

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

September 12, 2006

The Honorable David L. Emerson
Minister for International Trade
Department of Foreign Affairs
and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON, Canada K1A 0G2

Dear Minister Emerson:

We have reached a critical point in the settlement of the softwood lumber dispute. We have spent several months hammering out a text of the Softwood Lumber Agreement 2006 (SLA 2006) that reflects deep and difficult compromises from both sides. Predictably, the text has stirred controversy in each of our countries. The United States nevertheless continues to believe that it is vital to U.S.-Canada relations and our industries and consumers to bring this contentious dispute to an end, and we must commit ourselves to bringing the agreement into effect.

We understand that certain stakeholders in Canada have raised concerns over particular aspects of the settlement. The United States is willing to take further steps to address these matters, but only on the understanding that, on this basis, the Government of Canada will sign the agreement and take all necessary steps to bring it into force.

First, certain Canadian stakeholders are concerned that the United States will be predisposed to terminate the agreement prior to its natural expiration in seven to nine years. I want to assure you that this is not the case. Early termination would be an extraordinary step. The U.S. Government – like the Government of Canada – has invested substantial resources and political capital in concluding the settlement. We firmly believe that the agreement is in the long term interest of the United States, and U.S.-Canada relations, and fully intend to have it remain in force for its full term barring very serious adverse developments. The termination clause is nothing more than a safeguard against severe unanticipated changes in circumstances that would undermine the objectives of, and assumptions underlying, the agreement.

In order to assuage the concerns expressed by Canadian stakeholders, the United States agreed, immediately prior to the initialing of the settlement on July 1, to amend the termination clause of the agreement to ensure that neither Party could terminate the agreement for 23 months, and then only with 1 month notice. The United States further agreed that if it exercised this right, no new trade remedy case would be initiated for at least one year after that. We understand, however, that concerns linger over possible early termination by the United States. The United

States is prepared to adjust the termination clause of the SLA 2006 once again to allow either party to terminate the agreement after 18 months after entry into force, *provided that 6 months notice is given*. As before, if the United States chose to exercise this right, no new trade remedy cases could be initiated for one year after that. Attachment A contains Article XX(1) of the agreement reflecting this adjustment.

Second, we understand that certain Canadian stakeholders have sought a “standstill” provision to ensure that no new U.S. trade remedy cases will be initiated for a period of one year after the natural expiration of the agreement in seven or nine years. As set forth in Attachment B, the United States is willing to adjust Article XVIII and Annex 18 of the SLA 2006 to reflect this.

In addition, you have the assurance of the United States that if, during the 12 month period after the SLA 2006 expires as provided for in Article XVIII or is terminated by the United States under Article XX(1), a petition is filed by U.S. interested parties with respect to imports of Softwood Lumber Products from Canada, the U.S. Department of Commerce would dismiss such a petition based on the letters that will be appended to Annex 18 of the SLA 2006.

Finally, we understand that certain Canadian stakeholders have sought several other changes related to the operation of the agreement. Some have, for example, requested that a certain volume of lumber produced from logs from private lands be exempted from the export measures in return for lifting certain Canadian log export restraints. Others have sought alterations in the so-called “running rules” that govern the administration of the export measures. We would expect that Canada may wish to raise these matters in the Softwood Lumber Committee established under Article XIII of the SLA 2006, and we would be willing to engage in an early discussion in that forum along with other issues that we or the Canadian Government may identify to facilitate the orderly operation of the agreement and ensure that it functions in a commercially viable manner.


We note that British Columbia is currently undertaking a review of its log export policy. We would be prepared to have the general issue of log export restraints examined by a Working Group established by the Softwood Lumber Committee, should Canada request this. In conjunction with the BC Government’s review, we would be prepared to agree to a request that the binational industry council envisioned by the SLA 2006 undertake a review of the log export restriction issue in parallel with the government-to-government discussions, should Canada likewise request this. At the conclusion of these discussions, the Parties may agree to an amendment pursuant to Articles X(4) and XIX of the SLA 2006.

As discussed, representatives of the U.S. lumber industry have requested that the Government of Canada clarify certain issues under the SLA 2006 with respect to the administration of export permits and disclosure of data relating to the administration of export measures. As part of the package of steps to clear the way for execution and implementation of the agreement, it would be helpful if you could provide the requested clarifications in writing.

I look forward to working with you to bring the SLA 2006 to a successful conclusion. The hard fought negotiations have produced a solid, pragmatic solution that will allow us to

work together over the coming years to resolve this decades-long dispute once and for all. We have a tremendous opportunity, and we should not let it slip through our fingers.

Sincerely,



Susan Schwab

Attachment A

ARTICLE XX

TERMINATION

1. At any time after the SLA 2006 has been in force for 18 months, either Party may terminate the SLA 2006 by providing 6-month written notice of the intent to terminate to the other Party. On request of the Party receiving the notice, the Parties shall consult on the reasons for the termination. If the United States terminates the SLA 2006 under this paragraph, the domestic interested parties that have filed the letters in Annex 18, which shall be appended to Annex 18 on the Effective Date, shall not file petitions, and shall oppose initiation of an investigation, pursuant to Title VII of the *Tariff Act of 1930*, as amended, or Sections 301 to 305 of the *Trade Act of 1974*, as amended, with respect to imports of Softwood Lumber Products from Canada during the 12-month period after the SLA 2006 terminates. In addition, the United States shall not self-initiate such actions during that period. This paragraph shall not apply to a termination under any other provision of the SLA 2006, including paragraphs 2 through 4 of this Article or a termination by operation of Article XVIII.

Attachment B

ARTICLE XVIII

DURATION

1. The SLA 2006 shall remain in force for 7 years after the Effective Date and may be extended by agreement of the Parties for an additional 2 years. The domestic interested parties that have filed the letters in Annex 18, which shall be appended to Annex 18 on the Effective Date, shall not file petitions, and shall oppose initiation of an investigation, pursuant to Title VII of the *Tariff Act of 1930*, as amended, or Sections 301 to 305 of the *Trade Act of 1974*, as amended, with respect to imports of Softwood Lumber Products from Canada during the 12-month period after the expiration of the SLA 2006 under this paragraph. In addition, the United States shall not self-initiate such actions during that period. This paragraph shall not apply to a termination under any other provision of the SLA 2006, including Article XX.

ANNEX 18

TEMPLATE FOR SUPPLEMENTAL LETTERS FROM THE MEMBERS OF THE U.S. INDUSTRY WHICH HAVE FILED LETTERS AS DESCRIBED IN ANNEX 5A

Re: Termination of the Softwood Lumber Agreement Between the Government of Canada and the Government of the United States of America (SLA 2006) Pursuant to Article XVIII or Article XX(1)

Dear USTR Schwab and Secretary Gutierrez:

Entity A agrees that, if the United States exercises its right to terminate the SLA 2006 pursuant to Article XX(1), or if the SLA 2006 terminates by operation of Article XVIII, for a period of 12 months after such termination, it will not file a petition, and will oppose initiation of an investigation, pursuant to Title VII of the *Tariff Act of 1930*, as amended, or §§ 301-305 of the *Trade Act of 1974*, as amended, with respect to imports of Softwood Lumber Products from Canada.

Entity A agrees that it will ensure that the commitments in this letter are undertaken by, and remain binding on, any entities that are successors in title of Entity A.