

## **Key elements of the 2006 Softwood Lumber Agreement**

- The Federal government is responsible for the administration and operation of the system.
- The agreement is for a term of 7 years with an option to renew for an additional 2 years.
- The United States and Canada will end all litigation over softwood lumber, including the revocation of the United States countervailing and anti-dumping duty orders.
- Canadian exporters will see the return of over US\$4 billion in duties collected by the United States since 2002. Over US\$2 billion will be returned to British Columbia companies. The federal government expects duties will be returned to eligible companies by the end of this year.
- US\$1 billion of the duties will remain in the United States.
  - US\$500 million will be distributed to the United States Coalition lumber companies,
  - US\$450 million will be used to fund meritorious initiatives in the United States, and
  - US\$50 million will fund a North American lumber council.
- Canadian regions must choose between Option A, an export tax with a surge penalty and Option B, an export quota with a lower in-quota tax rate. Regions may switch Options at year 3 and year 6 of the agreement. British Columbia's Coast and Interior regions are treated separately in the agreement, and both will be under the export tax regime.
- Both Options run on a monthly basis. The tax and quota rates to be applied during a month are determined based on the level of the industry standard Random Lengths Framing Lumber Composite Price in the 4 week period ending 3 weeks prior to the month.
- Under Option A, the tax rate for different ranges of the Random Lengths Composite are as follows:
  - If the Random Lengths Composite is greater than US\$355 per thousand board feet, then no tax is applied.
  - If the composite is between US\$336 and US\$355 per thousand board feet, then the tax rate is 5%
  - If the composite is between US\$316 and US\$335 per thousand board feet, then the tax rate is 10%
  - If the composite is below US\$315 per thousand board feet, then the tax rate is 15%

- The surge penalty is a retroactive increase of 50% of the monthly tax rate if exports from a region are above 110% of historical levels. The Coast and Interior will be subject to separate surge calculations.
- These “running rules” governing the day-to-day operations of the agreement will be reviewed by a bi-national panel, ensuring the agreement functions in a commercially viable manner.
- Revenues from the export tax will stay in Canada and be remitted to the provinces.
- Remanufacturers who meet certain criteria will be charged the export tax on the “first mill” value of their lumber. In other words, there will be no export charge on the value-added component of their products. To obtain “first mill” treatment, remanufacturers must not own tenures (including BCTS) and must not be associated with tenure holders.
- Products selling for over US\$500 per thousand board feet will be charged the export tax as if their value were US\$500 per thousand board feet.
- Treatment of lumber produced from timber on privately owned lands will be reviewed by a bi-national panel established by the agreement.
- The Governments of Canada and the United States, in consultation with the provinces, will develop criteria for determining when a region's forest policy system could qualify for exemption from export measures and provide the basis for a long-term resolution of the dispute.
- Neither party will take action to circumvent commitments set out in the agreement. The anti-circumvention provision means governments are prevented from actions that offset the export measure. The agreement explicitly exempts British Columbia’s MPS market-based pricing system, and tenure compensation payments from anti-circumvention challenges. It also exempts payments to First Nations to settle claims, and environmental or other measures so long as they do not undermine market pricing of timber.
- Disputes relating to the agreement will be resolved through a dispute settlement process as outlined in detail in the agreement.

This summary is based on the BC Ministry of Forests and Range understanding of the 2006 Softwood Lumber Agreement. Any questions on particular aspects should be referred to the relevant federal departments responsible; a list of federal contacts is available at <http://www.for.gov.bc.ca/het/softwood/>.

October 2, 2006