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TARIFFS AND TRADE

Committee on Subsidies and
Countervailing Measures

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UNITED STATES - MEASURES AFFECTING THE EXPORT OF SOFTWOOD LUMBER FROM CANADA

The following communication was circulated informally by the delegation of Canada to signatories present at the meeting of the Committee held on 15 November 1991.

Softwood lumber: USA countervailing duty investigation. Attached is 18 October 1991 letter from the Department of Commerce following up on 16 October 1991 consultations.

18 October 1991

Mr. William Dymond
Minister-Counsellor
Embassy of Canada
501 Pennsylvania Avenue, N.W.
Washington, D.C. 20001

Dear Mr. Dymond,

I hope our October 16 consultations were helpful towards a better understanding of the basis for the planned initiation of a countervailing duty investigation on softwood lumber from Canada.

Enclosed please find a brief summary of the evidence we discussed in the consultations regarding the existence of Canadian lumber subsidies, material injury to the US lumber industry, and the causal link between subsidized Canadian lumber imports and injury to the US industry. Full details will be available as soon as we initiate the investigation.

I hope this is helpful. If you have any questions, please contact me at (202) 377-1780.

Sincerely,

Eric I. Garfinkel
Assistant Secretary for
Import Administration

Enclosure

91-1696

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SUMMARYSELF-INITIATION OF SOFTWOOD LUMBER CVD INVESTIGATION

Subsidies. Our analysis indicates that stumpage is limited to a specific enterprise or industry, or group of enterprises or industries, as well as provided at preferential rates. As we noted, the Subsidies Code does not require a specificity test, but it is a requirement under US law. There was a preliminary finding of specificity in the 1986 investigation, and the current information we have indicates that discretion is exercised in the awarding of stumpage rights and the setting of stumpage prices. The exercise of discretion in the awarding of stumpage rights is an indication of specificity, and as such, is sufficient to meet the threshold for initiation. With regard to whether stumpage is preferentially priced, we followed the preferentiality hierarchy in Countervailing Duties: Notice of Proposed Rulemaking and Request for Public Comments (54 F.R. 23366, May 31, 1989).

Relying on information from a variety of sources, we estimated ad valorem subsidy rates ranging from 5 to 26 per cent. These rates were calculated based on three methods: non-competitive/competitive stumpage price comparison (BC), cross-province non-competitive/private stumpage price comparison (Quebec/New Brunswick), and a cross-border stumpage price comparison to similar areas in the United States (both BC and Quebec). These figures were adjusted where information was reasonably available to account for differences in obligations such as silviculture and roadbuilding. The first method is based primarily on BC annual reports and data provided by BC under the MOU. The second relies on data provided under the MOU by the Government of Quebec and updated information from the 1986 investigation. The last method uses data from the first two methods and data obtained from the US Forest Service and the state governments of Washington and Idaho.

Injury. A comparison of the first 6 months of 1991 with the first 6 months of 1990 demonstrates that US production decreased 11.1 per cent and shipments decreased 10.3 per cent, and apparent consumption dropped 11.6 per cent. During the same period, capacity utilization decreased from 91.8 per cent to 84.2 per cent, and employment in the lumber and logging industry decreased 6.0 per cent and 7.3 per cent respectively. Comparing 1990 with 1989 reveals production and shipments were down 4.7, 4.9 and 6.2 per cent, respectively. The data were taken from public US Government data sources.

Causal Link. Canada has consistently captured a significant and substantial share of the US market, even during the MOU. For the period 1988 through 1990, Canada's import penetration averaged 27.8 per cent, based on Census and other public government data. US lumber prices have been depressed; they dropped 3.3 per cent in the first six months of 1991 from the same period in 1990, after falling 2.6 per cent from calendar year 1989 to 1990. Given that lumber is an extremely fungible commodity and US prices are depressed, and given that Canada's already significant share of the US market appears to be rising, there is sufficient evidence that subsidized Canadian lumber imports are a cause of injury, or threat of injury to the US industry.