Minister of Industry, Science and Technology and Minister for International Trade

Ministre de l'Industrie, des Sciences et de la Technologie et ministre du Commerce extérieur

CANADA

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CANADA TO TERMINATE CANADA-U.S. SOFTWOOD LUMBER AGREEMENT

The Minister of Industry, Science and Technology and Minister for International Trade, the Honourable Michael H. Wilson, today announced that Canada has given the United States notice of its intention to terminate the Softwood Lumber Memorandum of Understanding (MOU) entered into by the two countries on December 30, 1986.

Under the MOU, in order to avoid the threat of an impending U.S. countervailing duty on Canadian softwood lumber, Canada imposed a temporary export tax of 15% on certain softwood lumber products exported to the United States. The agreement kept the extra revenues in Canada rather than sending them to the United States.

The MOU provided time for provincial governments to implement planned changes to forestry policies, which included increases in charges to industry. The export tax has already been eliminated, or substantially reduced, in the main lumber exporting provinces as replacement measures envisaged in the MOU have been introduced.

Since the MOU was signed in 1986, British Columbia, Quebec and Alberta, which together accounted for 92% of Canada's softwood lumber exports to the United States in 1990, have implemented significant changes in their forest management policies that increase log costs to Canadian industry.

"The MOU has served its purpose and the time has come for Canada to exercise its right of termination. There is no subsidy of softwood lumber production in Canada," Mr. Wilson said.

Paragraph 9 of the MOU provides that either country may terminate that arrangement upon 30 days' written notice. Termination pursuant to the notice now given by Canada will be effective October 4, 1991.

"In summary, the Canadian government is of the view that conditions have materially changed since 1986. It is time for the Canada-U.S. lumber trade to be put back on a normal basis," Mr. Wilson said.

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APPENDIX

CANADA-U.S. SOFTWOOD LUMBER

MEMORANDUM OF UNDERSTANDING

REASONS FOR TERMINATION

A. **The MOU Has Served Its Purpose**

1. The Softwood Lumber MOU was intended to:

   (a) end a bitter and highly politicized bilateral trade dispute over Canadian lumber exports to the United States; and

   (b) provide time for Canadian provinces to implement planned changes in provincial forest policies, which included increases in charges to industry.

2. The Softwood Lumber MOU was not envisaged as a permanent arrangement. It provides for the reduction or elimination of the export charge on the basis of increased stumpage and other charges by provinces on softwood lumber production. The MOU also provides for termination on 30 days' notice by either country.

3. Since the MOU was signed, British Columbia, Quebec and Alberta, which together accounted for 92.2% (by value) of Canadian exports of softwood lumber to the United States in 1990, have implemented significant changes in their forest management policies that increase log costs to Canadian industry:

   (a) Lumber produced in British Columbia is no longer subject to the export charge. British Columbia, which accounted for 78.4% of Canadian exports of softwood lumber to the United States in 1990, replaced the export charge with increased stumpage and other forestry charges. These changes are costing the industry an additional $620 million annually. This compares to export charge collections of $300 million in 1987.

   (b) In the case of Quebec, which accounted for 10.9% of softwood lumber exports to the United States in 1990, changes in forest policies are costing the industry an additional $52 million annually. This compares to export charge collections of $45 million in 1987. As well, 24% of Quebec lumber exports, which are produced from logs of U.S. origin, are exempt from payment of the export charge. Otherwise, lumber produced in Quebec is subject to an export charge of 6.2%. The export charge rate will be reduced to 3.1% on November 1, 1991.

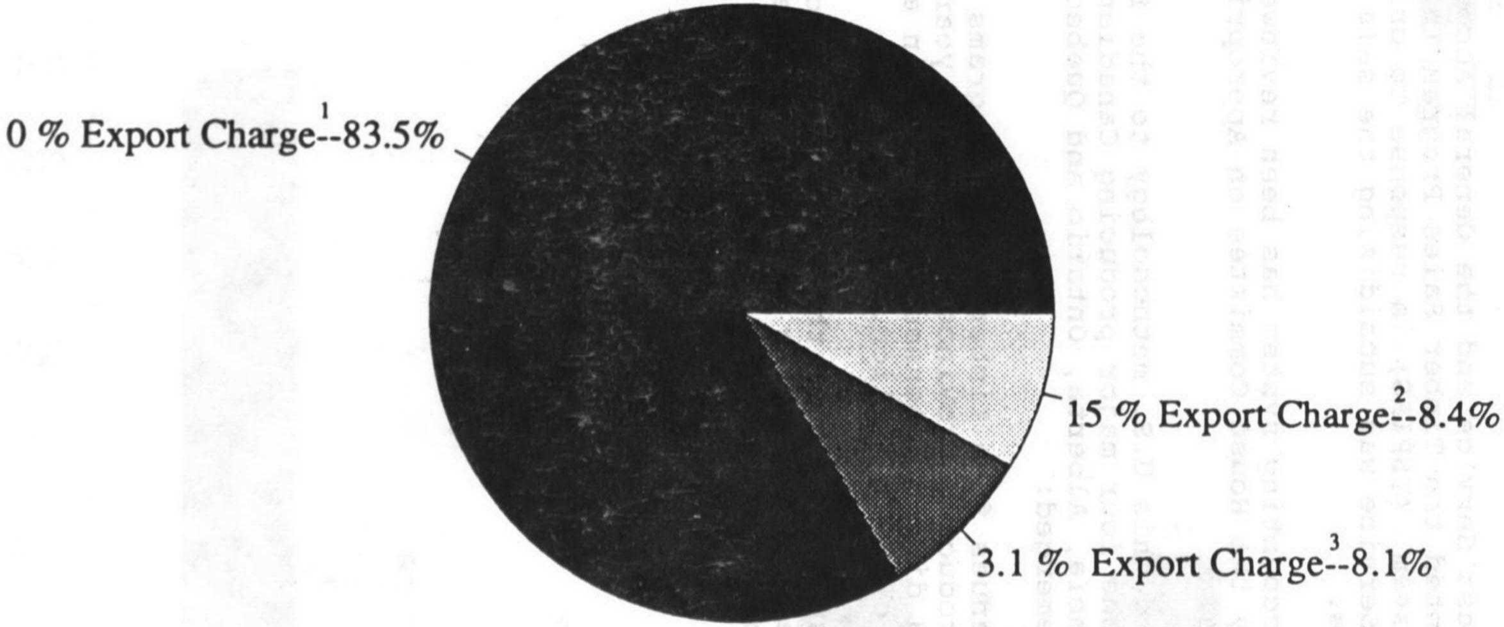
(c) Alberta, which accounted for 2.9% of softwood lumber exports to the United States in 1990 and is subject to the full export charge, has toughened forestry regulations and increased costs to the industry. The rate of export charge applied to Alberta-origin lumber exported to the United States remains at 15%, despite the increased costs to Alberta industry.

4. As well, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador, which together accounted for 2.3% of softwood lumber exports to the United States in 1990, have been exempt from the export charge since 1988.

5. As a result, export charge collections for Canada are roughly $40 million annually today, compared to export charge collections of $400 million in 1987.

6. The Canadian public has become increasingly concerned with forest stewardship and renewal. As a result, governments have enacted policies which have increased resource costs to industry in Canada significantly since 1986. If anything, this trend is likely to continue, given the fact that the public pressure for better forest management is expected to intensify.

Figure 1
Canadian Lumber Shipments to the U.S
by Rate of Export Charge 1990



Notes

1. British Columbia, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Lumber Produced from U.S. - Origin Logs.
2. Ontario, Alberta, Saskatchewan and Manitoba.
3. Quebec effective November 1, 1991; excluding Lumber Produced from U.S. - Origin Logs.

B. <u>There Is No Subsidy to Canadian Lumber Producers</u>

1. Provincial forestry revenues exceed provincial forestry costs in Canada. There is no subsidy.

2. The U.S. Forest Service and the General Accounting Office have implemented the Timber Sales Program Information Reporting System (TSPIRS) in response to criticism that the U.S. Forest Service was subsidizing the sale of timber from federal lands.

3. The TSPIRS accounting system has been reviewed and sanctioned by the House Committee on Appropriations of the U.S. Congress.

4. Canada applied this U.S. methodology to the forestry accounts of the four major producing Canadian provinces -- British Columbia, Alberta, Ontario and Quebec. Two key conclusions emerged:

   (a) The revenues from timber sales programs in the four major producing provinces in fiscal year 1988-89 exceeded direct expenses, resulting in a net gain or surplus of $687 million.

   (b) Individually, each of the four major producing provinces is collecting revenues in excess of its timber program expenses.

Figure 2
Forest Revenues and Expenses by Province Using TSPIRS

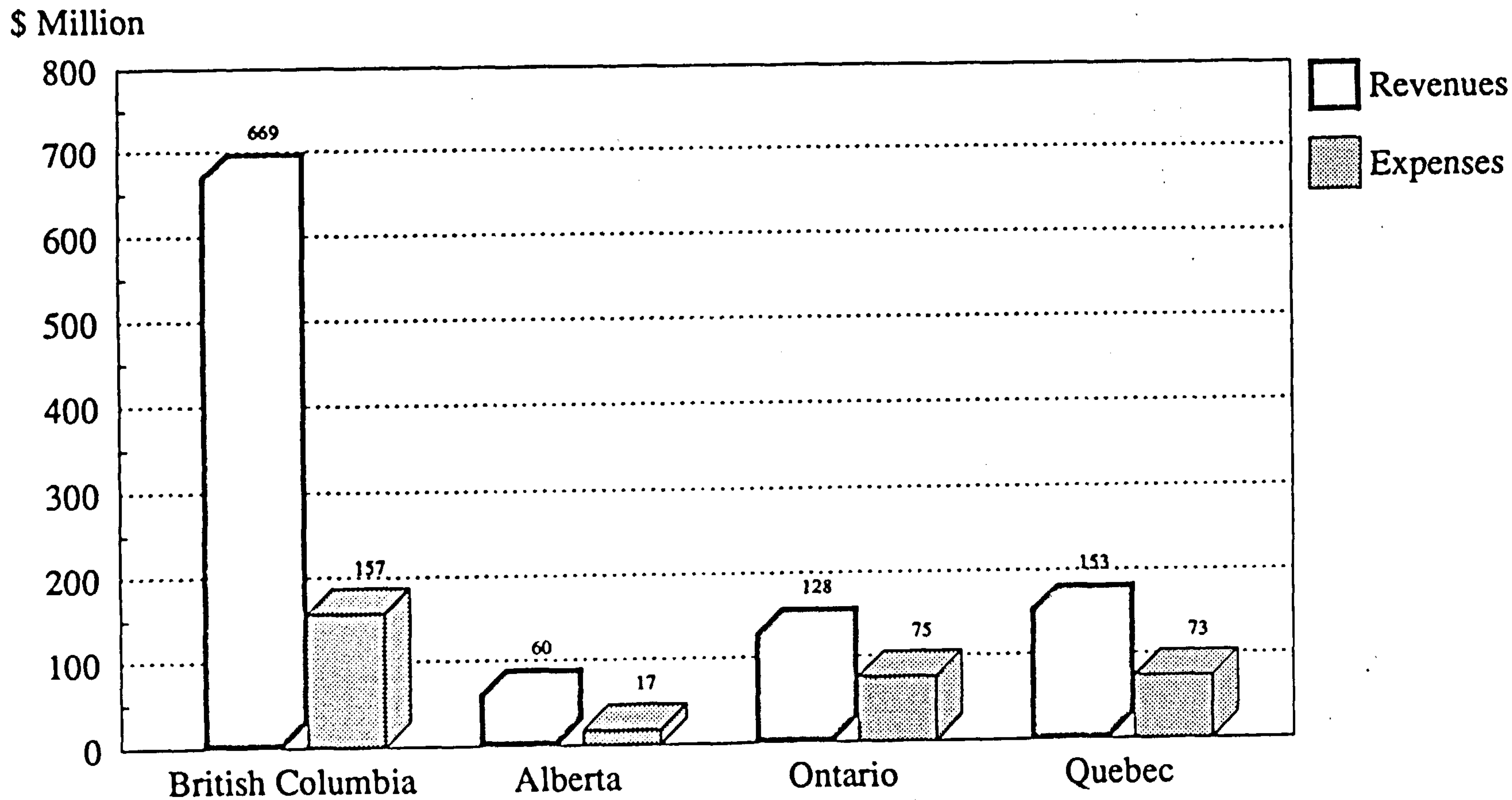
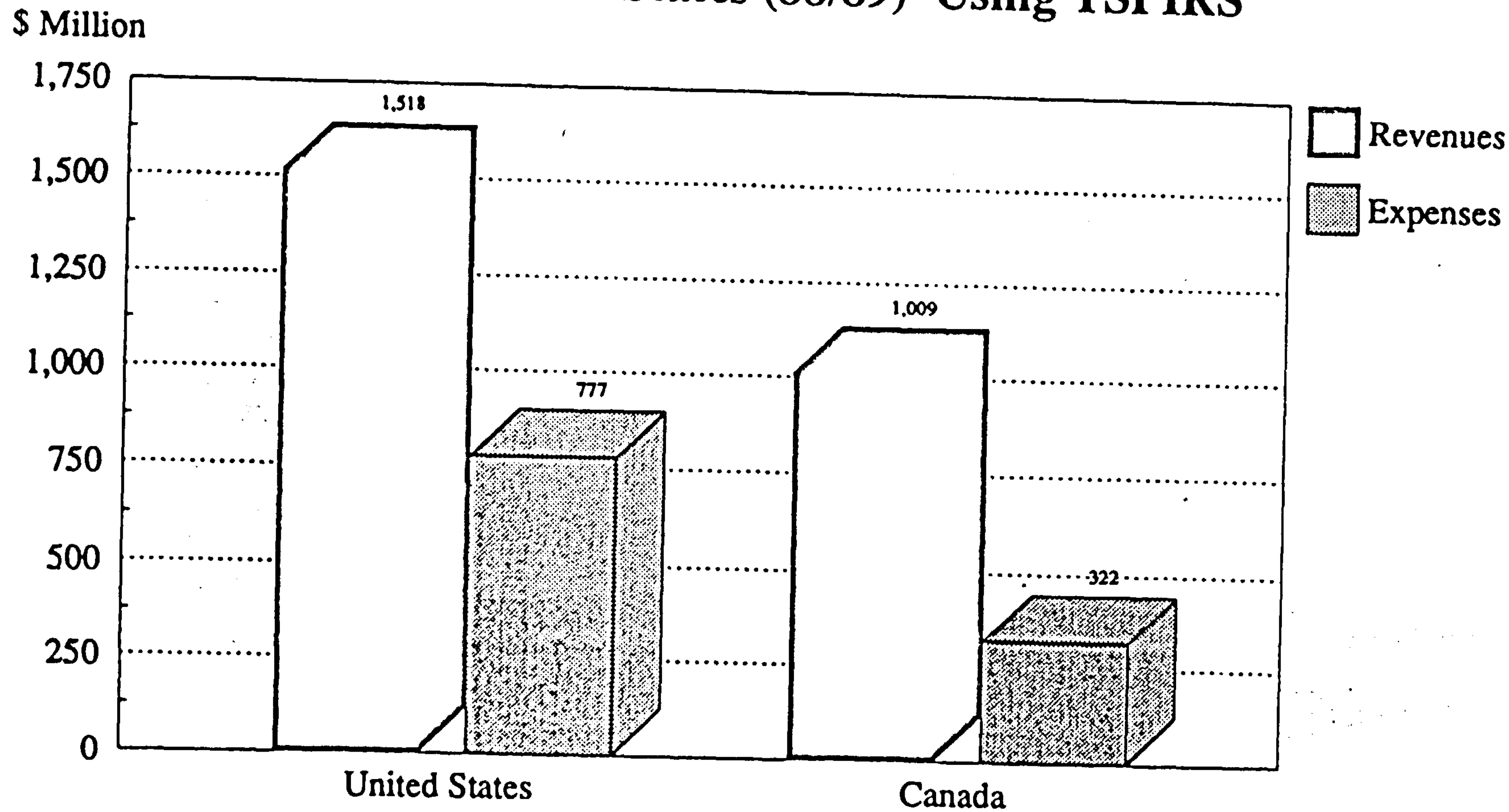


Figure 3
Forest Revenues and Expenses
Canada and United States (88/89) Using TSPIRS



Note - Fiscal years are not exact.

C. **Canada's Share of the U.S. Market Is Dropping**

1. While Canada's share of the U.S. market grew in the early 1980s and peaked at 32.8% in 1985, it has dramatically declined since then, falling to 26.8% during 1990 and to 26.1% for the first quarter of 1991. There is no sign that this trend will change in the near future.

2. Canada's share of the U.S. market has reached its lowest level in 13 years.

3. Since the MOU was signed, Canadian exports to the United States declined by over 2.5 billion board feet.

4. The increase in the value of the Canadian dollar, combined with increased log costs to the Canadian industry, have significantly enhanced the competitiveness of U.S. lumber producers, compared to Canadian producers.