charles Widman. Percy Eastman, director general of US relations for the Department of External Affairs, said that while discussions with the US industry were ongoing, "they haven't gone anywhere, hence the frustration of [the British Columbia manufacturers]," who were demanding that International Trade Minister Pat Carney exercise her authority to make unilateral changes to the appendix in question *(Globe and Mail,* July 9).

A report in the *Globe and Mail* on July 13 said that while softwood products that had not made it on to the exempt list accounted for only about $200 million of the total $4 billion in annual Canadian softwood exports to the US, the US industry negotiators were not interested in putting them on the list unless the Canadian industry made further concessions, according to a Canadian industry negotiator. The report also said that Canadian government sources had suggested that the US refusal to budge on the appendix to the lumber deal was one reason that the Canadian federal Cabinet had delayed in having the export tax legislation proclaimed into law, even though the bill had cleared Parliament in late May. "The US says it won't move until this is law, and we say we want some action on the obvious anomalies," said one Canadian government source.

The *Ottawa Citizen* reported on July 18 that Canadian government officials said that it would be months before the federal and provincial governments could agree on measures to replace the controversial 15 percent export tax, since the package submitted by the provinces after their June meeting was not good enough to submit to the US for approval. "It doesn't make much sense to go to the Americans until we have our own act in place," said one official. The US Commerce Department would have to approve any replacement scheme to ensure that its impact would be equal to the tax, the report said.

International Trade Minister Pat Carney announced on July 31 that the first payment of softwood export tax revenues to the provinces would be made that day. Future payments would be made monthly, the International Trade communiqué said.

Steel Exports

The issue of Canadian steel exports to the US remained a controversial one during this 2-month period (See "International Canada" for April and May 1987). The *Globe and Mail* reported on June 3 that the American Iron and Steel Institute's (AISI) twenty-five member companies — accounting for 77 percent of total US steel production —showed a US$4.2 billion loss in 1986, "the worst in [the industry's] history." The report said that the loss, an increase from a 1985 loss of US$1.8 billion, would mean that the industry would continue to press for an extension of the US government's voluntary restraint agreements (VRAs), and for an inclusion of Canada among VRA trading partners. According to the AISI, "The most important single market factor in the steel industry's poor financial performance in 1986 was the continued high level of import penetration," the report said. Spokesman Sheldon Wesson said that, because import share had not decreased as a result of the VRAs, "we are talking about some system of import controls beyond the expiry of the present VRA program in September, 1989 . . . . We want some system to continue until we do indeed get five years of relief." Mr. Wesson also said that, despite the declining value of the US dollar relative to other world currencies, "prices of imported steel, as reported by the [US] Department of Commerce, actually declined from 1985 to 1986 — a clear indication of continued dumping by producers abroad." The AISI would