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The Honourable L'honorable
David L. Emerson, P.C., M.P., c.p., député

The Honourable Susan C. Schwab
United States Trade Representative
Executive Office of the President
600 17th Street, N.W.
Washington, D.C. 20508 USA

OCT 12 2006

Dear Ambassador Schwab:

I am pleased to receive your letter of today's date, which reads as follows:

"I have the honor to confirm the following understanding reached between representatives of the United States of America and Canada regarding the identification of non-profit organizations that will advance one or more of the meritorious initiatives described in Article XIII(A)(2) of the Softwood Lumber Agreement 2006 ("SLA 2006") in the United States with funds provided pursuant to Annex 2C of the SLA 2006 ("SLA 2006 funds").

The United States, in consultation with Canada, may identify one or more established or newly-created non-profit organizations to advance one or more of the meritorious initiatives.

In identifying any *newly-created* organization to receive funds, the United States shall, in consultation with Canada, consider the following criteria:

1. Whether the organization has a board of directors that includes at least seven voting members.
2. The extent to which the composition of the board of directors reflects expertise in each of the types of meritorious initiatives that the organization undertakes to pursue.
3. Whether a significant number of the board members have a proven track record of experience on foundation, endowment, or corporate boards with fiduciary responsibilities.
4. Whether the organization intends to operate using only the interest or other investment income derived from its allocation in connection with SLA 2006 and any additional private contributions.

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5. The extent to which the organization's mandate, as set forth in its charter, mirrors – and is limited to – the description of the meritorious initiatives that the organization undertakes to pursue.
6. The organization's plan for minimizing administrative, professional, and investment costs, and whether that plan is generally consistent with the procedures and practices of other leading non-profit organizations of similar size or scope of operations.
7. The organization's plan for disbursement of the funds.
8. Whether the organization has adopted formal plans (in the organization's charter, by-laws, board resolutions or other legal instruments that are binding on the organization) for ensuring transparency and accountability that are consistent with the procedures and practices of other leading non-profit organizations of similar size or scope of operations, and whether the plans include procedures for issuing annual public reports and undertaking periodic independent audits.
9. Whether the organization's charter and/or by-laws include appropriate safeguards, or a written conflict of interest policy has been implemented, to ensure that board members do not seek to utilize the resources of the organization in a manner that would create a conflict of interest, or the appearance of such a conflict, or that would otherwise direct the resources of the organization to the private benefit of any board member.

In identifying any *established* charitable organization, the United States shall, in consultation with Canada, consider the historical performance and existing governance structure of the organization, as well as the extent to which the organization's mandate aligns with one or more of the meritorious initiatives, to ensure that it is an appropriate recipient of funds. Any such organization should meet the highest standards of integrity and have a demonstrated capacity to advance one or more of the meritorious initiatives.

Any organization identified by the United States to receive SLA 2006 funds should, before receiving any such funds, commit to comply with the following parameters in letters sent to both governments:

1. Before receiving any SLA 2006 funds, each organization shall select one of the four major U.S. accounting firms and obtain from it a determination (“determination”) that the organization is generally sound and conforms to the identification criteria described above that pertain to such an organization.
2. The organization should be organized and operated as a non-profit organization under applicable law before receiving any SLA 2006 funds, and should have applied for or obtained tax-exempt status under Section 501I(3) of the Internal Revenue Code.
4. The organization should account separately for SLA 2006 funds received, even if funds are co-mingled for investment purposes.
5. Except to pay for minimal, necessary administrative, professional, and investment costs, the organization shall use SLA 2006 funds exclusively to advance one or more of the meritorious initiatives, in ways that ultimately support the North American forest industry. Specifically, the organization shall use the funds to support one or more of the following initiatives in the United States:
 - educational and charitable causes in timber-reliant communities;
 - low-income housing and disaster relief; or
 - educational and public-interest projects addressing: (i) forest management issues that affect timber-reliant communities, or (ii) the sustainability of forests as sources of building materials, wildlife habitat, bio-energy, recreation, and other values.

Allocations by any recipient organization may include, but are not limited to, research, direct grants to communities or institutions, and sub-grants to other non-profit organizations that can implement one or more of the meritorious initiatives.

5. The organization shall prepare an annual programmatic report to the binational industry council described in Annex 13 of the SLA 2006. The report should address the manner in which the organization has disbursed SLA 2006 funds over the previous year and the consistency of those disbursements with the meritorious initiative(s) it has undertaken to pursue.

6. The organization shall not use any of its funds to finance political activity or to advocate for a political party or cause.

Canada recognizes that the United States will have no authority to direct any organization that has received SLA 2006 funds to disburse those funds to any particular use or recipient. When Canada is in a position to distribute SLA 2006 funds, it will disburse such funds in the amounts specified and to the organizations identified by the United States, provided that those organizations have obtained a satisfactory determination as defined above. If an identified organization fails to obtain such a determination by that time, Canada will distribute that organization's prospective allocation *pro rata* to those identified organizations with a satisfactory determination. The costs incurred by any identified organization to obtain a determination shall be paid for by Canada from the corpus of funds to be distributed for meritorious initiatives.

I have the honor to propose that this letter and your letter of confirmation in reply shall constitute an agreement between our two Governments, to enter into force on this day.”

I have the honor to confirm that the understanding expressed in your letter is shared by my Government, and that your letter and this reply shall constitute an agreement between our respective Governments, to enter into force on this day.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Emerson', written in a cursive style.

The Honourable David L. Emerson, P.C., M.P.