

August 26, 1999

Mr. Douglas Waddell  
Chargé D'affaires a.i.  
Canadian Embassy  
501 Pennsylvania Avenue NW  
Washington, DC 20001-2114

Dear Mr. Waddell:

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

I have the honour to refer to the Softwood Lumber Agreement between the Government of Canada and the Government of the United States of America, signed in Washington on May 29, 1996 (the Agreement).

I am providing the information below on actual shipments and allocations under the Agreement of softwood lumber first manufactured in British Columbia and am proposing an approach for Years Four and Five under the Agreement, in settlement of the arbitration pursuant to Article V of the Agreement on British Columbia's June 1, 1998 stumpage reduction.

Actual shipments of softwood lumber first manufactured in British Columbia as of May 1, 1999 (subject to data reconciliation procedures as set out in Article IV of the Agreement) were as follows (million board feet):

	<b>Year 1</b>	<b>Year 2</b>	<b>Average</b>	<b>Year 3</b>
				<b>Year 1&amp;2</b>
<b>EB</b>	8,367	8,347	8,357	8,158
<b>Bonus</b>	26.5	110.9	68.7	23.4
<b>Total Fee Free</b>	8,394	8,458	8,426	8,181
<b>LFB</b>	281.2	320.6	301	357
<b>UFB</b>	159.1	60.8	110	114

Allocations to B.C. companies (the sum of company allocations for B.C.- based companies holding allocations for lumber first manufactured in British Columbia) of EB and LFB for Years

Three and Four as of May 1, 1999, are as follows (million board feet):

	<b>Year 3</b> (April 1, 1998-March 31, 1999)	<b>Year 4<sup>1</sup></b> (April 1, 1999-March 31, 2000)
EB	8,139	8,136
LFB	360.5	362.3

I propose the following amendments for Years Four and Five under the Agreement:

1. In Year Four (April 1, 1999-March 31, 2000):

- (i) Ninety million board feet of the 362.3 million board feet LFB allocation to B.C. companies in Year Four will be re-priced at the UFB fee level (U.S.\$105.86/thousand board feet); Canada shall collect a fee equivalent to the UFB fee level on the issuance of a permit for export to the United States of quantities of this softwood lumber (“re-priced LFB”);
- (ii) Canada shall collect a fee on the issuance of a permit for export to the United States of quantities of UFB by B.C. companies (which includes any quantity re-priced pursuant to paragraph 1(i)) in excess of 110 million board feet (based on the average of Year One and Year Two UFB shipments) at the fee level of U.S.\$146.25/thousand board feet (U.S.\$105.86/thousand board feet + U.S.\$40.39/thousand board feet).

2. In Year Five (April 1, 2000- March 31, 2001):

- (i) The greater of ninety million board feet or any amount in excess of 272 million board feet of Year Five LFB allocations to B.C. companies will be re-priced at the UFB fee level; Canada shall collect a fee equivalent to the UFB fee level on the issuance of a permit for export to the United States of quantities of this softwood lumber (“re-priced LFB”);
- (ii) Canada shall collect a fee on the issuance of a permit for export to the United States of quantities of UFB by B.C. companies (which includes any quantity re-priced pursuant to paragraph 2(i)) in excess of 110 million board feet (based on the average of Year

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<sup>1</sup> Allocations are subject to adjustment, including for allocations from the reserve for hardship and for correction of errors and omissions. In addition to EB, companies may also receive allocations of fee-free export levels from additional export levels received due to the operation of the Trigger Price Bonus, as set out in Article III of the Agreement.

One and Year Two UFB shipments) at the fee level of U.S.\$40.39 above the applicable UFB rate set out in Article II.3 of the Agreement.

3. If any portion of LFB lumber allocated to a B.C. company which has been re-priced pursuant to 1(i) and 2(i) above is transferred<sup>2</sup> to a company in another province or is returned for temporary reallocation, Canada shall collect a fee equivalent to the upper fee base level on the issuance of a permit for export to the United States of volumes of this softwood lumber.

If the proposed amendments contained in this letter are acceptable to the Government of the United States of America, this letter and your reply to that effect shall constitute a full settlement of the arbitration pursuant to Article V of the Agreement on British Columbia's June 1, 1998 stumpage reduction. Accordingly, I propose that upon entry into force of this amendment, the Parties shall jointly notify the Panel that a mutually satisfactory resolution has been reached and shall request that proceedings be terminated immediately. This settlement is without prejudice to the position of the Parties on the consistency with the Agreement of changes to stumpage.

I have the honour to propose that if the proposed amendments contained in this letter are acceptable to the Government of the United States of America, pursuant to Article VIII of the Agreement, this letter, in the English and French languages, each text being equally authentic, and your reply to that effect, shall constitute an amendment to the Agreement, which shall enter into force on the date of your reply.

Accept, Excellency, the renewed assurances of my highest consideration.

I have the honor to confirm that the proposed amendments contained in your letter are acceptable to the Government of the United States of America, and that your letter and this reply shall constitute an amendment to the Agreement pursuant to Article VIII of the Agreement, which shall enter into force on this date. I further have the honor to confirm that your letter and this reply shall constitute a full settlement of the arbitration pursuant to Article V of the Agreement on British Columbia's June 1, 1998 stumpage reduction.

Sincerely,

Peter L. Scher  
Special Trade Ambassador

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<sup>2</sup>The transfer system can be used by primary producers and remanufacturers to transfer allocations (with lumber) to wholesalers, and by primary producers to transfer allocations (with lumber) to remanufacturers for lumber to be further remanufactured prior to exportation to the United States .