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Initial Canadian Proposal for a Resolution of the Softwood Lumber Dispute

Canada and the United States agree to the following with the objective of resolving the softwood lumber dispute.

Scope of Agreement:

Same as countervailing duty order but not including softwood lumber products that are to be excluded from the countervailing duty order as a result of NAFTA panel review of the final subsidy determination.

Duration of Agreement:

The Agreement will remain in place for a period of x years and will be renewed for further x year periods with the agreement of both Parties.

Part I - (Obligations that are simultaneous with the entry into force of the agreement)

1. The United States will revoke current AD and CVD orders. Current litigation will be terminated (Canada and U.S. will file joint notices to terminate).
2. Canada will apply a tax to exports of softwood lumber to the United States. The export tax will remain in place for the duration of the Agreement, subject to its reduction or non-application as described in paragraphs 5, 6 and 7.
 - a. The export tax rate will apply to the products of all provinces that are subject to the tax.
 - b. The following will be excluded from the export tax:
 - i. Softwood lumber produced from logs harvested in Atlantic provinces, and the State of Maine, and produced in the Atlantic Provinces (i.e., New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland), which were excluded from the Countervailing Duty Order, and the origin of which is certified under the Maritime Lumber Bureau Certificate of Origin.
 - ii. Softwood lumber produced from logs harvested in the Territories (i.e., the Yukon, Northwest Territories and Nunavut).
 - iii. Softwood lumber produced by 26 companies excluded from the countervailing duty order, eight companies that are to be excluded from the countervailing duty order as a result of NAFTA panel review of the final subsidy

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determination and one company that was found to be receiving a zero or de minimis subsidy level in the first administrative review. (See Annex A for a list of excluded companies.)

- iv. Remanufactured softwood lumber products (input lumber which has been further worked other than by primary processing).
3. The United States will refund, with interest in accordance with US law, 100 percent of all duty cash deposits currently held by the U.S. Treasury that have been paid by importers of record of softwood lumber since the AD and CVD orders were put in place in May 2002.

Part II - (Obligations that exist as of the entry into force of the Agreement and throughout the duration of the Agreement)

4. Each province will implement policy changes as set out in province-specific annexes to the Agreement. At the signing of this Agreement, province-specific annexes may not be in final form. Therefore parties will agree to provide for continued development/negotiation of the content of the annexes, and for a procedure to finalize the content of the annexes if there is no agreement.
5. The export tax on softwood lumber from provinces subject to the tax will be reduced or eliminated upon implementation of the policy reforms outlined in the province-specific annexes. The annexes will reflect both new and already implemented policy reforms. Upon full implementation of all policy reforms outlined in the annex by a province, softwood lumber products from that province will be excluded from payment of the export tax.
6. Provinces will be responsible for notifying Canada of policy reforms undertaken and the date of implementation of those reforms. The Government of Canada will seek agreement from United States that policy reforms meet the agreed criteria as set out in the province-specific annexes. After obtaining the agreement of the United States, Canada will reduce or eliminate the export tax on softwood lumber products from that province. If agreement is not reached within xx days, the Parties will refer the matter to the independent mechanism set out in paragraph 8.
7. If the independent mechanism finds that policy reforms meet the agreed criteria as set out in the annexes and that the export tax should be reduced or eliminated, such reduction or elimination shall be effective as of the date of implementation of the policy reforms.

Part III (Dispute resolution & prevention of future disputes)

8. Before signing the agreement, the Parties will establish an independent mechanism that will be responsible for resolving disagreements, including as to whether and when provinces have

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made policy changes that would entitle their products to reduced or zero export tax rates. If a dispute arises over a future policy change that a province may implement that is not contained in the province-specific annex, such a dispute will be also be referred to the independent mechanism. The mechanism will include:

- a. Mediation in an effort to arrive at mutually satisfactory resolution.
 - b. Recourse by one of the Parties to a binational panel or tribunal if mediation does not resolve the matter. The decision of this panel or tribunal will be binding and will not be subject to appeal.
9. An industry group will be established to provide a forum for discussing matters related to trade in softwood products, including any disputes arising under this Agreement; the development of strategies to address changes in the domestic and international softwood lumber markets; and the promotion of softwood lumber products in domestic and international markets. The group may call upon technical experts, including federal, provincial and territorial governmental experts, to support its discussions. After the x year of this Agreement, the industry group shall provide recommendations to the Parties as to whether the Agreement should be renewed.
 10. The Department of Commerce will recognize that after a province has implemented the policy changes set out in the relevant annex, no basis exists for a finding of subsidization by that province.
 11. For the duration of the Agreement, the U.S. will not self-initiate an anti-dumping or countervailing duty investigation under Title VII of the Tariff Act of 1930, with respect to imports of softwood lumber from Canada. If a petition is filed, the Department of Commerce will dismiss the petition. The United States will not initiate an investigation or take other trade actions in respect of imports of softwood lumber from Canada. (Sections 201 to 204 and 301 to 307 of the Trade Act of 1974; and section 204 of the Agricultural Act of 1956). The U.S. domestic softwood lumber industry will commit not to take any new cases under any of these U.S. law provisions against imports of softwood lumber from Canada. The U.S. domestic softwood lumber industry will also commit not to challenge the constitutionality or legal validity of this agreement, or the constitutionality of Chapter 19 of the North American Free Trade Agreement.
 12. The Parties will not take any action to circumvent their commitments in the Agreement.

Annex A**CVD Excluded Companies**

A. Companies Excluded as a Result of the Company Exclusion Process		
	Companies	Location
1	Armand Duhamel et Fils Inc. (Border Mill)	QC St. Ignace de Stanbridge
2	Bardeaux et Cedres	QC St. Honore de Shenley
3	Beaubois Coaticook Inc. (Border Mill)	QC Coaticook
4	Busque & Lafamme Inc. (Border Mill)	QC St. Benoit BCE.
5	Carrier & Begin Inc. (Border Mill)	QC St. Honore de Shenley
6	Clermond Hamel	QC St. Ephrem Beauce
7	J.D. Irving Ltd. (Border Mill)	QC Pohenegamook
8	Les Produits Forestier D.G., Ltee. (Border Mill)	QC Ste-Foy
9	Marcel Lauzon Inc. (Border Mill)	QC East Hereford
10	Mobilier Rustique	QC St. Marlin
11	Paul Vallee Inc. (Border Mill)	QC Sawyerville
12	Rene Bernard Inc. (Border Mill)	QC Beauceville West
13	Roland Boulanger & Cite, Ltee. (Border Mill)	QC Warwick
14	Scierie Alexandre Lemay	QC St. Bernard
15	Scierie La Patrie Inc. (Border Mill)	QC La Patrie
16	Scierie Tech Inc. (Border Mill)	QC Lac Drolet
17	Wilfred Paquet et Fils, Ltee. (Border Mill)	QC St. Theophile
18	B. Luken Logging Ltd.	YK Whitehorse
19	Frontier Lumber	YK Watson Lake
20	Sault Forest Products Ltd.	ON Sault Ste. Marie
B. Companies Excluded as a Result of the Expedited Review Process		
1	Boccam inc.	QC St-Georges
2	Indian River Lumber	ON Scarborough
3	Interbois, Inc.	QC Beaucenord
4	Les Moulures Jacomau 2000, Inc.	QC
5	Richard Lutes Cedar Inc.	ON Norwood
6	Séchoirs de Beauce Inc.	QC Beauceville
C. Companies Eligible for Exclusion as a Result of the NAFTA CVD Panel Process		
1	Produits Forestier Dubé	QC Isle-Verte-Ouest
2	Scierie Nord-Sud	QC Saint-Prosper
3	Scierie West Brome (Border Mill)	QC Ville du Lac Brome
4	Matériaux Blanchet's St-Pamphile Mill (Border Mill)	QC Saint-Pamphile
5	Bois Daquam (Border Mill)	QC Sainte-Foy
6	Bols Omega (Border Mill)	QC Lac Superieur
7	J.A. Fontaine et Fils (Border Mill)	QC Woburn
8	Maibec Industries (Border Mill)	QC Sainte-Foy
D. Company that Received a Zero Rate in the First CVD AR and Not Covered by Above Exclusions		

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1	Scierie Lapointe et Roy Ltee	QC Beauce Sud
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