

- Continue to monitor closely and respond to key measures that may distort trade and investment decisions in the North American market.
- Continue to press the United States to repeal the WTO-inconsistent Byrd Amendment.
- Continue to pursue unrestricted access to the U.S. market for Canadian goods and services exports.
- Continue work through the NAFTA Working Group on Rules of Origin to reduce rules-of-origin costs on goods trade between Canada and the United States in such sectors as chemicals, pharmaceuticals, plastics and rubber, and motor vehicles.

IMPROVING ACCESS FOR TRADE IN GOODS

Softwood Lumber

Softwood lumber is one of Canada's most important export sectors: in 2004, Canadian firms exported over 21 billion board feet of lumber worth nearly \$9 billion to the United States.

In May 2002, the United States imposed duties on imports of softwood lumber from Canada following subsidy and dumping investigations by the U.S. Department of Commerce and a "threat of injury" determination by the U.S. International Trade Commission (ITC). Between May 2002 and December 2004, Canadian exports of softwood lumber to the United States were subject to duty cash deposits of 27.22%. Since December 20, 2004, when the results of the first administrative review of the U.S. duties took effect, such exports have been subject to duty cash deposits of 20.15%. Cash deposits now total over \$4 billion.

The Government of Canada, the provinces and Canadian industry have been pursuing a two-track strategy for resolving the softwood lumber dispute: (1) litigation, involving NAFTA, WTO, U.S. Court of International Trade (CIT) challenges of the U.S. duties and (2) negotiations toward a durable resolution of the dispute. On November 30, 2004, Prime Minister Martin and President Bush agreed on the need for a resolution to the lumber dispute.

The federal government, the provinces and industry are committed to pursuing a durable resolution to the dispute, and in this regard Canada remains open to

any opportunities for further discussions with the United States. Minister for International Trade Jim Peterson and federal officials maintained regular contact with their U.S. counterparts throughout 2004. In January and February 2005, federal and provincial officials met with American representatives and held exploratory discussions to determine whether and on what basis to re-engage in negotiations. Canada will continue to engage in discussions with the United States in order to find a solution that is in the best interest of Canada.

Until the dispute is resolved, Canada will continue to pursue its NAFTA, WTO and CIT litigation against the U.S. subsidy, dumping and injury determinations. The NAFTA and WTO injury cases remain Canada's critical legal challenges because without a finding of a threat of injury, both the CVD and AD duty orders must be withdrawn. In October 2004, the NAFTA Injury Panel affirmed an ITC negative threat of injury determination. However, on November 24, 2004, the United States Trade Representative (USTR) requested the establishment of an Extraordinary Challenge Committee (ECC) to review the panel proceedings in this case. An ECC decision is expected in the spring of 2005. If Canada is ultimately successful in the ECC, the United States will be required to revoke the duty orders and refund with interest the cash deposits paid to date.

In March 2004, following a challenge by Canada, a WTO Panel ruled that the ITC's original threat of injury determination was inconsistent with U.S. international trade obligations. On November 24, the ITC issued a new determination to comply with the WTO ruling, upholding its original threat of injury ruling. A WTO compliance panel has been established to rule on the consistency of the new determination with the Panel's original ruling. Canada is also seeking WTO authority to retaliate in an amount of over \$4.5 billion. Retaliation will be considered only in the event that Canada is successful in the compliance proceedings. Finally, Canada is challenging the new injury determination in NAFTA.

In addition, the United States is conducting annual administrative reviews of the CVD and AD duty orders. These reviews examine the subsidy and dumping rates for previous periods and establish cash deposit rates for future shipments. On December 14, 2004, final determinations in the first annual