

**Basic Terms of a  
Canada-United States Agreement on Softwood Lumber**

The following summarizes the basic terms upon which Canada and the United States will draft a proposed Agreement resolving the softwood lumber dispute, including revocation of orders, refund of deposits, imposition of an export measure in Canada and addressing long term policy reform.

Canada and the United States (“the Parties”) agree to the following:

**Orders and Deposits:** The U.S. will revoke the CVD and AD orders on Canadian softwood lumber imports and stop collecting deposits. We estimate that, at the time of the signing of the Agreement, the U.S. will hold at least US \$5 billion in deposits. The U.S. will receive US \$1 billion, and the remainder will be distributed to importers of record. The amount going to the U.S. will be divided as follows: 50% to the members of the Coalition for Fair Lumber Imports; a portion for a joint initiative benefiting the North American lumber market; and, remainder to meritorious initiatives in the U.S. as identified by the U.S. government in consultation with Canada. The Parties acknowledge that this distribution of deposits does not constitute a precedent for distribution of duties to any entity other than importers of record.

**Scope:** The agreement applies to the products covered under the AD and CVD orders. The scope will change only on mutual consent, except that each party reserves the right to claim a change in scope and have that claim addressed through dispute settlement.

**Border Measures:** The border measures include an export measure, a 3<sup>rd</sup> country trigger, and a surge mechanism.

**Export Measure:** A region (the BC Interior, BC Coast and each of the provinces east of BC) will choose between an export charge, with the charge varying on the Random Lengths Framing Composite lumber price (“price”), or an export charge plus volume restraint, where both the rate and volume restraint vary on the price, as follows:

<b>Price</b>	<b>Option A –Export Charge (%)</b>	<b>Option B – Export Charge plus Volume Restraint*</b>
Over US\$355	0	0
US\$336-355	5	2.5% + regional share of 34% of U.S. Consumption
US\$316-335	10	3% + regional share of 32% of U.S. Consumption
US\$315 or under	15	5% + regional share of 30% of U.S. Consumption

\* A region's market share will be based on the region's average share of Canadian exports to the US during calendar years 2001 to 2005, inclusive, applied to the indicated national Canadian market share of the U.S. market.

The export charge will be levied on the same value on which duties are currently levied.

**3rd Country Trigger:** If in any two consecutive quarters, the following three conditions exist, Canada will refund any export charges paid in those quarters (up to the equivalent of a 5% charge): the 3<sup>rd</sup> country share of US lumber consumption increases by 20% over the same quarter in the previous year (in 2 consecutive quarters); Canadian market share is decreasing in the same two quarters; and, US domestic producers' market share is increasing in the same two quarters. This provision will not apply to any region that has triggered the surge mechanism.

**Surge Mechanism:** This mechanism is triggered if a region's exports exceed 110% of its allocated share in any one period. If a region's exports are between the trigger volume and the trigger volume plus 1%, then the next period the trigger volume is reduced by the overage. If a region exports more than the trigger volume plus 1% in any one period, then the region will pay 150% of the normal export charge for that period.

For the surge mechanism, a region's market share will be based on the region's average share of Canadian exports to the US during calendar years 2004 and 2005 applied to a 34% national Canadian market share of the U.S. market.

**Exceptions to the Export Charge:** The export charge on products valued at more than \$US 500 mbf will be charged as if their value was no more than \$US 500 mbf. Canada will limit the export charge on remanufactured lumber products from companies operating independently of tenure holders to the first mill price.

**Exclusions:** The border measure will not apply to exports of lumber products:

- a) from logs harvested in the Atlantic Provinces, the origin of which is certified under the Maritime Lumber Bureau Certificate of Origin.
- b) from logs harvested and produced in the Yukon, Northwest Territories or Nunavut;
- c) from at least 32 companies, including those excluded from the CVD order and those who have received "no interest" letters in connection with their application for a changed circumstances review.<sup>1</sup>

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<sup>1</sup> Companies excluded from the CVD order as a result of the company exclusion process -- 20. Companies excluded from the CVD order as a result of the expedited review process -- 6. Companies eligible for exclusion because they have received "no interest" letters in connection with their application for a changed circumstances review -- 6. Two additional companies' eligibility for exemption are to be determined.

**Policy Exits:** Canada, with full participation of the provinces, and the US will make best efforts to define “policy exits” from the export measure for each province within 18 months of entry into force of this agreement.

**Dispute Settlement:** Disputes on the application or interpretation of the agreement, or on the implementation of mutually agreed policy exits, will be resolved through a binding dispute settlement process. The process will be neutral, transparent, expeditious and well-defined. Panellists shall be non-North American commercial arbitrators.

**Duration:** The agreement will be for a term of 7 years, and may be renewed for 2 years.

**Other Clauses:** The Parties will agree to clauses with respect to the following issues:

- a) litigation: the Parties will take steps to terminate all litigation by the entry into force of the Agreement;
- b) no new cases: the US will not self-initiate and US will dismiss any petition for anti-dumping and countervailing duties on Canada softwood lumber, and will not take any other trade action or initiate investigations with respect to Canadian softwood lumber. Domestic producers accounting for more than 60 percent of US production will provide irrevocable “no injury” letters stipulating “no injury” during the life of the Agreement;
- c) anti-circumvention:
  - a. Neither Party will take action to circumvent commitments set out in the Agreement, or to offset the export measure.
  - b. If exports from the Atlantic Provinces to the US exceed 100% of softwood lumber production in the Atlantic Provinces in any quarter, then exports to the US from the Atlantic Provinces in the following quarter will be subject to a penalty of \$CAN 200 mbf on the excess.