

UNITED STATES-CANADA LUMBER DISPUTE

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

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UNITED STATES-CANADA LUMBER DISPUTE

FRIDAY, JUNE 1, 2001

U.S. SENATE,
COMMITTEE ON FINANCE,
Missoula, MT.

The hearing was convened, pursuant to notice, at 10 a.m., Max Baucus (chairman of the committee) presiding.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. First, I want to recognize Under Secretary Grant Aldonas, who is our first witness. This is, I think, the first time I have seen you, Grant, since your confirmation. I want to just congratulate you.

Mr. ALDONAS. Thank you.

The CHAIRMAN. For those who do not know, Mr. Aldonas is Under Secretary of the Department of Commerce. He worked for Senator Bill Roth on the Senate Finance Committee when Bill Roth was Chairman of the Finance Committee. For those of you who do not know him—I am sure a lot of you do—Bill Roth has a very strong tie with Montana.

A footnote is, Bill Roth and I graduated from the same high school in Helena. We are both Helena High graduates. I remind him of that on occasion. I know, Mr. Aldonas, you know about that already.

Mr. ALDONAS. Absolutely.

The CHAIRMAN. We are glad you are here, though, today, to take the time to come and visit us. We are glad that you are on board and fully serving in the capacity as Under Secretary of Commerce to help us resolve the issue we are facing once and for all.

I also understand that you were recently visiting the Owens & Hurst Mill up in Eureka, and we are glad you had a chance to see firsthand our mills and some of the effects of subsidized Canadian lumber, dumped Canadian lumber, that is found in our country.

You met some of the people there who are affected by those decisions made in Canada, and also affected by decisions that will be made in Washington, DC. It is just good for you to personally see that.

In preparation for this hearing, I was looking at the history of the softwood lumber issue. I have been, frankly, fighting this thing for many years from the beginning. I do not know if that is good news or bad news.

The unfortunate news, is we have not had a lot of progress and it is really quite troubling. I think it is important, therefore, to

take a close look at what we have been doing, then take stock of where we are.

A couple of months ago, the U.S. lumber industry and their employees were forced to fight U.S. trade laws to keep their companies from being harmed by unfair Canadian trade practices.

This is not new. Similar cases were filed in 1982, 1986, and 1991. So the question is, what has been the result of the cases that are now pending before the ITC? The question is, will this be new? Will we make some progress this time around? Clearly, we have to, and we want to.

Along that line, the International Trade Commission just made an initial finding last month. They made the finding unanimously, I might add, that the U.S. industry faces injury from imports. Under our trade laws, the ITC must first make that determination whether or not an industry affected is injured by imports.

Well, that is not new. It is not the first time that has happened. The ITC has made that ruling in prior years. In fact, they have made new such findings in 1982, for example, in 1986, and again in 1991.

The next step, though, under our laws in the United States, in a current case, is the Department of Commerce will then make a determination whether Canada is engaging in unfair trade, and if so, impose duties upon Canadian lumber to offset the dumping and the subsidies. The U.S. Department of Commerce has imposed such duties in previous cases.

The U.S. Congress, I might add, though, has since acted to strengthen our trade laws, and that is something new. One change mandates that the duties collected from Canada under our trade laws will be returned to United States mills, and to those mills that are being injured. That has not been the case in the past.

I think, and I hope as a result of the strong case that, in my view, we have against Canada and because of that change in the law, Canada will more likely be forced to settle the dispute and admit to us that it does subsidize. Unfortunately this is not new, because in the past they have so admitted.

Canada agreed to an export tax in 1986. That is good. It may be a model for the current dispute. But then, as you know, Mr. Aldonas, Canada unilaterally terminated that agreement. They just walked away from it. More recently, the United States and Canada had a 5-year agreement, and that just ended this last March. But Canada circumvented that, I might add, relentlessly.

So there is a certain lack of trust here. There have been agreements. Canada has walked away from them. The past agreement, the most current agreement, has expired. So the question is, where do we go from here?

I do not oppose negotiations. I think negotiations often make sense. But most of those involved in this issue feel that Canada has not lived up to its word in the past and that, therefore, diminishes the effect of negotiated settlement. Again, we did have one and Canada walked away from it.

Canada, I might add, seems to think that it has proposed something new with this most recent suggestion of a so-called Wise Men's group, basically a study group. That is not new. They have proposed that in the past.

In fact, as early as 1984 a suggestion was made that the United States and Canada form such a working group to look at these issues. In 1985, the International Trade Commission actually studied the lumber dispute.

Since then, there have been countless studies, there have been books, there have been articles, and many reports that have been written on this question. In fact, it might be fair to say that some of the damage to U.S. forest products that has been caused by unfair Canadian trade has been offset by the sheer volume of paper that has been used in examining this issue. [Laughter.]

So what will be the new solution? It is hard to say. I do not know. But I personally will fight to resolve this issue in a way that is fair for lumber mills and for workers here in Montana.

I will fight to resolve it in a way that no longer allows Canada to destroy the environment, with devastating effects not only in Canada, but also here in Montana.

I want to stress here, this is not just an issue for Montana. Mills are hurting not only in Montana, but also in Georgia, in Maine, in Oregon, and essentially all over the United States.

Most of my Senate colleagues are demanding swift and strong action on this. It is not just those of us in the Montana delegation, but it is practically universal in the Senate.

For example, last March I asked my Senate colleagues to send a strong message to the administration on this issue, and a majority of the Senate, both Republicans and Democrats, sent a letter to the President imploring him to act quickly to counter unfair Canadian lumber subsidies.

Just last May, I again asked my colleagues to send another strong message. This time, 62 Senators sent a letter to the President doing just that. That letter emphasized that our trade laws, which lumber mills are employing right now to fight Canadian trade practices, must not be weakened in any current, present, or future trade negotiations.

That means not extending provisions that allow unqualified foreign bureaucrats, which often is the case, to undermine U.S. laws, which have been a disaster in the case of the lumber dispute.

It also means ensuring that our laws against unfair trade are as strong as they can possibly be to resolve problems like those that we are discussing today. That is, if other countries were there, they were open, transparent, and there was true competition, we would not need our trade laws. But we have our trade laws because too many other countries are not, so we have to protect ourselves with our trade laws.

And that is exactly what we are doing right here, trying to protect ourselves against unfair Canadian practice.

I might say, I also made the same point directly to Canadian officials. I was in Quebec not long ago and met with Canada's trade minister, Pierre Pettigrew, and made that point very strongly to him. I also met with our new Ambassador to Canada and emphasized, at least as far as I was concerned, I thought this should be a top priority for him as our new Ambassador.

That brings us to the issue of the Commerce meetings with our U.S. Trade Representative and with your boss, the Secretary of

Commerce. As you well know, you have been to some of those meetings.

Mr. ALDONAS. Yes. Absolutely.

The CHAIRMAN. Today, Mr. Under Secretary, I am going to make the same point again to you, and keep pressing it until we solve it.

What our industry is asking is very simple: a level playing field for lumber. That is all. I would like to see an end to this ridiculous cycle. I know the U.S. lumber industry would like to see an end to this ridiculous cycle, a cycle of cases, negotiations, settlements and studies, but nothing effectively is being done, no clear result.

Canada must, once and for all, end its unfair subsidies and end its dumping. Only then will we have an end to this cycle. If Canada, however, is unwilling, the United States must apply the full force of its trade laws and ensure that our workers and our mills are not injured.

We have not always done this in the past. I am hopeful that we will this time and that this administration will not shy away from applying our trade laws in the strongest possible fashion.

So let me say, Mr. Secretary, how much I appreciate your visiting us here in Montana. I very much appreciate it. I might tell your audience that the Secretary told me that his office schedule was a very tight schedule to get to Montana and back. As soon as he saw the schedule he said, well, wait a minute. You do not get the point here. The point is, we just love Montana. It is a mark of intelligence, I might add, Mr. Secretary.

I am glad that you have had a good chance to see part of our State, because I think it is important that you see our mills, see how efficient they are, meet the people who are working in these mills, working to earn a living, supporting, as you see, our way of life in our State.

It is important for you to know that our mills can compete with any in the world, just given half a chance, if the playing field is truly level. If our mills are not allowed to compete fairly, as you have seen or I am sure have a sense of, it is going to be devastating. Already, as you know, a good number of mills have closed, not only in Montana, but nationwide.

In fact, the figures that I have say about 160 mills have closed in the United States this year, 27 of them permanently. That is about 13,000 workers who have lost their jobs just this last year. This year, in the first 3 months alone, 4,000 employees have lost their jobs and more mills are threatened.

Decisions made in Washington about this case have a real-world impact here in Montana, a real effect on people, families, and communities. That is why I am, again, pleased that you are here just to see it firsthand and get a feel for it, that it is not just an abstraction. I am sure you can envision the impact that it always has.

I might say, too, this is very much part of an effort we are participating in in our State, and that is to get more high-paying jobs. We in Montana are not the top of the heap in per capita income, and we want to get there. This issue of Canadian dumping does not help.

For us to have a decent life in our State, to enjoy the great outdoors as you have seen and experienced here, it just helps to have

a decent living and good paying jobs. If we can solve this one, that is going to help us to have good paying jobs.

Anyway, Mr. Secretary, I am very glad that you are here and look forward to hearing what you might have to say.

**STATEMENT OF GRANT ALDONAS, UNDER SECRETARY OF
COMMERCE FOR INTERNATIONAL TRADE, WASHINGTON, DC**

Mr. ALDONAS. Thank you, Chairman Baucus. I have a written statement that I would like to submit for the record, with your permission.

The CHAIRMAN. Sure.

[The prepared statement of Mr. Aldonas appears in the appendix.]

Mr. ALDONAS. But I would like to summarize it orally, if I could.

First, I want to thank you for holding this hearing of the Senate Finance Committee and for inviting me to join you here. I know from personal experience the tremendous leadership that you have shown on international trade issues for the benefit of all Montanans, but also for workers, farmers, and American business men and women across the country.

I know you put your personal stamp on every significant piece of trade legislation that has gone through the Congress in recent years, and it is a real mark of the leadership that you have brought to the Finance Committee, and the Senate as a whole.

I would like to say, on behalf of myself, Secretary Evans, and President Bush, how much we are looking forward to working with you as Chairman of the Finance Committee in pursuing a trade agenda that serves the interests of all Americans, Montanans included.

It is a particular pleasure, of course, to be here amid the beauty of Montana during the last couple of days. We drove up to the border, at Secretary Evans' direction, to check in with U.S. Customs officials, including Rex Edwards up at the Port of Roosville, to check in our lumber monitoring program that is monitoring imports of Canadian lumber, and to visit with Jim Hurst and his crew at the Owens & Hurst Sawmill in Eureka, which was a great experience, a good education for me.

I spoke with Secretary Evans this morning, I was telling you earlier, and threatening to resign and stay here after having spent 3 days out in the weather, but he told me I had to come back, unfortunately.

But, seriously, I am pleased to be here to discuss the administration's approach to trade, generally, and the lumber trade with Canada, in particular, which has been, as you say, an ongoing problem.

It has actually been a problem that has beset the country since Colonial times when these industries were competing over ship spars for the British navy. It has kind of followed the westward development of the country, and it is really particularly poignant here in Montana and the Pacific Northwest.

Where I would like to start, is where we start when we negotiate market access agreements. We do that for the benefit of our exporters on the assumption that the marketplace is going to prevail, and that how trade flows is not going to be based on which government

intervenes to tilt the playing field in the direction of their exporters.

Congress intended our trade remedy laws, as you suggested, Mr. Chairman, to ensure that that basic presumption prevails, that it is the marketplace that is going to govern that the competition is going to be free and fair.

That said, Congress never intended the unfair trade laws as an end in and of themselves, as you have suggested. It is really leveraged to resolve the underlying issues that give rise to the dispute in the first place.

That is certainly an approach that we intend to bring to bear generally to the trade laws, generally to trade disputes, and particularly with respect to the lumber dispute in Canada.

This brings me to the central reason for the hearing, the current friction between Canada and the United States. As you pointed out, in the last 20 years the U.S. lumber industry has filed a series of countervailing duty actions alleging, between the Canadian Federal Government and the various provinces which actually hold the rights to the timber in Canada, that Canadian lumber producers have benefitted from substantial subsidies.

Those cases have led the United States and Canada, as you noted, to negotiate a series of agreements on lumber trade that had the effect of segmenting the market, providing some relief.

But none of those agreements, whether it dates back to the MOU in the late 1980's or the more recent softwood lumber agreement in 1996 that last did anything really to address the underlying compliance or discipline the unfair trade practices that were at issue that were alleged in those cases brought by the U.S. industry.

With the lapse of the most recent agreement at the end of March of this year, the U.S. industry filed petitions alleging, again, countervailable subsidy, but for the first time, also, that Canadian lumber is being dumped on the U.S. market.

Having reviewed the petitions, we initiated full investigations of those allegations a little over a month ago, on April 23, 2001. We are currently collecting the information required by law, which we will analyze to determine if softwood lumber imports have been unfairly subsidized and/or sold at dumped prices.

Given the quasi-judicial nature of the proceeding, it would not be appropriate for me to address any of the specific allegations. But I want to stress the importance that we attach to ensuring that the cases are fully and fairly investigated.

Toward that end, we have signed a seasoned team of case analysts, under the direct supervision of the Assistant Secretary for Import Administration, Faryar Shirzad, to ensure that the investigations are conducted in full compliance with our trade remedy laws.

Senator Baucus, I know you and members of your staff on the Finance Committee know Faryar well and understand my trust in him in terms of how the investigation will be conducted.

I should add a word about the timing of the initial determinations in the cases. If we adhere to the current schedule, the Department will issue a preliminary determination with respect to the subsidies issue on June 27, 2001, about three weeks hence, and a

preliminary determination in the dumping investigation on September 10.

Those deadlines would only be extended if the issues prove extraordinarily complex. But I do intend to ensure that all sides have full and fair opportunity to be heard as part of the proceeding, as you would expect.

With that, let me turn to the possibility of MAC surges in the interim. Both Secretary Evans and I are well aware that both exporters from Canada and importers of lumber here in the United States will be tempted to rush as much lumber to the border as possible in advance of these preliminary determinations that I outlined.

That is why, in direct response to expressions of interest from you, Chairman Baucus, and from other members of the Senate, the Secretary ordered us to establish a lumber import monitoring program.

Under that program we have been reviewing imported data on a daily basis, in trade publications as well, working with Customs officials like Rex in Roosville for any sign of import surge.

When I told Secretary Evans I would be traveling to Montana, he asked me personally to visit the border to make sure that the monitoring system was working. That is what took me to Roosville and to Eureka. I expect that we will be seeing other Commerce Department officials, including myself, visiting the border to make sure that the monitoring program is working.

The Secretary has discussed the trend in lumber imports with his Canadian counterpart here, Pettigrew, regularly, once a week at least.

Now, I do want to stress that we have had the complete cooperation of the Canadian Government as a part of the monitoring program. They did leave in place the export licensing requirements that were required under the 1996 agreement so they could monitor exports on their side.

Now, I want to be clear, they did this in their own self-interest. They understand that a surge of imports at this stage would simply exacerbate the problem and could lead to a decision known as critical circumstances under our laws that would lead to an earlier imposition of countervailing or antidumping duties. So I think they are as interested as we are in making sure that there is no rush to the border in advance of the deadlines.

That said, the Canadians have suggested in recent public statements that they see that lumber imports are up about 20 percent on a seasonally adjusted basis, and that is not inconsistent with what we have been seeing and what we have been discussing with them as well. There is a risk there, from their perspective, that they need to understand.

We have been clear, I think, about what the potential consequences of that are. Secretary Evans and I are not going to feel any compunction about imposing the duties at an earlier basis if the allegations prove true and the sorts of surges that we have seen continue.

While both the Secretary and I appreciate the cooperation we received, we are going ahead with the cases. It is our duty, under the trade remedy laws, to ensure not just that we fairly investigate the

allegations brought before us by the petitioning industry, but also search for solutions, as you have suggested, Chairman Baucus.

That is consistent with our obligation under the law, and it is certainly consistent with the intent of President Bush and Secretary Evans, who spent the bulk of their careers in business. Their approach has been in the marketplaces. It places a premium on identifying problems, finding solutions, and trying to implement those solutions as quickly as possible. Secretary Evans is looking to me to start that process with the Canadians.

I have always felt, in terms of the lumber dispute, that it is the combined issues of not only where we are in terms of trade, but resource management, that are really at play. That really does mean getting down into the underlying research management issues with the Canadians and trying to move them in a market-oriented direction. That is going to require a sustained effort.

We are going to need your support, Mr. Chairman, in doing that. You are uniquely placed, given your longstanding interest in the environment, as well as in the trade issues, to help drive the solution in this process, and we look forward to working with you on that. That is, ultimately, what I think it is going to take.

If there is a new solution here, it is really focusing on the underlying research management issues, working at a technical level to make sure that the differences between the U.S. system and the Canadian systems are ironed out, frankly, so we eliminate any disparity or any illegal subsidy that may be going on as part of the Canadian forest management practices.

So that ought to be our goal here as well, not simply reviewing the case, but really trying to use that as leverage to drive a solution to the problem and end the cycle of disputes with the Canadians, which, at the end of the day, is the largest bilateral trading relationship in the world.

It is something where we are neighbors, something where we share an awful lot. The majority of Montana's exports go to Canada. We would do better if we put this source of friction behind us, frankly. So, we join you in trying to look for a solution.

The CHAIRMAN. Thank you, Mr. Secretary.

Do you agree that our basic goal here is free and fair trade in lumber and forest products in Canada?

Mr. ALDONAS. Ultimately, yes.

The CHAIRMAN. Then how do we get there? I mean, do our unfair trade laws, do you think, help or hinder? How do you think they should be utilized to help achieve that goal, that is, so our mills can compete fairly as long as trade is free and it is fair, it is even, it is level both ways? How do we get there?

Mr. ALDONAS. Well, two things.

The CHAIRMAN. I think that is the goal that most people want to meet.

Mr. ALDONAS. Yes. Ultimately, what the trade laws do under the current circumstance is try and offset the effects of any subsidies that are being offered. But as far as I am concerned, it has always been about giving us leverage to go encourage the other side to end the unfair trade practices.

Frankly, when we have negotiated these agreements with Canada in the past, they have led to solutions which, like I say, provide

some transitional relief to our industry, but have never gotten at the root cause of the underlying friction between our industry and their industry.

The CHAIRMAN. Would you agree that, in order to reach a free, fair, and level playing field for trade on this issue, lumber, that we would eliminate stumpage subsidies that have a trade-distorting effect? Would that be part of it?

Mr. ALDONAS. Without attempting to address the issues in the underlying investigation—

The CHAIRMAN. Generally. The general principle.

Mr. ALDONAS. Sure. If what you find at the end of the day is that there is significant below-cost sales of timber from the Canadian side, if there is any subsidy margin that flows from that, definitely offsetting that, in the first instance, to level the playing field makes an awful lot of sense and has a great deal of appeal. The second step, of course, is trying to use that leverage to encourage the Canadians to move in the right direction.

The CHAIRMAN. What about the log export ban?

Mr. ALDONAS. Well, on the log export ban, I am conscious of the fact that we have a log export ban in place as well.

The CHAIRMAN. It is not nearly as sweeping.

Mr. ALDONAS. Not nearly as sweeping. In both cases, the log export ban was originally designed to address a tariff disparity in Japan. It was not really a cross-border measure.

The CHAIRMAN. Right.

Mr. ALDONAS. The idea was that the Japanese had imposed such a high tariff on processed products, that it literally subsidized the export of raw logs off the west coast of the United States to the tune of, you would see log hauls from 500 miles inland out to the coast for shipment to Japan.

So the log export ban was really designed to offset an unfair trade practice in Japan. It was not designed to differentiate between an industry in Canada and an industry in the United States that are both selling under an integrated North American lumber market.

The CHAIRMAN. So what might the purpose of the Canadian log export ban do?

Mr. ALDONAS. Well, at this juncture, it is interesting. Trade barriers are oftentimes more about investment. The effect of the log export ban is really to leave more investment and more employment on the Canadian side of the border at the end of the day, in part because you do not see getting by American companies on the timber licenses north of the border.

If you bring that competition into the marketplace, it has the effect of leveling the playing field. The elimination of a log export ban, as between our two countries, would be consistent, frankly, with the fact that both sell into an integrated North American market and it would allow American mills, like Jim Hurst's mill, to bid on timber north of the border.

The CHAIRMAN. But you are saying, so long as there additional requirements in Canadian, it will give the effect of helping Canadian mills at the expense of the United States.

Mr. ALDONAS. That is right. It is one element of what the Canadians do.

The CHAIRMAN. Could provincial requirements of cutting, in particular, for non-economic reasons be trade-distorting, too?

Mr. ALDONAS. Sure.

The CHAIRMAN. That is certainly the case in, I am told, Canadian. There are certain tenure agreements, certain agreements with a Canadian mill to have a permit and it has to cut at a certain volume.

Mr. ALDONAS. Yes. The license holders oftentimes are required to cut certain amounts really regardless of the economic circumstances. The net effect of that is not only to drive down prices, but when you really think about it, both from the point of resource management and from the point of whether or not it is going to distort trade, that is the essence of trade distortion, for no economic reasons. Let me back up a step.

The demand for timber is derived from the lumber markets. Anytime you are encouraging the cutting of more timber than otherwise would be required by the demand downstream in the lumber market, you are going to affect prices. That is, in effect, with any condition like this on the Canadian licenses. It brings a lot more onto the market and depresses prices.

The CHAIRMAN. But could environmental subsidies also be an additional distortion of free and fair trade? For example, Canada ignoring certain environmental regulations or not having, say, an Endangered Species Act. Could that also have the effect of being trade distorting?

Mr. ALDONAS. Well, certainly the fact that our industry faces different constraints environmentally relative to the Canadian industry is going to have an effect on their bottom line.

So the fact that they do not have precisely the same regulations in place with respect to spotted owls, certainly, is going to affect the amount of timber that can be harvested out on provincial lands relative to what can come from Federal forest lands. At this point, there is no doubt about that.

In fact, you really put your finger on it, because those are exactly the sorts or resource management issues and the goals for which you manage the forest as a whole that are the essence of this dispute.

That really is the level of detail that we have to get to, I think, to iron things out and encourage the Canadians to move in a market-oriented direction, while at the same time protect the environment.

The CHAIRMAN. Just turning to the subject here, this is basically critical circumstances, which you touched on. I know the statute provides mechanisms to flag countervailing and antidumping duties retroactively when imports surge.

You have already mentioned that Commerce has in place monitoring procedures to determine the degree to which there is a surge. I think you indicated that they, the Canadians, have informally indicated that perhaps it has been up to 20 percent.

Mr. ALDONAS. That is what I understand.

The CHAIRMAN. And that somewhat conforms with your data.

When do you think you will be able to publicly disclose the amount of the surge that is or is not occurring?

Mr. ALDONAS. Well, traditionally we wait to release the public import numbers about 6 weeks after they are brought in. The reason for that, is to ensure two things. One, to ensure that the Census Bureau, which actually collects the data from Customs, has an opportunity to review it and ensure that it is consistent with what we have seen in the past.

The second thing, is that we always compare the import numbers and export numbers because that moves markets. As a consequence, you want to release them, generally, at the same time.

We have some difficulties on the export numbers which delay what we do on the import side that we will be pressing the Census Bureau to do, and I am sure we will, to make sure that we can do an early release of the import data in this instance simply to make the record in the case clear and transparent so everybody can see what we are working with in terms of the numbers on the surge. We are going to try and move that ahead.

The CHAIRMAN. What constitutes critical circumstances? What percent, what volume?

Mr. ALDONAS. I could not give you the exact percentage, Mr. Chairman, off the top of my head. But, frankly, we are talking about a fifth over seasonally adjusted figures. This is a very significant step.

The CHAIRMAN. My recollection is that the basic Commerce benchmark is around 15 percent.

Mr. ALDONAS. There is no doubt that what we are seeing is a significant up-tick in terms of the——

The CHAIRMAN. I understand the 6 months. It would just seem to me, with modern communications and hopefully monitoring technologies, it would not take quite so long to confirm the data.

Mr. ALDONAS. Well, I think we can confirm certain things internally before we can release the data publicly and put it on the public record in a proceeding. What we are trying to do in this instance is press it across that date forward so we can get the information on the record. In fairness, I think, to both the petitioners and respondents, both of them should be able to see the actual numbers.

This is supposed to be a quasi-judicial proceeding, and both of them, I think, are entitled to see the numbers that we are looking at when we say the numbers that the Canadians have released are broadly consistent with what we are saying on a day-to-day basis. I think they need to understand the basis of our decisions when we decide on——

The CHAIRMAN. And how long until we will be allowed to see them, did you say? I have forgotten. You said, 6 weeks?

Mr. ALDONAS. No. It takes 6 weeks after the end of a month, normally, to release the data. I think we can try and push that up to three weeks. So what that would mean, is before you were called upon to make a decision about critical circumstances, you could have two full months of data in front of you that would allow both sides to see, month-by-month, from March through April and through May, the data on which you would make the decision.

The CHAIRMAN. I may be a little slow, but I am having a hard time understanding why it still takes two months. It does not take 2 months to look at it, does it?

Mr. ALDONAS. No. No, Mr. Chairman. I have a hard time, lots of times, understanding that myself. But when I talk with our friends at Census about the way they review the numbers, I think they want to be meticulous.

The reason we want them to be meticulous is because this information, once it goes out into the marketplace, moves capital markets. It is information that Chairman Greenspan relies on when he makes decisions about where we are headed with interest rates. It is things that the White House makes decisions on based on where they are headed.

The CHAIRMAN. I understand. I do not want to belabor the point. Census gets this data.

Mr. ALDONAS. Yes. They get raw data from the Customs Service off the automated broker interface.

The CHAIRMAN. And what does Census do with this raw data?

Mr. ALDONAS. Census takes a look at the data. They look at comparisons of where they have been in the past in a particular industry. They try and verify that the products that have come in are consistent with the documents that have been filed so that, at the end of the day, they have full confidence, 99 percent, that the numbers they are going to report are consistent with what actually crossed the border during a given month.

The CHAIRMAN. Boy. Can you jab them a little to get them moving?

Mr. ALDONAS. Yes. Definitely. Definitely.

The CHAIRMAN. Okay.

Mr. ALDONAS. We are hearing that loud and clear.

The CHAIRMAN. I just think, for everybody's interest.

Mr. ALDONAS. Absolutely.

The CHAIRMAN. If the data is there, it is there. It is probably not going to change that much, the data Census gets.

Mr. ALDONAS. No. I agree with that. I agree with that.

The CHAIRMAN. And particularly if you are up around 19, 20 percent. If you are up that high, so what if it is 19.5?

Mr. ALDONAS. Right. No. No. We are talking about orders of magnitude.

The CHAIRMAN. Yes. All right. So you can do that?

Mr. ALDONAS. Yes.

The CHAIRMAN. I appreciate that.

I am a little concerned about this study group thought that some suggestion. I might say, when I was in Canada, not long ago Minister Pettigrew said that that was a dead issue as far as he was concerned. I hope he is right.

Mr. ALDONAS. Me, too.

The CHAIRMAN. Good. So if we can pass that back, that would—

Mr. ALDONAS. I definitely will. No. I think at this point, frankly, it is either the cases or we are actually negotiating about the underlying problem. Those are the only two routes here, really, to address the underlying issues in the lumber trade.

The CHAIRMAN. All right.

I also understand that there are literally, I guess, hundreds of Canadian companies that are, or will be, asking for exclusions.

They have somehow said, we do not count, is what they are saying, from the subsidy cases. They claim they have got various reasons.

And I also understand that, when the Department of Commerce cannot do individual company subsidy calculations because there are too many of them, that the statute mandates a country-wide rate and does not provide for any exemptions.

My concern is, here, we are going to be besieged, either because it is legitimate or because it is a ruse by hundreds of requests to try to stall you or put you off the track.

Mr. ALDONAS. Right. Right.

The CHAIRMAN. The question is, my guess is that you may not have enough resources to track all of this down. Actually, the practice is, where practicable to do so, you do it countrywide.

Mr. ALDONAS. Right.

The CHAIRMAN. Can you shed some light on that for us, please?

Mr. ALDONAS. Sure. Yes. I fully expect we will see those requests for exclusions from individual companies. In an ideal world, you would be able to take each one up on its merits and judge it according to the criteria and the law and make an assessment about whether a particular company has benefitted from subsidies and, therefore, ought to be a part of any order that is eventually issued.

But when you have an enormous volume, you have to deal with the research management issue in terms of how you are investigating the case. The one thing I do not want the exclusion process to do, is deter us from marching forward to a solution.

Now, I also want to be clear that, while we are making those decisions about exclusions, if a preliminary determination comes down and it is positive in terms of the petitioning industry, cash deposits immediately kick in.

So it is not as if while we are going through looking at individual exclusion cases we necessarily have delayed relief to the industry, if the allegation is pretty true. So there is time that would allow us to go after the exclusion.

Some may have merit. Like I say, in an ideal world we would be able to take a look at every one. But I am very conscious of the fact that we have a limited number of resources, and lumber is not the only case that the Import Administration faces right now. They have a very, very heavy workload as it is.

The CHAIRMAN. I would like to explore with you a little bit about the Byrd rule.

Mr. ALDONAS. Yes. Sure.

The CHAIRMAN. A lot of people may not know about this, but not too long ago the law was changed so that any duties, as opposed to ITC, Commerce, U.S. Government, finding that Canada has, in fact, unfairly dumped, select, subsidized. Any returning duties to the United States would go to the industry, right back to industry, which is new.

Mr. ALDONAS. Yes.

The CHAIRMAN. Whereas, in the past when there has been, say, a 15-percent tax, that does not go to industry.

Mr. ALDONAS. That is right. That is all prospective. It does not really remedy the past injury.

The CHAIRMAN. That is correct. So the law has now changed, which I think is a very good change because now duties would go to those who have been hurt.

My understanding is, there could be a finding of up to, let us say 15, with the amount of Canadian lumber that comes down, in the neighborhood of \$11 million. Is that right?

Mr. ALDONAS. Yes.

The CHAIRMAN. Eleven million dollars worth of Canadian lumber comes into the United States. The majority of their production is exported to the United States, definitely. So, say if there were a 15-percent duty, that is about \$1.5 billion. That is a lot of money.

Mr. ALDONAS. Yes, that is a lot of money.

The CHAIRMAN. It would go to the U.S. industry.

Mr. ALDONAS. Yes. I need to be clear about that. The Byrd Amendment, as it is known, has very specific criteria about what the money can be used for in terms of retooling, retraining, things like that. So, it is not an outright grant with no strings attached.

The CHAIRMAN. Right. Right. Right.

Mr. ALDONAS. From the point of view of the U.S. Government, one of the benefits of the Byrd rule is what it encourages in terms of trying to improve the efficiency of the industry, trying to improve its competitiveness, things like that. It does drive the industry in what is a helpful direction. So, it is not with no strings attached.

The CHAIRMAN. Right. That is right. But I think it is an improvement.

Mr. ALDONAS. Yes.

The CHAIRMAN. In my personal view, it is improvement to help people who have been hurt rather than just put penalty on those who have caused the problem.

Mr. ALDONAS. That is right. There is no doubt that one of the benefits of it, I think, from the point of view of the petitioning industry, is the trade laws have always been prospective in terms of the relief. What this does, is provide some measure of an offset to the injury that has already occurred. Right.

The CHAIRMAN. All right. Grant, I appreciate you coming today.

Mr. ALDONAS. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very, very much.

Mr. ALDONAS. Thanks for having me.

The CHAIRMAN. It's been very helpful. Of course, you know where we are coming from.

Mr. ALDONAS. I do. I do, indeed.

The CHAIRMAN. Good luck.

Mr. ALDONAS. Thank you. Appreciate it.

The CHAIRMAN. Our next witnesses are a panel of several folks: Rusty Wood is chairman of the Coalition for Fair Lumber Imports; Jim Hurst, Owens & Hurst, Eureka; and Rob Luce, Idaho Timber, in Montana.

Good morning. Well, Rusty, I have got you, first, so why do you not go ahead? I appreciate your coming here. Rusty Wood has come a long way. He is from Georgia. We appreciate your coming here, Rusty.

**STATEMENT OF RUSTY WOOD, CHAIRMAN, COALITION FOR
FAIR LUMBER IMPORTS**

Mr. WOOD. Thank you, Mr. Chairman. This is a real opportunity for us to tell the truth. You have been the champion in the Senate for us. We have been thrilled with the support we have gotten from the Senate. Although my Georgia Senators have followed your lead, there has been no question who the leader has been and we appreciate your doggedness on this issue.

My name is Rusty Wood, and I am chairman of the Coalition for Fair Lumber Imports. The coalition represents hundreds of lumber companies throughout the South, Northwest, Inland, and Northeast.

I am also the owner and operator of Tollison Lumber Company, a third-generation, family-owned lumber company out of Perry and Preston, Georgia.

As I said earlier, I sincerely appreciate the opportunity to speak on behalf of the U.S. industry before this panel regarding our long-standing trade dispute over subsidized and dumped Canadian lumber.

Over the past few years, and still today, subsidized and dumped imports of lumber from Canada impair and threaten the viability of the U.S. lumber industry and the livelihood of hundreds of thousands of workers and the investments of millions of landowners.

In the past 9 months alone, according to one independent source, Random Links, we have seen about 160 mill closures in the United States, 27 of them permanently. My mills, in particular, have been running, Mr. Chairman, 4 days a week for the first time in my 25 years.

During that same time, there were reportedly—from the same information source, Random Links—four Canadian closures. Even though Canada controls over 40 percent of North American production, in 2000 U.S. lumber production dropped significantly, almost 700 million board feet of lost production, while subsidized Canadian production continued to increase. The same appears to be occurring this year, to date.

Mr. Chairman, as a sovereign country, we realize that Canada can do whatever it wants. It can give away its timber, it can claim that it is for a full employment policy, or that it is a social safety net. If they want to rip off the Canadian taxpayers, they can do that, too.

But we think that when the result of the policy crosses the border and devastates our industry and causes us the agony and job loss that we are seeing in our industry and the financial failures, then our government should protect us. We ask, and we need, our government to make sure our laws are in force and that our laws are properly defended.

In Canada, timber is not sold, by a Georgia definition. I think to sell something you have to have at least two buyers out there. It is allocated at a provincially set price that is a fraction of the value. You know our position with the coalition has always been, if they will ever competitively sell their timber, then that is all we ask. We can compete with anyone in the world.

But in Canada, a sawmill that has the license and the tenure, no one in the world can buy a tree off that land if they offered ten

times the amount that is paid. No one in the world could buy it. That is subsidy.

The Canadian Government is absolutely propping up their lumber industry and ripping off the Canadian taxpayer at the same time. They are giving away assets that will bring in three and four times as much in a competitive market situation.

In this era of spinning the facts, Canada wants to use free trade because it sounds so wonderful to the press. They in no way are practicing free trade. They are freely dumping lumber, but the other two legs of that three-legged stool are timber and logs. They will not freely trade timber. They will not sell it. They will not freely trade logs. They have a ban on exports. So that free trade only convinces the casual observer. You mentioned fair trade, and we are so appreciative of that.

Canada's use-it-or-lose-it policy is an environmental disaster. Mills up in Canada have to cut a certain amount or they license or lose tenure, or are penalized. In a market that is already swamped, they have to keep cutting and they are dumping on an already bad market.

The loser is the U.S. sawmill or the U.S. timber grower and all of our employees. I have had Canadian sawmill owners, one of them the CEO of a major Canadian Board Products Company, saying that, on use-it-or-lose-it, you are right. We wish we did not have to do that.

You could bring something else up, too. We cannot shut down inefficient sawmills in Canada. In this social fabric, socialist system we have, yes, we get timber.

We do not agree with you that it is as cheap as you say, but we do agree with the fact that we cannot shut down a mill because we have almost a contract with the people, with the community. So, it exacerbates the problem. Forest over-cutting does hurt the environment. It causes job loss and mill closure in the States and devalues our timber.

In my two mills in Georgia, we invested over \$17 million at the end of 1999 in 2,002 already-modern sawmills. I have been at it for 25 years and, for the first time, I can honestly say that we lack nothing in our mills.

Hopefully, that is not coming across as a bragging point, but simply that there is nothing else I can do. I go to work when it is dark, I come home when it is dark, and I work hard all in between. We have 300 employees.

Somebody will invent some machinery down the road that we might have to have, but right now at this brief point in time we have got everything we could hope for. I have never been able to say that in my 25 years. Yet, we lost millions of dollars last year.

We have got the timber, we have got the facilities, we have got the markets, but all of our investment does not compare or compete with Canadian subsidized lumber.

If market prices were realized for that timber in Canada, do we really think that over two-thirds of the softwood lumber used in Florida could come from Canada? I picked Florida because that is as far as you can get away from Canada.

From our Perry, Georgia and Preston, Georgia sawmills, both small towns—Preston, Georgia is a town of 200, and we employ 100 of them. Perry, Georgia is a town of 10,000, and we employ 200.

Oftentimes we are stopped at the crossroads where the trains go by and, in a day's time—certainly not with one train—at either plant, we could be stopped at the crossroads and watch a train pulling a total of over 100 cars a day of Canadian paper-wrapped lumber by our mills, going into towns in Georgia and in Florida. They are not any more efficient than we are. It can only be one thing, and that is subsidized lumber.

In the last agreement, one of my Georgia Senators that I appreciate said that the Canadians were very creative. Because my whole life is on the line in this issue, I am far more blunt: they cheat and have cheated from day one on this issue. They have cheated. I do not even want to use the word circumvent.

They had a little corner off of a piece of lumber and said, that is going to truss manufacturers. They drilled a hole through studs, hundreds of millions of feet came into our country. When a country goes into an agreement with no intent of honoring it, I just have a problem with that. I do not think it is right.

Finally, as chairman of the U.S. Coalition for Fair Lumber Imports, in January of 2000, not this year, but last year, I was invited to go be grilled, I thought, by the business editor of a major, major Canadian newspaper.

Our team pondered that, and I just begged them that it was the right thing to do and that I should go, because it would be our chance to tell them the truth, to tell them what was going on.

I flew up to Canada and, almost before I was seated, the business editor—I would tell you who he was, and will off the record, but I do not want to get him fired—said, we are selling our timber for about 25 to 33 percent of its value. In some cases, there is zero charge for the timber.

Now, this is the business editor of a major Canadian newspaper. Our taxpayers are carrying more of a burden than they should because we are not realizing true market value for the natural resources. We are using timber as a social safety net. We force over-cutting timber by threatening our lumber companies with loss of their license agreement.

He made a few more points and then said, have I left anything out? I was shocked. I thought I was going to go up there and reveal all of these truths that he would not believe. So I said, are you kidding? He said, no, this is the way it is. Do you have anything to add? I said, I really do not. I said, you know. You know. He said, yes, we know. We are a socialist country. We choose to use it. What is the problem? Deal with it.

Well, that was 15 months ago. I also asked him, when would our conversation be in the paper, and would he send me a copy. He wryly smiled and said, no, you will not see that. So, that never got to print.

But I realized they knew, and they were just going to stonewall. British Columbia says that Ontario and Quebec subsidize, Ontario and Quebec say British Columbia subsidizes. The Maritimes, who do try to freely trade in timber, says the rest of the country subsidizes. But in any speech anyone gives, they say we do not sub-

sidize. So, for a Georgia cracker, I get real frustrated with all of that trickiness.

One other thing the business editor said. He said, did you know, Mr. Wood, that Domtar is 12.5 percent owned by the government? I said, no, I did not. He told me some other things and I just kind of faded into oblivion as I was shocked at everything that he said.

Mr. Chairman, we are not fighting for an extra percentage point of margin. On a lot of issues, we are certainly guilty, in any industry, of fighting to benefit us. We are fighting for survival. We can compete with anyone in the world on a level playing field. My employees are scared, the loggers are afraid. We can be eliminated if we go through much more of this.

So, again, you have led the fight and we thank you. I am so encouraged by what the Under Secretary had to say. We need our government to stand up for us. We are the righteous ones in this case.

The CHAIRMAN. Thank you very much, Mr. Wood. We appreciate that.

[The prepared statement of Mr. Wood appears in the appendix.]
Jim, good seeing you.

Mr. HURST. Good seeing you, Senator.

The CHAIRMAN. I look forward to hearing your comments.

STATEMENT OF JIM HURST, OWENS & HURST LUMBER COMPANY, INC., EUREKA, MONTANA

Mr. HURST. Well, Senator Baucus, thank you for inviting me to present my views on the critical issue of subsidized Canadian lumber imports.

I am here today to testify on behalf of my employees and their families. Even though it is too late to help, I would also like to dedicate my remarks to the women and men who used to frequent the lunchrooms of mills, now gone forever.

Mills are driven out of business for a variety of reasons, but in many cases their demise was attributable, at least in part, to increasing lumber imports from a country that subsidizes its lumber industry with the intention of keeping their mills running and their people employed. A noble undertaking. However, Montana and U.S. mill workers do not deserve to have their jobs exported to Canada.

Headlines in The Daily Interlake on Wednesday cite an 8-percent drop in employment and a phenomenal 21-percent reduction in wages for Montana's mill workers.

To this point, the U.S. Government solution has been to retrain or offer some form of assistance, as was the case with my former employees who were laid off earlier this year. That is not correcting the problem. As you know, I have a unique vantage point.

The CHAIRMAN. Right. I do know. I have heard.

Mr. HURST. I cannot get around that one, as my office faces Highway 93 and I view the truckloads of subsidized Canadian lumber heading south. Even when prices are low and we are not able to ship our products, their trucks keep rolling.

I also know several Canadian mill owners and I have a decent understanding of how their system works. One of their annual concerns is how much of a raise they will give their employees, while

on this side of the border we worry about how many employees we will be able to retain.

Obviously, Canadians worry about lumber markets. But, interestingly enough, none of the significant quota holders I am familiar with have ever shut their door or ever gone to auction, which is an annual event here in Montana. Could cheap government timber be the reason?

I have purchased both private and provincial logs in B.C., Alberta, and Saskatchewan. In the early 1980's, a pine beetle infestation occurred north of Glacier Park and west of Waterton in an area reserved for Pressbrook Forest Industries.

As I was informed, CFI refused to log the dead and green material. In fact, they offered to take it off the government's hands, but expected to be paid to do so. As a result, the B.C. Forestry decided to open up the wood for bid to anyone.

To summarize, we bought millions of board feet, hauled it 100 miles through CFI's mill yard to ours. Those were the cheapest logs I have ever received, and probably saved us from bankruptcy, as the lumber market was horrible at that time and we had an inefficient mill and were facing 22 percent interest rates.

I recall that the stumpage was about \$6 to \$10 a thousand, about one-tenth of what it was in the United States. We have never been allowed to bid on B.C. timber since.

In Alberta, U.S. mills help raise the value of private timber approximately tenfold, when we went up to 300 miles north and bought wood, hauling it past several Canadian mills to Eureka. Why? Because Canadian mills were, and are, getting their government timber so cheap they do not have a need for private logs like we do.

In 1998, 1.3 million acres burned north of Edmonton, Alberta. My company again purchased millions of board feet of this material and exported it in order to keep our employment levels up.

This was provincial timber. We were allowed to export the small, burned wood that the Alberta mills did not want. They preferred green timber and the larger burned trees. This endeavor involved a 500-mile haul one-way from the northwest of Edmonton to our mill. Driving to Missoula to Seattle is only 470 miles.

Obviously, the price paid for the timber was ridiculously low to allow a haul such as that. I believe this was the first time Alberta provincial timber or provincial logs have been exported to the United States. It is a temporary situation. In fact, after my testimony today, it may be a very temporary situation.

Do Canadian provinces subsidize their industry in the form of low stumpage prices? Yes. My experience has proved that. Do they do it for the right reasons? Yes. They understand the correlation between a healthy timber industry and a healthy economy, a connection that is somehow missed in the United States.

Have their trade policies injured my company? Yes. Last year, we experienced the most severe losses in the 22-year history of our business.

Let me emphasize that all the blame for this economic holocaust should not be directed at the Canadians. Local, regional, and national environmental groups in the United States have played a huge role in creating this mess by relentlessly stopping timber har-

vests on our national forests. They have restricted our supply, driving family-owned mills like mine out of business.

They are also responsible for exporting mill jobs to Canada and leaving our industry in such a weakened condition that, during severe market downturns like we recently experienced, the onslaught of subsidized Canadian wood provides the killer blow to our industry.

The environmentalists have set us up for failure and, in the meantime, have driven timber harvesting to other countries who do not have the stringent environmental regulations that we do.

Rather than allow common-sense timber harvest in our national forests so that we can maintain or enhance our market share, they have contributed to Canada's increased market share. The environmentalists have created a situation that allows a double-whammy, especially to the small independents.

Nevertheless, cracking down on the Canadians will provide a tremendous benefit for the Montana mill workers who still have a job. It will allow mills to raise or maintain prices on a meager amount of lumber they produced from U.S. Forest Service logs.

I do not want the flow of Canadian lumber to stop, but I am sick and tired of losing customers as a result of Canadians undercutting our price. I am fed up with them circumventing the intent of the last agreement by drilling a hole in a stud.

Most importantly, it is not fair for the women and men of Montana's troubled timber industry to look to the U.S. Government for leadership, only to be told they are laid off. That has to change immediately.

To conclude, in Canadian football they have 12 players and a longer and wider field. Lumber producers in the United States are trying to compete on that field with 11 players and no substitutes. Even Joe Montana could not win under those circumstances.

I absolutely detest any more government intervention into the private sector. However, in this case, our northern trading partners need to be forced to play football on a field of our dimensions, or suffer the consequences. Otherwise, our mill workers will continue to be sacrificed for the betterment of their counterparts in the Canadian provinces.

Senator Baucus, thank you again for allowing me to testify. If I can be of further assistance, I stand ready. I appreciate your efforts to right this wrong. My employees and I wish you Godspeed.

The CHAIRMAN. Thank you, Jim, very much.

[The prepared statement of Mr. Hurst appears in the appendix.]

The CHAIRMAN. Rob?

**STATEMENT OF ROBERT D. LUCE, GENERAL COUNSEL, IDAHO
TIMBER CORPORATION, WHITEFISH, MT**

Mr. LUCE. Thank you, Senator Baucus. It is certainly a pleasure to be back in Missoula again. After listening to Jim's comments, I now understand why the University of Idaho cannot beat the University of Montana's football team.

We certainly appreciate being able to share our thoughts, which we have a unique perspective. There is a reason that I am sitting between my two good friends to the right and to the left.

Our company is a small, privately-held company headquartered in Boise. We operate plants in 8 States, 12 operations, including the one in Whitefish, Montana, which is why I am here today.

Of those plants, three of them are primary sawmills, like Jim's plant and like Rusty's plant. Nine of them, though, are so-called re-manufacturing plants, secondary plants.

Those secondary plants are the heart and soul of our company and home to 900 employees, including 50 in Whitefish. Because of our Federal timber policies, we cannot purchase enough raw material in the United States to keep those remanufacturing plants open and are, therefore, dependent on buying lumber from other places, including Canada. We purchase approximately a billion board feet of low-grade lumber from Canada every year to keep those plants open.

So on the one hand, I feel very strongly with the coalition and Mr. Hurst and the primary sawmillers in the United States, and on the other hand, I am sandwiched in between in needing Canadian lumber as well to keep our remanufacturing plants open. So, I am caught right in the middle between very good friends on this side of the border and very good friends on the other side of the border.

What we would like to see, Chairman Baucus, is a fair, reasonable result, a level playing field for everyone. This last time around with the softwood lumber agreement, that agreement was not fair to our company.

The quota system that was put in place with that agreement disproportionately affected low-grade lumber from Canada. It was simply a course of Economics 101. The Canadians could only ship a certain amount of lumber, therefore, they shipped the highest-value lumber, first, then they shipped the low-grade lumber last. The low-grade lumber is what we need to survive on.

So what happened, is we were essentially double losers under the quota agreement. We could not purchase low-grade lumber from Canada. When we could purchase it, we had to pay more for it.

Then, because the sawmills in Canada needed a place to go with that product, they ended up building remanufacturing plants in Canada. So, we ended up with competition that was subsidized that bought raw product cheaper than we could, then sold it to our customers in the United States.

So our request this time around as we move forward would be, Senator Baucus, for Commerce to be extremely careful in crafting whatever comes next. The quota system may have worked well for certain segments of our industry, but for certain other segments in the forest products industry it was not a very good agreement.

So we are very much in favor of free trade. It needs to be fair and there needs to be a level playing field. We do not want to see the quota reinstituted or extended in any way at all, but certainly are willing to see what occurs with the CVD/AD Commerce investigation. We are very willing to see what happens out of that, and hopefully see both sides come to the bargaining table to come up with a reasonable result.

The last point I would like to make, and you actually already made it for me, Chairman Baucus, is the number of exclusions that we are seeing. I am on the mailing list now in that investigation

and I will literally receive 4, 5, 6 inches of legal-type documents almost daily. Most of them occurred around the 21st. But it is requests by Canadian companies or by Canadian provinces to be excluded from the AD/CVD investigation or result.

Given our past experience with drilled studs, notched lumber, component truss stock, you name it, whatever the Canadians came up with to circumvent the last agreement, one of our major concerns is that any new exclusion or exemption will be exploited to the fullest.

If Commerce allows a single exemption, somehow that will be used by everyone to circumvent whatever agreement or whatever result we try to come up with to level the playing field. So, we would urge you to help be our watchdog in Washington and make sure that the decisions there are truly fair and equal for all of us.

We appreciate very much your efforts to date, especially for bringing this hearing to Missoula and for letting us present testimony to you, and for bringing Mr. Aldonas out here to see the effects of subsidized lumber, and especially, in our case, the quota.

So thank you, Senator Baucus. We look forward to working with you.

The CHAIRMAN. Thank you, Mr. Luce, very much.

[The prepared statement of Mr. Luce appears in the appendix.]

The CHAIRMAN. You sort of touched on a basic question I had, namely, they circumvented, cheated, whatnot. What is the solution here? I mean, if there is an agreement, you touched on it, Mr. Luce, to make sure there are no exclusions so there is no way for them to drive a Mack truck through an exception, exclusion, or something.

I understand how the quota hurt you to purchase low-end, or lower end compared with the higher, and so forth. I suppose some kind of a solution here is going to have to result in stumpage that is competitive, and dealing also with the ban on logs, the tenure system, and so forth.

But you are right. I mean, we have reached agreement and, to be honest, they did not live up to it. They cheated. So what solutions or what ideas do you have? We have got this pending case, and we have the Byrd rule, which I think is a little additional leverage.

What is a solution that you think would make sense so we are not going around this mulberry bush again, and again, and again? I would open that to all three of you.

Mr. LUCE. I guess I will take a first stab at it, if that is all right. From talking with friends on both sides of the border, coalition members as well as sawmills in Canada, we need to look, as an industry, I believe, more globally, more of a North America solution.

The forest products industry is seeing competition from plastics, from steel, from a number of other products that may be viewed more environmentally friendly than wood is at the present time, which is very odd to me.

I think we need to maybe use the softwood lumber agreement and the investigation as a way of bringing the industry in North America together on a common issue, such as, wood is good, to promote wood as a renewable resource and to work together.

Ultimately, we can put a Band-Aid on this as many times as you would like, but if we truly are going to compete on a level playing field, Canada needs to move to a free market, free-based system, whether that is stumpage, logs, or whatever you are talking about.

I do not think we can get there tomorrow. You are probably going to have to see this occur in stages. But in my conversations with folks on the other side of the border it looks like there is a willingness this time around to at least talk about that, to stage in certain provincial changes. If this occurs with stumpage, then the CVD is lessened. If this occurs, then something else happens.

So that, ultimately, 2 years, 3 years, 5 years, I do not know what it will take, you ultimately get to that level playing field and we are all working together in North America in terms of marketing environment, harvesting, processing, all of those things, because really, as an industry, I see our major threat as wood coming from Europe, from New Zealand, and from other alternative products.

The CHAIRMAN. How does that get started? How does one move in that direction? Presumably, a so-called study group kind of could get in the way here.

Mr. LUCE. I am not in favor of the study group. I want to be very, very clear on that. We were left out of the last go-around, and we are not going to get left out this time. So, I am not in favor of a study group, but I think this case could be used as a forum to move in that direction.

The CHAIRMAN. Jim or Rusty?

Mr. WOOD. I have a definite opinion on it. Obviously, a volume-based agreement, which we had, is not going to be honored by Canada. They have shown their colors there.

We want to go to a competitive market in Canada, and I really think it will happen in our lifetime due to your efforts, but it is not going to happen right away. If we have another year in our industry like last year, we are gone, we are eliminated as an industry. That is not an exaggeration. We cannot take those losses.

My father-in-law, who passed away in 1990, told me that I should really get concerned when the bankers quit laughing at my jokes, and they have this year. One of them from Bank of America visited us a month ago and said, I am not interested in financing losses. So, he is now not banking us.

I think that tariffs have to be put on incoming Canadian lumber, where there is no trickery involved. I think, if our resolve is firm both from Congress and from Commerce, what really will happen will be negotiation.

I think B.C. seems to be farther along than Ontario and Quebec as far as free markets and is willing to consider it, whereas, 5 years ago when I was in Colona, British Columbia during negotiations I did not think it would ever happen.

So, there is progress. But a volume-based agreement did not work, and will not work. So, I hope that we allow the legal process to continue unless they come to the table.

The CHAIRMAN. All right. Jim, what are your thoughts on this? What is the ultimate—not ultimate. That is too far down the road. What kind of makes sense here?

Mr. HURST. Six weeks is quite a ways for me. If people cheat, then you fine the hell out of the individual companies. That is a

real great incentive not to cheat any more. I think that is about as simple as I can make it. If Canadian producers are not abiding by whatever regulations we have, we fine them, and fine them severely, and they will stop. Do you agree, Rusty?

Mr. WOOD. I agree. My concern, Jim, is that in Canada, business and government are such partners up there. I wish we had that down here without intrusion. But I think it was an institutionalized scam on their part, the partnership.

The CHAIRMAN. Some in industry suggest to me that there is over-supply worldwide, and Canada might be causing part of this. It is hard for Americans to compete in foreign markets now that, earlier, were there. Like, Sweden now is competing in markets against American producers.

That is not really a subject for this hearing, but I guess I am just curious on what thoughts you have there. Clearly, Canada is an egregious violator, and that has got to stop. I guess my question is, if it does stop—and again, Jim's point, too—the U.S. practices are modernized.

I say modernized, because I was just a couple of days ago up at Cedar Lake, and they were cutting down dead, diseased timber using light-on-the-land kinds of techniques which I was very impressed with. I do not know why it cannot be utilized much more on this categorical exclusion that we are trying to straighten out, and things like that.

But say we do what needs to be done. Will the world excess commodity still be a problem, assuming there is one? Maybe there is not. I would just ask you your thoughts on that.

Mr. WOOD. Well, 95 percent of the imports of the lumber into this country is from Canada.

The CHAIRMAN. Ninety-five percent of lumber imports are from Canada?

Mr. WOOD. Yes. Austria and others import lumber, but all of it, together, is 5 percent. So is there over-production of lumber in the world? If there is, then the efficient mills and companies should prevail. I think the mill I visited yesterday, Jim's, would prevail if the playing field was level. Then it is fair.

The CHAIRMAN. All right. Thank you.

Mr. HURST. There is only one place. I mean, we can compete with anybody in the world. But after you get the resource price down to bare bones, then the only thing left to give on is wages. That is the only kicker. So if we can drop the standard of living in the United States, we can compete with anybody in the world.

The CHAIRMAN. Well, I thank you all. You are obviously real good competitors, fair competitors. You want to do what is right, both for your community and the industry, and you do not want to take advantage of anybody. You just do not want people taking advantage of you. That is where I am, and that is our goal. Thank you very much. Appreciate it.

We are going to recess temporarily for 5 or 10 minutes, then come back.

[Brief recess.]

The CHAIRMAN. All right, folks. Let us resume the hearing.

We have one final panel. I apologize for the delay. This is a panel of employees, and also a person who is going to express environ-

mental concerns. Of course, this is where the rubber meets the road, is the employees and the people of our State who are serving and trying to help out and make sure they are not disadvantaged.

First, Don Serba with the Pulp and Paperworkers Resource Council; Bruce Morris, Carpenter's Union; and Joe Scott, with the Northwest Ecosystem Alliance.

Let us begin. Don, why do you not begin and we will let her roll.

STATEMENT OF DONALD SERBA, SPECIAL PROJECTS DIRECTOR, PULP AND PAPERWORKERS RESOURCE COUNCIL'S ROCKY MOUNTAIN REGION

Mr. SERBA. Well, Senator, it is nice to see you again. We do get to Washington every once in a while. It is always nice when you can get back.

Senator Baucus, members of the panel, ladies and gentlemen, I am privileged today to have this opportunity to express labor's concerns on a recently expired Canadian softwood lumber agreement and the adverse effects subsidized Canadian lumber had, and is having, on U.S. workers and the businesses that employ them.

My name is Don Serba. I am a special projects director for the Pulp and Paperworkers Resource Council's eight-State Rocky Mountain Region.

The PPRC is a national grass roots labor organization, representing over 350,000 working men and women in the pulp, paper, solid wood manufacturing industries and related businesses.

I am also employed by Smurfitt Stone Container here in Missouri, and am a member of Local 885 of the Paper Allied Industrial, Chemical, and Energy International Union.

As you know, the 1996 United States-Canada softwood lumber agreement expired on March 31st of this year. The agreement addressed, in part, the disastrous effects of Canadian lumber subsidies on U.S. lumber producers, workers, and forest landowners.

Canada gives its timber to companies based upon a formula created to ensure full employment of Canadian workers. The provincially set stumpage rate in Canada is approximately one-third to one-quarter of the market-set rate in the United States.

The previous three administrations have all found that Canadian producers have benefitted from enormous unfair labor subsidies and have taken action to establish a level playing field over the years.

U.S. workers and businesses need the Bush Administration to offset these unfair Canadian subsidies as well. There are over 700,000 primary employees that depend upon lumber and wood products companies for their livelihoods.

The U.S. lumber industry and its workers are facing a major crisis. Lumber prices, as of January of this year, have collapsed by 33 percent, while subsidized imports have grown to record levels. Roughly 35 percent of the \$20 billion in softwood used in the U.S. construction trades and pulp and paper manufacturing current comes from Canadian forests.

Canadians have slowly gained U.S. lumber market share which stood at less than 20 percent just two decades ago, a large part, in my opinion, due to the collapse of the U.S. Forest Service timber

sale program, through over-zealous environmental regulation, and litigation by extreme zero-cut environmental organizations.

With hundreds of sawmills closing permanently or indefinitely due to subsidized shipments from Canada, our government officials should insist that foreign companies play by the same rules that U.S. companies must follow by eliminating or offsetting unfair subsidies.

U.S. trade laws are designed to protect the American worker by creating a level playing field against unfairly subsidized and dumped imports that threaten our jobs. If we are to have free trade between the United States and Canada in lumber, we must also have free, open, and competitive markets for timber in Canada as well. Absent free trade and fair trade, the United States must take action.

To open our lumber market unilaterally while allowing Canadian provincial governments to continue subsidizing their mills would not only be unsound trade policy, but devastating to U.S. workers, businesses, and, in the long run, for U.S. consumers. This issue is very important to workers, mill owners, and forest landowners throughout the entire country.

One way to deal with this matter is to have the governments of the United States and Canada negotiate a transitional, or bridging, agreement to offset the impact of the subsidies until Canada can institute systemic reforms for selling timber and move the provinces to market-based competition. We must also establish a sustainable science-based timber sale program on our own Federal timberlands.

American labor is not going to downplay the importance of free trade policies with countries around the globe, and especially not with our North American neighbors. But American labor is very concerned with making sure our trade policies contain fair and equal treatment of American workers and businesses concerning foreign imports.

In closing, I would like to leave you with a quote from Teddy Roosevelt, who said, "And now, first and foremost, you can never afford to forget for one moment what is the object of our forest policy."

That object is not to preserve the forest because it is beautiful, though that is good in itself, nor because they are refuges for wild creatures of the wilderness, though that, too, is good in itself. But the primary object of our forest policy in the United States is the making of prosperous homes. Every other consideration comes as secondary." Thank you.

The CHAIRMAN. Thank you, Don, very much.

Bruce, you are up.

STATEMENT OF BRUCE MORRIS, UNITED BROTHERHOOD OF CARPENTER AND JOINERS OF AMERICA

Mr. MORRIS. Thank you, Max. I am here today representing the United Brotherhood of Carpenters and Joiners of America, the UBC, a union with 550,000 members in the United States and Canada.

I live in Missoula, Montana and have been a UBC member for 22 years. I am currently employed by the Pacific Northwest Regional Council of Carpenters as an organizer.

UBC members are employed in construction, the millwright trades, and in a wide variety of forest products and manufacturing plants. We would like to thank Senator Baucus for his steadfast leadership on the issue of government-subsidized, below-cost Canadian lumber imports.

Subsidized Canadian lumber imports, in our view an unfair trade practice, has been a longstanding and very intractable problem for the entire U.S. forest products industry, and for the hundreds of thousands of workers and their families who depend on this industry for employment.

According to the Bureau of Labor Statistics' 1999 estimates, there are 184,000 workers employed in the U.S. sawmilling/planing industry. The risk of job loss due to the long-term impacts of unrestrained, below-cost Canadian lumber imports, however, goes well beyond this core group engaged directly in lumber manufacturing.

Potentially, nearly 700,000 jobs could be impacted if one considers employment in the logging industry and the array of wood products and fabricated wood products beyond lumber.

First, it should be stated that, despite vigorous denials by Canadian lumber producers, unfair trade subsidies have been a well-established fact for many years.

In a 1986 case, the U.S. Department of Commerce imposed a 15-percent duty on Canadian softwood lumber imports to offset stumpage fee subsidies identified in the countervailing duty complaint filed by the U.S. industry.

Again, in 1996, another countervailing duty case produced a finding that the Canadian Government continued to provide a subsidy to Canadian lumber manufacturers. In fact, the U.S. Government was once again prepared to impose a 15-percent duty when negotiations commenced in earnest to produce the 5-year United States-Canadian softwood lumber agreement.

Subsidies come in the form of lower-than-market timber stumpage fees charged forest products corporations by provincial governments for timber harvested from Crown lands.

One study done as recently as 1990 found that timber stumpage fees in coastal British Columbia accounted for only 28 percent of the cost of open-market timber sold south of the border in Washington State.

The difference was \$90 per thousand board feet versus \$325 per thousand board feet in Washington's west side region. The differential between stumpage fees and log costs in the Rocky Mountain region is nearly as large.

In Alberta, stumpage fees average \$75 per thousand board feet, while comparable logs purchased through the open-market auction mechanism in Montana were costing \$195 per thousand. These are very large and significant cost differentials that exist between the two countries.

The sheer magnitude of the cost differences for raw material helps explain why this issue is so very critical to the long-term survival of the U.S. forest products industry.

The Carpenter's Union conducted a small, two-State study of softwood sawmill shut-downs during the 5 years the softwood lumber agreement was in place. We examined all permanent sawmill closures in Washington and Oregon and received Trade Adjustment Act certification as being significantly impacted by Canadian lumber imports.

Our small study identified 52 mills that closed, which impacted a total of 4,900 workers. Even with the SLA in place, many thousands of workers lost their jobs because lumber customers switched from U.S. lumber to government-subsidized Canadian lumber.

In Montana, hundreds of workers at Stimson Lumber's Bonner Mill, Owens & Hurst Lumber in Eureka, Crown Pacific & Superior, Northern Cheyenne Pine in Ashland, American Timber in Olney, and Pyramid Lumber in Sealey Lake have lost their jobs due to Canadian lumber imports.

These job losses have been certified by the U.S. Department of Labor under the government's transitional adjustment assistance program.

The United Brotherhood of Carpenters is a party to the countervailing duty and antidumping cases filed with the International Trade Commission and the Commerce Department in conjunction with the Coalition for Fair Lumber Imports.

Those investigations, in our view, will show, as they have done in the past, that the Canadian Government provides large subsidies to Canadian lumber producers, even significantly higher subsidies than the 15 percent findings in 1986 and 1996.

The problem with these cases is the elapsed time it takes to arrive at a final ruling and the imposition of a countervailing/antidumping duty to offset the subsidy.

Our union appreciates all that you have been doing, Senator Baucus, on this issue in the U.S. Senate, and especially with the Bush Administration to urge aggressive pursuit of bilateral trade negotiations with Canada to produce a new agreement on wood products that addresses the underlying causes of this contentious debate.

We understand that it takes agreement from both countries to enter into trade talks, but we also understand that the current administration is in a position to elevate this trade issue to a higher priority by linking it to broader diplomatic and trade issues that are of interest to the Canadians.

The way the administration reacts to each step or announcement in the ITC and Commerce Department investigation is also immensely important. On one hand, the administration can demonstrate determined resolve to immediately implement the full extent of any offsetting duties identified in the investigation, and that they will vigorously defend the findings at the highest WTO level, if necessary.

On the other hand, the administration can be rather silent and ambivalent throughout the investigation. Obviously, the former posture provides stronger signals to the Canadians that it would be in their best interests to move toward genuine trade negotiations.

Our union has done some serious thinking about how trade negotiations with Canada should be framed. We present these ideas and proposals because they should become a part of the public discus-

sion concerning the needs and desires of U.S. citizens who are directly impacted.

One: Trade talks between the United States and Canada concerning forest products should include all Canadian provinces, not just four provinces, as was the case under the SLA.

Two: The United States and Canada Governments should open the negotiating process to review input from interested and impacted citizens and organizations.

Three: Inasmuch as the Canadian Government subsidy to the Canadian forest products corporations impacts the cost structure of all wood products manufactured by those companies and shipped to the United States, the U.S. position should be to discuss all Canadian imports made substantially of wood products.

For example, this would include such products as board products such as plywood and OSB board, wood trusses, wood molding products, and prefabricated panelized wall sections for construction, like we are seeing coming down from Canada right now up in Great Falls on Malpston Air Force Base.

Four: The discussion should revolve around mechanisms such as full market pricing to offset the government subsidized cost differentials implicit in the provincial stumpage fee systems. It should not be a discussion of volume quotas.

These mechanisms would apply to all volume shipped to the United States, not just volumes exceeding 14.7 billion board feet, or some other arbitrary number. The system arrived at should be open to outside inspection and review.

Five: Any agreement should provide incentives to the Canadians for meeting certain benchmarks regarding a phase-in of a market-based stumpage fee system. These might take the form of reduced import fees on Canadian wood products shipped to the United States.

Six: The United States should place on the table a proposal to eliminate the subsidy accorded to Canadian forest products corporations by virtue of forest management practices and requirements that are substandard when compared to forest practices in other developed countries.

This would include an initial third-party, independent investigation of Canadian forest practices regarding sustainable harvest schedules, wildlife habitat protection, clean water, soil stabilization, diversity of the forest ecosystem, and the effect that volume-based harvest and tenure practices have on general forest ecological health and sustainability.

Finally, Canadians should establish a plan and an enforcement procedure for achieving benchmark goals for the equalization of the cost differentials that arise under the two systems and for upgrading the forest management practices identified as substandard when compared to the forest practices utilized in other highly-forested developed countries.

Senator Baucus, I would like to thank you for the opportunity to testify at this important field hearing and to give our vision of what a long-term solution might look like. We are hopeful that an agreement can be negotiated that will benefit the hundreds of thousands of workers employed in the wood products industry.

Thank you.

The CHAIRMAN. Bruce, that was really good. You had a lot of good ideas there and I really appreciate that very, very much.

Mr. MORRIS. Thank you. I have got a written copy.

The CHAIRMAN. I bet you do.

All right. Joe?

STATEMENT OF JOSEPH SCOTT, NORTHWEST ECOSYSTEM ALLIANCE, BELLINGHAM, WA

Mr. SCOTT. Thank you very much, Senator Baucus, for not only taking the point on the softwood issue, but for being a forceful advocate for integration of environment with trade. That is a voice that is only too rare in the Senate and the House, but a voice that is increasing because of your leadership efforts. We appreciate it.

I also want to acknowledge Greg Mostel for bringing his expertise and knowledge about this issue to bear, because I think that is going to be the way we are going to solve this.

The CHAIRMAN. That is right. We are lucky to have him.

Mr. SCOTT. I agree.

Anyway, my name is Joe Scott. I represent the Northwest Ecosystem Alliance. We are a regional conservation biology-based group out of Bellingham, Washington. We have approximately 10,000 members

We are engaged in the softwood issue by virtue of the fact that we share common ecosystems, of course, with Canada and, of course, the hundreds of forest-dependent species that are dependent on sound ecosystem management on both sides of the border.

There is no way that we can conserve grizzly bears, marmosets, and lynx, and all the other creatures that have been backed into this corner of the world without Canadian cooperation. To the extent that Canada is managing its forest on an unsustainable basis, it makes that job that much more difficult.

But it is undeniable that Canada provides huge perverse subsidies to its timber industry. Independent studies estimate these direct financial subsidies, primarily in the form of lost revenues due to low stumpage rates, to be in the range of \$2 to \$3 billion annually in British Columbia alone. We talk a lot about B.C. because it is the largest exporter and producer of softwood lumber in Canada.

Recent provincial government reports show rampant abuse in the timber pricing system. That legally enables large logging companies to cut trees for as little as 25 cents a cubic meter, or \$10 for a fully-loaded log truck. A cubic meter is a telephone pole worth, for you metricphobes in the room.

Estimates of the cost of this practice alone indicate a net loss to citizens and a net subsidy to the industry of \$6 billion since 1993, only in British Columbia. A recent report by the Sierra Legal Defense Fund shows that at least 30 percent of the wood logged in the interior since 1997 went for the 25-cent minimum. It is no wonder that U.S. mills cannot compete.

The CHAIRMAN. What percent was that?

Mr. SCOTT. Thirty percent. That is just the interior. That is not counting coastal producers, which is a totally different story.

The CHAIRMAN. Right.

Mr. SCOTT. These public forest give-aways are being enabled by a set of policies that turn a blind eye to the protection of water quality, fish, wildlife, and human environment and make a sham out of democratic process on both Federal and provincial levels.

Moreover, the Canadian Governments are ignoring their international obligations to protect shared fish and wildlife species and whitewashing ancient forest liquidation with a brush that paints a picture of sustainability and environmental stewardship.

Contrary to Canadian rhetoric, theirs are not the greenest logging practices in the world. Far from it. For example, British Columbia is logging 190,000 hectares of old-growth forests annually, which translates to about 418,000 acres. I do not know how many football fields that is, but that is a lot of football fields.

By conservative government estimates, that is 20 to 40 percent higher than sustainable levels, just from a commodity production standpoint. We are not even talking about ecological considerations.

It is paying forest companies to build between 5,000 and 10,000 kilometers of roads annually, forest roads. Anybody who is familiar with grizzly bear issues knows that grizzly bears and woodland caribou cannot stand that kind of logging and roading. It destroys habitat.

It is still cutting to the banks of some fish-bearing streams, in direct contravention of Canadian Federal law and in violation of the Canadian-United States Pacific Salmon Treaty.

Ontario has recently proposed raising the legal size of clear-cuts in the province to 10,000 acres. Incidentally, there is a clear-cut outside of Prince George that is five times the size of the City of Toronto.

The B.C. provincial government has identified logging impacts as the greatest single cause of salmon habitat destruction. That is not environmentalists, that is the provincial government.

In volume-driven B.C., there are policy caps on a degree to which protection of at-risk species and biodiversity can affect the annual allowable cut, 4 percent and 1 percent, respectively.

That means, in the protection of biodiversity, according to the Forest Practices Code and Endangered Species, those things cannot exert more than a 4-percent downward pressure on cut loads.

The vaunted Forest Practices Code, which is a conservation catch-all enacted in 1995 and eviscerated in 1996, is limited by inadequate mechanisms and by policy in the degree to which it can affect the AAC, not more than 6 percent.

Canada still does not have endangered species laws, despite a list of more than 360 endangered plants and animals, 80 percent of which share range and habitat with the United States. Most importantly, logging is taking place on unceded traditional laws of first nations.

According to noted bull trout scientist James Bergdahl, "A number of independent studies have shown the B.C. Forest Practices Code to be largely ineffective in protecting critical salmon habitat."

In a February 2000 letter to the Ministry of Forest, Donna Petrachenko, who is director general of the Pacific Region of the Federal Department of Fisheries and Oceans, wrote, regarding the protection of S-4, 5, and 6 streams under the Forest Practices Code:

“My staff informed me that current logging practices in this province rarely provide riparian leave strips or setbacks that adequately protect these streams.” For these stream types, even private lands in the United States receive better riparian protections.

The most damning indictment of the B.C. forest practices comes from large mammal biologist Brian Horejsi, who, referring to provincial policy to protect no more than 10 percent of old-growth forest habitat, regardless of ecological consequences, said that, “The effect of this one rule is to prolong unsustainable harvest and physically deplete old-growth forests. The ecological consequences for old-growth associated and dependent wildlife species, including caribou, are and will be severe.”

Cut levels, not conservation, are the filter through which all forest management decisions must pass in B.C. and the other provinces. The result is grossly unsustainable logging levels, a gutted Forest Practices Code, a gutted bureaucracy, low morale in the Ministry of Environment, and substantial additional subsidies to the Canadian timber industry.

The system actually incorporates incentives for bad logging practices. For instance, the more roads and landings a company builds, the less stumpage it pays. Conversely, if a company is trying to practice low-impact logging, that company pays more for stumpage.

The nexus of trade and the environment in the context of United States-Canada forest products trade is clear and unequivocal. Nearly 80 percent of the forest products generated in Canada, including half the trees cut in British Columbia, are exported to the United States.

Over 90 percent of all of those products come from old-growth or primary forests, and the predominant form of logging technique by far is clear-cutting.

Our two countries share hundreds of watersheds, thousands of species, many of which are threatened with extinction. A great many of these are inextricably linked to old-growth and undisturbed forest habitats. Many, such as the grizzly bear, salmon, woodland caribou, bull trout, and lynx exist at the southern fringe of their present range in the lower 48 States and southern Canada.

For others like the Northern Spotted Owl and the Northern Goshawk, to a lesser extent, Northern Goshawk winter range, extends into southern B.C. only. The border region is their northernmost home. Dozens more migratory birds depend upon diligent stewardship in both countries.

The fate of the intricate marine food web of the Pacific Northwest, where the killer whale is king, is ultimately tied to the production of our rich, old-growth forests and watersheds. I do not think I need to describe that. The tie is pretty concrete.

Canada and the U.S. share hundreds of miles of borders, billions of dollars of trade, a common cultural heritage, and a democratic vision. Clearly, wildlife stewardship and ecosystem integrity cannot be unilateral.

It is equally obvious that lumber trade must be informed by ecosystem and species protection, and the protection of U.S. workers from the importation of products that are the result of catastrophic subsidized destruction of Canadian public forests.

Solutions are possible that will guarantee the health of the North American timber industry and protect the environment, but they will only be found if governments listen to their citizens, incorporate citizens' concerns and those of science, and embrace ecologically sustainable logging practices.

I want to add that Bruce's solution paper could have been taken from a page from our book. I thought that it was very well thought out. With a little minor tweaking, we could actually embrace those as our own solutions.

We believe that the environmental problems that exist in Canada as a result of logging practices and policies can go a long way, or solutions to those problems can go a long way, towards solving the industry and equity problems that exist between the two countries in terms of subsidies, because the subsidies are not just economic, they are not just giving stumpage payments cheaply to Canadian industry, they are the result of horrendous forest practices.

As a response to Mr. Hurst—if you are still here, Mr. Hurst—our environmental laws are the best in the world. We should be proud of them. Not only because of the protection they afford for ecosystems and species, but because of the protection they afford for people in the form of water quality, quality of life, but, most of all, for our democracy. Unlike in Canada, all Americans have a say in how our National forests are managed, not just the timberage.

Again, Senator, I want to thank you very much for your leadership in this.

The CHAIRMAN. Thank you, Joe. That was very, very informative. I deeply appreciate that.

[The prepared statement of Mr. Scott appears in the appendix.]

The CHAIRMAN. The question comes to my mind, how much of the timber harvesting practices in Canada that are adverse to the environment, in your judgment, are violations of provincial or Canadian Federal law, as opposed to, say, Canada not having an Endangered Species Act, as we do?

Mr. SCOTT. Well, as a good example of that, we filed, along with other groups in the United States and Canada—Defenders of Wildlife, NRDC, several Canadian groups—a petition with the Commission on Environmental Cooperation, the NAFTA side agreement, asking for an investigation from the CEC for violations of the Federal Fisheries Act in Canada as a result of B.C.'s logging practices.

We also filed a companion, piggy-back, CVD suit, if you will, that was joined to the Coalition for Fair Lumber Imports' CVD suit, asking for an additional penalty tax for violations of the B.C. forest companies of the Federal Fisheries Act, specifically for not adhering to streamside buffer protections.

We have actually quantified the subsidy to the industry, as a result of ignoring those subsidies, by simply looking at the fines they would have paid if the Federal and provincial governments actually enforced the Federal Fisheries Act. So, there are significant violations of Federal law.

Provincial law, on the other hand, is an interesting situation, because the Forest Practices Code, right now, is long on process and short on substance. It is a huge document with no implementation, or enabling, device, I should say.

Even though it exists on paper, it is not implemented because the landscape-level plans that give the Forest Practices Code force of law have not been done. In fact, the Forest Practices Board, the oversight group of the Forest Practices Code, has come out on record as saying, we are not implementing the Code. The Code is the body of law.

The CHAIRMAN. Right. Can I ask the question another way? If all the Canadian Federal and provincial environmental statutes were fully enforced, to what degree would that reduce production in Canada?

Mr. SCOTT. Off the top of my head, I would say it would have at least a 20-percent reduction and cut just in B.C.

The CHAIRMAN. All right. Now, let us assume that both Canada and the United States jointly have similar environmental laws. Let us assume, further, that they are basically agreed to by both industry and environmentalists in the sense that they are fair and there is not too much red tape.

We are protecting the land, but we are also allowing for proper harvests, maybe it is green, plus diseased timber, and so forth. But it is on the basis of sustainable yield, and so forth.

Based only on that point, that is, environmental only, it is fair, it is North American, to what degree would that then reduce production in Canada?

Mr. SCOTT. I saw Jack Ward-Thomas in the audience. Maybe he could answer that.

The CHAIRMAN. I was thinking of Jack when I asked the question, actually.

Mr. SCOTT. Again, I think if Jack has an answer to it, I would love to hear it. But I think, if that were the case, it would lower the cut by half in B.C.

The CHAIRMAN. Jack, you are here.

Mr. THOMAS. Well, thanks.

The CHAIRMAN. Do you have anything off the top of your head?

Mr. THOMAS. No. I can help you, but not off the top of my head.

The CHAIRMAN. All right. Thank you. I appreciate that.

Mr. SCOTT. Senator, we have identified some fairly simple solutions that were actually endorsed by government entities in the province. For example, log sort yards that would be modeled after the Vernon log yard in British Columbia, where logs are being sold for about six to seven times what they are going for now with the conventional stumpage system and tenure systems in place.

The CHAIRMAN. Rob Luce, one of the earlier panelists, suggested a longer term. He said a North American global approach. Is that something that makes sense to you?

Mr. SCOTT. I think so. I think one of the things we have been kicking around is a common market for lumber, whereby all lumber that entered this common market would adhere to certain standards of production, and process, and environmental stewardship. I do not know the fine details. The devil is in the details, of course.

The CHAIRMAN. Right. Right. Right.

Mr. SCOTT. But I think that is one possible solution. But what we would like to see in terms of negotiations between the United

States and Canada most immediately are discussion of road density standards in similar ecosystems.

For instance, we have protected areas where protected grizzly bears are dependent on road density standards of less than a quarter mile per square mile of habitat. You go across contiguous habitat in Canada, and those road densities are in excess of 5 miles per square mile of habitat. Those kinds of things, those kinds of details can be discussed in a solutions paper or a solutions discussion with Canada.

Again, protecting riparian buffers, old-growth protection or retention strategies similar to what is being done in the Clockwood Sound. The Clockwood Sound Science Panel, with the cooperation of First Nations, has gone a long way towards transitioning some areas in B.C. towards ecosystem management and scientific, sustainable forest practices.

So there is stuff out there. They just need to pay attention to that. I think this is a wonderful opportunity and a forum in which to bring those issues to the fore.

The CHAIRMAN. You have given a lot of thought to this, Joe. I really appreciate that. It just seems to me that that is part of the solution here. It might take a little while to get there, but it is, nevertheless, part of it. The sooner we begin, the better.

Your people and a lot of others, Bruce, have done a lot of research and thought about all of this in a way that makes sense. But, in the meantime, we have to just push hard on the suit that is filed by the industry against Canadians on dumping and subsidies, because I think that is going to help drive a solution. Nobody gives up a subsidy or a trade barrier altruistically out of the goodness of their heart, and no country ever does.

There has got to be leverage and there has got to be something that they realize is real. At this point, this action by the U.S. forest products industry is real.

It is leverage that I think will help get not only solution to the lumber industry, per se, but also begin to force some answers to the overall questions, that is, forest health. We are all in this together, Americans and Canadians, with ecosystems and so forth.

It just seems to me that we should have a common approach to it all, not a disparate, separate, and different approach which causes some of the problems we are now facing.

In the meantime, we have got the leverage of that suit and we certainly have the facts on our side. In listening to Secretary Aldonas, it sounds like he understands. He cannot make a decision, of course. He cannot indicate it today. But it seems to me that he understands, too, that we just have to move here.

[Whereupon, at 12:02 p.m., the field hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF GRANT D. ALDONAS

Senator Baucus, I want to thank you for holding this hearing of the Senate Finance Committee and for inviting me to join you here. I know from personal experience the tremendous leadership you have provided on international trade issues of importance to Montanans and to American farmers, workers, and businessmen and women across the country.

You have put your personal stamp on every significant piece of trade legislation that Congress has passed in recent years. I would like to say, both personally and on behalf of President Bush and Secretary Evans, how much we are looking forward to working with you, Senator Grassley, and your colleagues on the Finance Committee in pursuing a trade agenda that serves the interests of all Americans.

It is a particular pleasure to be here amidst the beauty of Montana. Coming originally from Minnesota, I find I am always happier west of the Mississippi than I am back East. In fact, when I was a lot younger, I used to hop a freight train or hitchhike out Interstate 94 heading west for Montana to work day labor in the national parks and hike the Rockies.

I had the opportunity to retrace some of my steps these last two days as we drove up to the border at Secretary Evans' direction to check in with U.S. Customs officials monitoring the imports of Canadian lumber and to visit a sawmill in Eureka.

MONTANA'S ROLE IN WORLD MARKETS

When I think of Montana, I think immediately of the state's farmers and cattlemen. Both can take pride in being key players in global markets for their products. According to the U.S. Department of Agriculture, Montana's agricultural exports totaled \$228 million in 1999. Since 1991, the state's reliance on agricultural exports has ranged from 13 to 44 percent as measured by export's share of farm cash receipts. Montana's top agricultural exports include wheat and wheat products, feeds and fodders, feed grains, live animals and red meats, and planting seeds.

Montana's exporters would benefit greatly from expanded efforts to open up world markets. While progress has been made under the North American Free Trade Agreement (NAFTA) and the Uruguay Round, U.S. agricultural exports—bulk commodities and especially processed foods and other grocery items—still face high tariff and nontariff barriers in Asia, Latin America, and other potential markets. Negotiations toward a Free Trade Area of the Americas (FTAA) would provide the opportunity to address these barriers in our hemisphere, complementing broader efforts in the World Trade Organization (WTO) agriculture negotiations to open up global markets and further liberalize international agriculture trade.

According to Census Bureau statistics, businesses located in Montana exported over \$550 million worth of merchandise last year. While Montana's state flag highlights the importance of agriculture and mining (exporting nearly \$120 million in nonferrous metals and \$13.7 million of metal ores in 2000), the story of Montana's access to world markets reaches well beyond those sectors. In 2000, for example, Montanans exported more than \$110 million in machinery, \$24 million worth of navigational, measuring, electromedical and control instruments, over \$6 million in cement products, and \$5.1 million in computer equipment. The latest available data indicate that manufactured exports support at least 5,900 Montana jobs and sustain roughly one out of every 10 workers in the state's manufacturing sector. As far as manufacturing is concerned, export prospects appear bright—especially if the Administration can move forward and negotiate reductions in remaining foreign bar-

riers to Montana's exports of industrial machinery, information technology, metal products, and chemicals.

Services play an increasing role in the Montanan economy. The Mountain region of the United States is a popular area for tourism, attracting 1.2 million overseas visitors in 2000. International travel and tourism to the United States generated over \$106 billion in 2000, and Montana's beauty is a natural draw.

Another point I would like to make is that exports have broadly benefitted Montana's businesses—both large and small. A total of 730 companies exported goods from Montana in 1998. Just over 80 percent of these exporters, accounting for 31 percent of total exports, were small- or medium-sized companies that had fewer than 500 workers. In fact, more than 70 percent of Montana's exporters were small firms with less than 100 employees.

THE COMMERCE DEPARTMENT'S ROLE IN PROMOTING U.S. TRADE

As Secretary Evans reminded me before coming out here (and reminds me regularly back in Washington), my main job is to be an advocate for Montana's exporters and U.S. exporters generally. That advocacy takes a number of different forms.

On the top of that list is ensuring that our trading partners comply with our trade agreements. Nothing is more dispiriting to our farmers, workers, and entrepreneurs than the sense that they are not receiving the market access we bargained for in various trade agreements. We cannot expect their support for an aggressive trade agenda going forward if we are not ensuring compliance with commitments made in the past.

The next item on my list of priorities is expanding export opportunities for American business, both through the negotiation of new commitments on market access and through trade promotion. I am extremely fortunate to be working with the professionals in the Commerce Department's International Trade Administration who have a long and successful record on both counts.

Within the International Trade Administration, the staff of the Office of Trade Development, which is an organization of industry-specific trade specialists, plays an integral role in setting the agenda for our trade negotiations and in support of our negotiators in the Office of the U.S. Trade Representative. There are also a number of areas, such as disciplines on foreign unfair trade practices, such as subsidies, where the Commerce Department takes the lead.

On the trade promotion front, my job is to make sure that our exporters, and those individuals and firms looking to export markets for the first time, are aware of the tremendous resources available to them at the Commerce Department. Last night, I had the great pleasure of meeting with the staff of the local U.S. Export Assistance Center (USEAC) and the members of the District Export Council here in Missoula. They can provide a vital link back to the Department, where there are a number of forms of assistance available to our exporters. They also provide a link to our Commercial Service officers, whose main role is to identify export opportunities for American business and link American firms with those opportunities.

Let me close this bit of advertisement for ITA's services by highlighting the Department's role in the promotion of our agribusiness trade in particular. I do so because our farmers often look to the Agriculture Department as their primary point of contact in the U.S. Government.

What our farmers and agribusiness firms may not realize is that the Department has an Advocacy Center that provides all U.S. exporters with a unique, central point for marshaling all the resources of 19 U.S. Government agencies to ensure that sales of U.S. products and services have the best possible chance abroad. The Department's Trade Information Center provides a "one-stop-shop" for information on U.S. Government resources designed to facilitate their export transactions.

Our Commercial Service officers, whom I mentioned earlier, are located in 105 offices in cities throughout the United States, and in 160 locations in 85 countries abroad. Our Montana USEAC has helped companies such as SkySource International, a Billings-based aircraft sales and management company, which participated on a trade mission to Latin America led by Senator Baucus and subsequently entered into a joint venture with a Chilean company. Our Montana USEAC also works with companies to let them know when circumstances are not ripe for international deals. For instance, Windbreak, a small Bozeman manufacturer of outdoor blankets, was contacted by an overseas company. Our Montana USEAC checked with our Commercial Service office in that country and determined that the foreign company had made false claims. We want to help our companies take advantage of the right opportunities.

THE COMMERCE DEPARTMENT'S ROLE IN ADDRESSING FOREIGN UNFAIR TRADE
PRACTICES

In addition to the role that the Commerce Department plays in promoting our exports, the professionals in ITA's Import Administration are ready to assist our exporters and domestic producers when foreign governments try to unfairly tilt the playing field in favor of their exporters. Import Administration administers both the antidumping and countervailing duty laws.

Congress designed the antidumping laws to ensure that our producers in the United States were not undercut by foreign exporters dumping their goods here in the U.S. market. Although the law focuses on dumping by individual firms, it is often the case that some government action lies behind the ability of foreign firms to sell into our market at prices that may not cover their operating expenses, much less provide a normal rate of return on their capital.

For example, when a government keeps its own markets closed, it guarantees its producers a higher rate of return than they would otherwise receive in fair and open international competition. The net result is that those firms can often afford to subsidize their sales into the U.S. market.

Similarly, Congress designed the countervailing duty laws from the start to combat subsidies paid by foreign governments to assist their exporters. What Congress understood as far back as 1890, when it introduced the original countervailing duty law to combat production subsidies paid by the Tsarist government to Russian sugar exporters, was that the effect of a protective tariff or an outright grant of cash to a foreign producer was the same. It allowed the foreign exporter to sell his products at a lower price on the U.S. market because the foreign government was assuming (or forcing others to assume) a part of the producer's cost of doing business.

The job of our professionals in Import Administration then is twofold. First and foremost, they are responsible for investigating claims by U.S. industries producing a like-product that goods exported to the United States are unfairly dumped or subsidized. I pledge that those investigations will be conducted fairly and impartially.

But, the second part of Import Administration's job is also very important: That is to use the leverage of the antidumping and countervailing duty actions to persuade foreign governments to eliminate the underlying unfair practices.

In that regard, let me reiterate something I said to you recently about how Secretary Evans and I intend to approach the administration of the U.S. trade remedy laws. I want to underscore the fact that we view these laws as an essential part of the bargain on trade.

We negotiate market access for our exports and open our markets to imports on the assumption that the trade will flow according to the laws of the marketplace, not based on which government intervenes to tilt the playing-field in their exporter's direction. And Congress intended our trade remedy laws to ensure that our basic assumption about free and fair competition prevails.

It also is important to note, however, that if we find that either dumping or subsidies exist, we will always look to solve the root of the problem. We must eliminate the underlying government action that affords advantages to certain players in the marketplace at the expense of others.

UNITED STATES-CANADIAN TRADE IN LUMBER

That brings me to the central reason for this hearing—the current or, perhaps more accurately, the continuing friction between the United States and Canada over the trade in lumber. United States and Canadian lumber producers have been competitors in lumber markets since they fought over contracts for ship spars for the British and American navies and the maritime fleets of New England in the late 18th Century. In fact, the friction over the lumber trade has essentially followed the entire course of the westward development of both the United States and Canada from Maine and the Maritimes to Minnesota, Michigan, Ontario, and Manitoba to Montana and the Pacific Northwest and the Western Canadian provinces of Alberta and British Columbia.

Today, producers in both countries compete in what is essentially a single, integrated North American market for lumber. That market is driven largely by housing starts and construction in the United States and Canada. And, the demand (and the appropriate rate of return) for timber is always driven by the demand for the downstream product, lumber.

With more than 23.2 million acres of prime forest land covering the state, both the State of Montana and Montana's lumber industry have a major stake in ensuring that the rules that govern the lumber market provide for free and fair competition. Both Secretary Evans and I understand the importance of this issue to the state of Montana.

From the State's perspective, unfettered (and unsubsidized) competition in the lumber market will provide the highest rate of return on timber harvested from state forest land. That in turn affects the revenues available for administering those forests for the benefit of all Montanans, not just the lumber industry. Market prices unaffected by subsidies also help forest managers make judgments about where and how to invest scarce public resources.

That same calculus holds true, of course, on federal forest lands. The U.S. Government has the same stake as Montana does in ensuring that the competition in downstream markets for forest products is open and fair.

In the last 20 years, the U.S. lumber industry has filed a series of countervailing duty actions alleging that, between the Canadian federal government and the various provinces (which actually hold the rights to much of the timber), Canadian lumber producers have benefitted from substantial subsidies. Those cases have led the United States and Canada to negotiate agreements on lumber trade that have had the effect of segmenting the market but did not attempt to address any of the U.S. industry's underlying complaints regarding Canadian, and particularly provincial, timber practices.

LAPSE OF THE 1996 SOFTWOOD LUMBER AGREEMENT AND THE INITIATION OF ANTIDUMPING AND COUNTERVAILING DUTY ACTIONS

The most recent of those agreements, the 1996 Softwood Lumber Agreement, lapsed at the end of March of this year. On April 2, the U.S. industry filed petitions alleging countervailable subsidies, and, for the first time, dumping of Canadian softwood lumber.

Having reviewed the petitions, we initiated full investigations of those allegations a little over a month ago, on April 23. We are currently collecting information which we will analyze to determine if softwood lumber imports have been unfairly subsidized and/or sold at dumped prices.

Given the quasi judicial nature of the procedures involved, I do not intend to address any of the specific allegations set out in the industry's petitions. What I do want to stress, however, is the importance we in the Administration attach to working with you and the industry to ensure that the cases are fully and fairly investigated.

We have assigned a seasoned team of case analysts under the direct supervision of the Assistant Secretary for Import Administration, Faryar Shirzad, to ensure that investigations are conducted in full compliance with our trade remedy laws. Senator Baucus, you and the members and staff of the Finance Committee know Faryar well and will understand my complete confidence in his investigation of these allegations.

I should add a word about the timing of the initial determinations in these cases. If we adhere to the current schedule, the Department would issue a preliminary determination in the countervailing duty investigation on June 27, and a preliminary determination in the dumping investigation on September 10.

Those deadlines would only be extended if the issues prove extraordinarily complex. I do, however, intend to ensure that the Department takes the time necessary to analyze fully the information the U.S. lumber industry puts on the record and any responsive information provided by the respondents.

IMPORT MONITORING AND THE EFFECT OF ANY SURGE IN IMPORTS PRIOR TO PRELIMINARY DETERMINATIONS

Normally, if the preliminary determination in either an antidumping or countervailing duty case is affirmative, we will direct the U.S. Customs Service to begin collecting cash deposits or bonds equivalent to the preliminary subsidy or dumping margins on imports of the affected merchandise. That same rule would apply in the event of such a determination in the case of imports of softwood lumber from Canada.

I want to stress, however, that the Department could order the Customs Service to apply those cash deposit requirements to imports from Canada made prior to the date of the preliminary determinations if we find that a surge of imported lumber has, in the meantime, created what the law refers to as "critical circumstances" for the U.S. petitioning industry.

The reason I want to underscore that point is straightforward. Both Secretary Evans and I are well aware that both exporters and importers of lumber from Canada will be tempted to rush as much lumber across the border as possible before the Department reaches its preliminary determinations, a rush that could have an undesirable economic—not to mention environmental impact. That is why, in direct response to expressions of interest from you, Senator Baucus, and other members

of the Senate, the Secretary ordered us to establish a Lumber Import Monitoring Program that allows us to monitor imports of lumber from Canada on a daily basis.

We have been using a number of methods to ensure that we have the most current information available regarding the level of lumber imports. Under the program, we have been reviewing import data, trade publications and working with Customs officials to look for any signs of an import surge. When I told Secretary Evans I would be traveling to Montana, he asked me personally to visit the border to see how well our monitoring program was working. That's what took me yesterday to the Roosevelt Customs port in Eureka, Montana, and I expect that high-level Commerce Department officials will be visiting other U.S. Customs ports of entry to continue tracking lumber imports.

The Secretary has discussed the trend in lumber imports regularly with his counterpart, Pierre Pettigrew, Canada's Minister for Foreign Affairs and International Trade. I want to stress that we have had the complete cooperation of the Canadian government in this monitoring effort. The Canadian government left in place the export licensing requirements it had installed under the 1996 agreement in order to ensure that it had the means separately to monitor Canadian exports of lumber to the United States.

While both the Secretary and I appreciate the cooperation we have received from the Canadian government, it is clear that the measures Canada has taken are in its own best interest. That is because Canadian officials understand as well as we do how any surge in lumber imports in response to the filing of the U.S. industry's petitions would only exacerbate the current friction over our lumber trade. It would also prove counterproductive, as I have explained, because it could lead to the earlier imposition of any applicable antidumping or countervailing duties.

Let me restate that just to make sure that our friends understand what I am saying. I believe in letting people know where we stand and what the consequences are if they take certain actions. I think we owe them that and I think we have signaled loudly and clearly what our intentions are should we find that the requirements for this "critical circumstances" finding have been met. Having been completely candid about the consequences of a surge in lumber imports, neither the Secretary nor I will have any second thoughts about imposing antidumping or countervailing duties retroactively to the full extent of the law should that occur.

PURSuing A SOLUTION

In closing, let me reiterate one point. I believe it is our duty under the trade remedy laws that Congress has enacted to ensure not just that we fairly investigate the allegations brought before us by petitioning U.S. industries, but also to search for solutions to the underlying problems that give rise to those complaints in the first place.

I intend to ensure that we continue to effect Congress' intent in providing redress to U.S. industry when it faces unfairly traded goods. But, I also intend to use the industry's filing of the petition as a catalyst to pursue solutions to the underlying complaints.

I believe that is consistent with our obligation under the law and with the intent of President Bush and Secretary Evans as well. Both the President and Secretary Evans spent the formative years of their careers in business where the market places a premium on identifying solutions to problems and implementing those solutions as quickly and effectively as possible.

That ought to be our goal here as well. In that effort, both the Secretary and I will need your help. You are in a unique position to ensure that we accomplish that goal, due both to your long record as an ardent advocate on behalf of open and fair competition in international markets and because of your longstanding interest in the environment.

Thank you, Senator Baucus. I look forward to your questions and to hearing the testimony of the other witnesses appearing before you today.

PREPARED STATEMENT OF HON. MAX BAUCUS

I want to thank everyone who has taken the time out of their busy schedules to join us today.

Under Secretary Aldonas—I think this is the first time I have seen you since your confirmation hearing in May. Let me first say congratulations to you on being confirmed. We're glad that you're on board and can now devote your full efforts toward resolving this lumber issue—once and for all.

I also understand you spent your day yesterday in Roosville and Eureka. I'm glad you got a chance to see first-hand one of our lumber mills—and that you got to meet some of the people who are affected by the decisions we all make in Washington.

You know, in preparation for coming home for this hearing, I was looking back at the history of this dispute. As many people know, I've been a part of this fight since the very beginning. But to actually look at a piece of paper and see how little progress we have made—well, it's just troubling.

Take a close look at the process we are now involved in.

A couple of months ago, the U.S. lumber industry and their workers were forced to employ U.S. trade laws to keep their companies from being harmed by unfair Canadian trade practices.

But this is hardly a new solution to the problem. Similar cases were filed in 1982, 1986 and 1991.

And what will be the result of the cases? Will we see something new? The ITC just made an initial finding last month—unanimously, I should add—that the U.S. industry faces injury from imports.

But this is not new. The ITC has made numerous findings that unfair Canadian lumber imports injure U.S. mills—in 1982, 1986, and again in 1991.

The next step in the current case is that Commerce will make a determination whether Canada is engaging in unfair trade and, if so, impose duties on Canadian lumber to offset the dumping and subsidies. Commerce has imposed such duties in previous cases.

The U.S. Congress has since acted to strengthen trade laws. That is something new. One change mandates that duties collected from Canada under our unfair trade laws will be returned to the U.S. mills that are being injured.

Maybe—as a result of the strong cases—Canada will be forced to settle this dispute, and admit to its subsidies. This, also, would not be new. Canada agreed to an export tax in 1986. That was good—perhaps a model for the current dispute—but then Canada unilaterally terminated this agreement. More recently, the United States and Canada had a 5-year agreement that just ended in March. But Canada circumvented it—relentlessly.

So there is a certain lack of trust. I certainly would not oppose negotiations, but most feel that Canada cheated under the last agreement, diminishing its effectiveness.

Canada seems to think it has proposed something new with its suggestion of a so-called wise men's group—basically a proposal for more study. But this is not new, either. As early as 1984—17 years ago—the suggestion was made that the United States and Canada form a joint working group to look at these issues. In 1985 the ITC actually studied the lumber dispute.

Since then, countless studies, books, law review articles, and reports have been written on this issue. [This stack of materials in front of me represents only a small portion of those materials.] Indeed, it may be fair to say that the some of the damage to the U.S. forest products industry caused by Canadian unfair trade has been offset by the sheer volume of paper that has been used in examining this issue.

So what will be the new solution?

It's hard to say. But I do know this. I will fight to resolve this issue in a way that is fair for lumber mills and workers here in Montana. I will fight to resolve it in a way that no longer allows Canada to destroy the environment—with devastating effects not only in Canada, but also here in Montana.

And I want to stress here—this is not an issue for just my state. Mills are hurting not only in Montana, but also in Georgia, in Maine, in Oregon, all over. Most of my Senate colleagues are demanding swift and strong action on this.

In March, I asked my Senate colleagues to send a strong message to the Administration on the need to resolve the lumber dispute. A majority of the Senate—both Republicans and Democrats—sent a letter to the President imploring him to act quickly to counter unfair Canadian lumber subsidies.

In May, I again asked my Senate colleagues to send a strong message. Sixty-two of us sent a letter to the President doing just that. We emphasized that our trade laws, which lumber companies are employing right now to fight Canadian trade practices—must not be weakened in future trade negotiations. That means not extending provisions that allow unqualified foreign bureaucrats to undermine U.S. laws, which has been a disaster in the case of the lumber dispute. It means ensuring that our laws against unfair trade are as strong as they can possibly be—to resolve problems like those we are discussing today.

I have also made this point directly to Canadian officials. In April, I traveled to Quebec to and met with Canada's trade minister, Pierre Pettigrew. While there, I also met with our new Ambassador to Canada, and emphasized that this should be

a top priority. I have raised this issue in countless meetings with our U.S. Trade Representative and with the Secretary of Commerce.

And today, Under Secretary Aldonas, I will again make the case to you.

What this industry is asking for is very simple: a level playing field for lumber. I would like to see an end to this ridiculous cycle of cases, negotiations, settlements, and studies. But Canada must, once and for all, end the unfair subsidies and dumping for that to happen.

If Canada is unwilling, the United States must apply the full force of its trade laws to ensure that our workers and mills are not injured. We have not always done this in the past—but I am hopeful that this Administration will not shy away from applying our trade laws in the strongest fashion possible.

Mr. Aldonas—let me say again how much I appreciate your coming out here. And I am glad you had a chance to see part of our state. It's important that you get a look at our efficient mills, and meet the folks who work very hard to earn a living at these mills. It's important that you see our way of life out here. And it's important for you to know—our mills can compete with any in the world, if given the chance to compete fairly.

But if our mills aren't allowed to compete fairly—it will be devastating to this state. Mills have already shut down—in Montana and across the country. In the last year alone, 160 mills have closed in this country, 27 permanently. Almost 13,000 workers lost their jobs last year. This year—in the first three months alone—almost 4,000 workers have lost their jobs. More mills and more jobs are threatened.

The decisions made in Washington about this case and this issue will have a real-world impact on Montana mills and Montana jobs. And I'm sure you can now envision the impact for a town like Eureka. It would affect every single person in that town. Our communities here—they live and die by these mills. And we're getting killed—for the worst of reasons.

I look forward to talking with all the panelists today. With that, Mr. Under Secretary, I will turn it over to you.

PREPARED STATEMENT OF JIM HURST

Senator Baucus, thank you for inviting me to present my views on the critical issue of subsidized CDN Lumber imports.

I am here today to testify on behalf of my employees and their families, and even though it is too late to help, I would also like to dedicate my remarks to the women and men who used to frequent the lunchrooms of mills now gone forever. Mills driven out of business for a variety of reasons but in many cases their demise was attributable, at least in part, to increasing lumber imports from a country that subsidizes its lumber industry with the intention of keeping their mills running and their people employed.

A noble undertaking, however, Montana and U.S. millworkers don't deserve to have their jobs exported to Canada. Headlines in the Daily Inter Lake on Wednesday cite an 8% drop in employment and a phenomenal 21% reduction in wages for Montana's millworkers. I submit this paper for the record as well as a document proving injury to our company. 7b this point the U.S. Government's solution has been to retrain or offer some form of assistance as was the case for my former employees who were laid off earlier this year. That is not correcting the problem.

I have a unique vantage point as my office faces Hwy 93 and I view the truckloads of subsidized CDN lumber heading South. Even when prices are low and we aren't able to ship our products, their trucks keep rolling.

I also know several Canadian millowners and I have a decent understanding of how their system works. One of their annual concerns is how much of a raise they will give their employees, while on this side of the border we worry about how many employees we will be able to retain. Obviously, Canadians worry about lumber markets but interestingly enough, none of the significant quota holders I am familiar with, have ever shut their doors or went to auction, which is an annual event here in Montana. Could cheap government timber be the reason?

I have purchased both private and provincial logs in B.C., Alberta and Saskatchewan. In the early 1980's a pine beetle infestation occurred North of Glacier Park and West of Waterton in an area reserved for Crestbrook Forest Industries. As I was informed, CFI refused to log the dead and green material in fact, they offered to take it off the government's hands but expected to be paid to do so. As a result, the B.C. Forestry decided to open the wood up for bid to anyone. To summarize, we bought millions of board feet, hauled it 100 miles thru CFI's millyard to ours. Those were the cheapest logs I have ever received and probably saved us from bankruptcy as the lumber market was horrible at that time and we had an inefficient

mill. I recall that the stumpage was about \$10/mbf, about one-tenth of what it was in the United States. We have never been allowed to bid on B.B. since then.

In Alberta, U.S. mills helped raise the value of private timber approximately ten-fold when we went up to 300 miles North and bought wood hauling it past several Canadian mills to Eureka. Why?, because Canadian mills were and are getting their government timber so cheap they don't have the need for private logs as we do.

In 1998, 1.3 million acres burned North of Edmonton, Alberta. My company again purchased millions of board feet of this material and exported it in order to keep our employment levels up. This was Provincial timber. we were allowed to export the small burned wood that the Alberta mills didn't want, they preferred green timber and the larger burned trees. This endeavor involved a 500 mile haul one way from Northwest of Edmonton to our mill. Driving from Missoula to Seattle is only 470 miles. Obviously, the price paid for the timber was ridiculously low to allow a haul such as that. I believe this is the first time Alberta provincial logs have ever been exported to the United States. It is a temporary situation, in fact, after my testimony today, it may be a very temporary situation.

Do Canadian provinces subsidize their industry in the form of low stumpage prices? Yes, my experiences prove that. Do they do it for the right reasons? Yes, they understand the correlation between a healthy timber industry and a healthy economy, a connection that is somehow missed in the United States. Have their trade policies injured my company? Yes, last year we experienced the most severe losses in the 22 year history of our business.

Let me emphasize that all the blame for this economic holocaust should not be directed at the Canadians. Local, regional, and national environmental groups have played a huge role in creating this mess by relentlessly stopping timber harvest on our national forests. They have restricted our supply, driving family owned mills like mine out of business. They are responsible for exporting mill jobs to Canada, and leaving our industry in such a weakened condition that during severe market downturns like we recently experienced, the onslaught of subsidized Canadian wood provides the killer blow to our industry. The enviros have set us up for failure and in the meantime have driven timber harvesting to other countries who don't have the stringent environmental regulations that we do.

Rather than allow common sense timber harvest in our national forests so that we can maintain or enhance our market share, they have contributed to Canada's increased market share. The environmentalists have created a situation that allows a double whammy, especially to the small independents.

Nevertheless, cracking down on the Canadians will provide a tremendous benefit to the Montana millworkers who still have a job, it will allow mills to raise or maintain prices on the meager amount of lumber they produce from USFS logs.

I don't want to stop the flow of Canadian lumber, but I am sick and tired of losing customers as a result of Canadians undercutting our price, I'm fed up with them circumventing the intent of the last agreement by drilling a hole in a stud and most importantly, it is not fair for the women and men of Montana's troubled timber industry to look to the U.S. Government for leadership only to be told they're laid off. That has to change immediately.

To conclude, in Canadian football they have 12 players and a longer and wider field, lumber producers in the United States are trying to compete on that field with 11 players and no subs. Even Joe Montana couldn't win under those circumstances.

I absolutely detest any more government intervention into the private sector, however, in this case our Northern trading partners need to be forced to play on a football field of our dimensions or suffer the consequences, otherwise, our millworkers will continue to be sacrificed for the betterment of their counterparts in the Canadian Provinces.

Senator Baucus, thank you again for allowing me to testify and if I can be of further assistance, I stand ready. I appreciate your efforts to right this wrong, my employees and I wish you God speed.

PREPARED STATEMENT OF ROBERT B. LUCE

Thank you Senator Baucus for inviting me to present testimony today on behalf of Idaho Timber's division in Whitefish, Montana. We certainly are very pleased to be part of this panel and to have the opportunity to share our thoughts with you on one of the major issues facing our company today.

Before I begin with my specific comments, I'd like to give you a little background on Idaho Timber, so that you might better understand our Company's position. After that brief introduction, I will outline for you our position on the Softwood Lumber Agreement and then finish with some of our major concerns at the present time.

To begin, Idaho Timber is a small privately held company; we have 12 operations located in 8 states, including our remanufacturing plant in Whitefish, Montana. We are one of the ten largest producers of lumber in the United States with an annual production of 800 to 900 million board feet. Our company operates 3 primary sawmills and 9 remanufacturing plants. The primary sawmills, harvest and process softwood lumber Ponderosa Pine, Cedar, and Spruce in the West and southern yellow pine in the South. Our reman plants, like the one in Whitefish, start with low-grade raw material that is purchased from sawmills in Canada and the United States. From there, we upgrade the lumber and make value added products that are sold to retailers, home centers, distributors, contractors and lumberyards across the country. While we source as much raw material as we can from U.S. suppliers, we still end up having to buy almost one billion board feet of lumber per year from Canadian producers just to keep our reman plants supplied with raw material.

We are not in the habit of hiring Washington lawyers or lobbyists, writing letters to the Government, or testifying like this before Congressional committees. Most of the time we are focused on what we do best—making and selling quality lumber and boards for our customers at the lowest possible cost.

We're here today because the quota system threatened our very existence and the 900 production jobs at Idaho Timber. It disrupted the supply of low-grade lumber from Canada. It gave the Canadian remanufacturers a competitive advantage over companies like Idaho Timber and it encouraged a major expansion of the remanufacturing industry in Canada. The quota also encouraged gamesmanship and turned out to be very difficult to enforce. In short, Idaho Timber is involved in the political process because we do not want to see the quota renewed or extended in any way and we want a voice in whatever comes next.

The facts are, prior to 1996 and the quota, low-grade raw material from Canada was readily available to Idaho Timber. All of that changed once the quota was firmly in place. We suddenly had difficulty supplying our plants on a regular basis and when we could buy low grade, we paid far more for it than our Canadian competition. After April 96, the Canadian sawmills realized that it was no longer cost effective to sell low-grade products to remanufacturers in the United States, like Idaho Timber, if they had to use quota or pay an export fee of \$50 or \$100. There was a limit on what could be shipped free, so the higher value products got shipped first—pure and simple Economics 101. See Figure 1.

The Canadian mills still produced low grade though; so they had to figure out how to dispose of those products without using quota. The answer turned out to be a vast expansion of the secondary remanufacturing industry in Canada. The Canadian remaners bought the low grade at discounted prices, sometimes as much as \$100/mbf less than the prices being offered to us for the same products. See Figure 1. These remaners then turned around and sold the products into the United States to our customers. So, while we were facing mill closures, losing market share, and treading water just to stay alive, the Canadian remaners were undergoing rapid expansion as a result of the quota and making records profits on the back of allegedly exempt products like rougher headed, notched lumber, component truss stock and the rest. With that experience it should come as no surprise that we are not in favor of extending or renewing the quota. That system disproportionately affected the supply of low grade lumber from Canada and it did not level the playing field for U.S. remaners like Idaho Timber. In fact, it had the opposite effect.

Even though we do not typically support a managed trade agenda, we are a pragmatic company and realize that there are many other interested parties, viewpoints and possible solutions that may be acceptable. These range from free trade to so called border taxes or ad valorem taxes on the value of the lumber produced and shipped across the border. So, we would consider exploring another effort at managed trade with Canada, so long as that solution is fair and does not disproportionately effect low grade.

If we can't work out a reasonable compromise though, we are more than willing to let the ITC and the Dept. of Commerce complete their investigation and come to a decision. As long as the trade laws are allowed to work we will accept the result whether it is free trade, a CVD/AD or border tax. We do not support the concept of allowing special envoys or "learned persons" craft a solution, without industry. Given our past experience with the quota, we are not interested in having third parties dictate the answer while we sit on the sidelines.

At this point, with the quota gone and a CVD/AD case under investigation, our major concern is with the recent flood of requests for exclusion—literally, a stack 5 to 10 inches high every day. If the past is any reflection of the future, we are very concerned that each and every request represents a potential loophole that will be exploited to the fullest extent possible in order to circumvent the law. We suffered through the games that came as a result of the quota—rougher headed, notched lumber, component truss stock. As a result, we are asking you Senator Baucus to impress upon Commerce and the ITC that each of these requests must undergo rigorous scrutiny before they are granted. That is especially true in the case of the Canadian remanufacturers. An exclusion for that sector will set the stage for every sawmill in Canada to claim that its products are exempt. See Figure 1. In fact, it has been suggested to us on more than one occasion that if there is an exclusion for remaners, the Canadian sawmills will simply set up reman plants all over the country and become the largest remaners in the world. That could prove to be the deathblow for our employees in Whitefish and for secondary manufacturers like Idaho Timber across the country.

In closing, we want to thank you Senator Baucus for bringing Washington to Missoula and for all of your efforts on the Hill related to softwood lumber from Canada. We look forward to working with you and the Administration to make sure that our trade policy levels the playing field for all of us in the forest products industry.

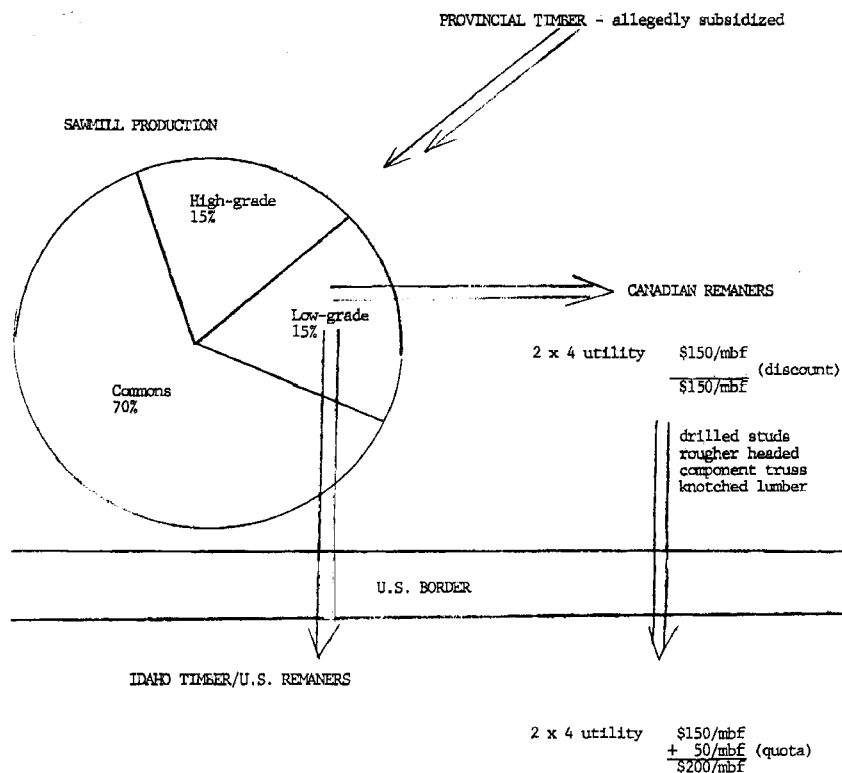


Figure 1.

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PREPARED STATEMENT OF JOSEPH SCOTT

I want to thank Senator Baucus for his courage in taking the lead on trade and environment, especially in an arena as contentious as that of Canada/U.S. softwood lumber trade.

It is undeniable that Canada provides huge perverse subsidies to its timber industry. Independent studies estimate these direct financial subsidies, primarily in the form of lost revenues due to low stumpage rates, to be in the range of \$2-3 billion annually in British Columbia alone, the largest lumber producing and exporting province.

Recent provincial government reports show rampant abuse in a timber-pricing system, which legally enables large logging companies to cut trees for as little as 25 cents a cubic meter or \$10 for a fully loaded log truck. Estimates of the cost of this practice indicate a net loss to the citizens, and a net subsidy to the industry of \$6 billion since 1993. A recent report by the Sierra Legal Defense Fund shows that at least 30% of the wood logged in the interior since 1997 went for the 25-cent minimum.

These public forest giveaways are being enabled by a set of policies that turn a blind eye to the protection of water quality, fish, wildlife and the human environment and make a sham of democratic process, on both federal and provincial levels. Moreover, the Canadian governments are ignoring their international obligations to protect shared fish and wildlife species and whitewashing ancient forest liquidation with a brush that paints a picture of sustainability and environmental stewardship.

Contrary to Canadian rhetoric theirs are not the greenest logging practices in the world—far from it. For example, British Columbia is logging 190,000 hectares of old-growth forests annually, by conservative government estimates 20–40% higher than sustainable levels from a commodity production standpoint; it is paying forestry companies to build between 5 and 10 thousand kilometers of forest roads annually. It is still cutting to the banks of some fish-bearing streams in direct contravention of federal law and in violation of the Canada/U.S. Pacific Salmon Treaty. Ontario has recently proposed raising the legal size of clearcuts in the province to 10,000 acres.

The BC provincial government has identified logging impacts as the greatest single cause of salmon habitat destruction. In volume driven BC there are policy caps on the degree to which the protection of at-risk species and biodiversity can affect the Allowable Annual Cut—4% and 1% respectively. The vaunted Forest Practices Code (conservation catch-all) enacted in 1995 and eviscerated in 1996 is limited by inadequate mechanisms and by policy, in the degree to which it can affect the AAC—not more than 6%.

According to noted bull trout scientist James Bergdahl, “A number of independent studies have shown the BC FPC to be largely ineffective at protecting critical salmon habitat.” In a Feb. 2000 letter to the Ministry of Forests, Donna Petrachenko, Director General of the Pacific Region of the federal Dept. of Fisheries and Oceans wrote regarding the protection of S4, 5 and 6 streams under the FPC, “My staff inform me that current logging practices in this province rarely provide riparian leave strips or setbacks that adequately protect these streams.” For these stream types even private lands in the U.S. receive better riparian protections.

The most damning indictment of BC’s forest practices comes from large mammal biologist Brian Horejsi who, referring to provincial policy to protect no more than 10% of old-growth forest habitat regardless of the ecological consequences, said, “The effect of this one rule is to prolong unsustainable harvest and physically deplete old-growth forests. The ecological consequences for old-growth associated and dependent wildlife species, including caribou, are and will be severe.”

Cut levels, not conservation are the filter through which all forest management decisions must pass in BC and most of the other provinces. The result is grossly unsustainable logging levels, a gutted forest practices code, a gutted bureaucracy, low morale in the Ministry of the Environment and substantial additional subsidy to the Canadian timber industry. The system actually incorporates incentives for bad logging practices, for instance the more roads and landings a company builds, the less stumpage it pays. Conversely, if a company is trying to practice low impact logging that company pays more for stumpage.

The nexus of trade and environment in the context of the U.S./Canada forest products trade is clear and unequivocal. Nearly 80% of the forest products generated in Canada, including half of the trees cut in British Columbia are exported to the U.S. Over 90% of all those products come from old-growth or primary forests and the predominant form of logging technique by far, is clear-cutting.

Our two countries share hundreds of watersheds and thousands of species, many of which are threatened with oblivion. A great many of these are inextricably linked to old-growth and/or undisturbed forest habitats.

Many, such as the grizzly bear, salmon, woodland caribou, bull trout and lynx exist at the southern fringe of their present range in the lower 48 states and southern Canada. For others like the northern spotted owl and northern goshawk the border region their northernmost home. Dozens more migratory birds depend upon diligent stewardship in both countries. The fate of the intricate marine food web of the Pacific Northwest where the killer whale is king is ultimately tied to the protection of our rich old-growth forests and watersheds.

Canada and the U.S. share thousands of miles of borders, billions of dollars in trade, a common cultural heritage and a democratic vision. Clearly, wildlife stewardship and ecosystem integrity cannot be unilateral. And, it is equally obvious that lumber trade must be informed by ecosystem and species protections and the protection of U.S. workers from the importation of products that are the result of catastrophic, subsidized destruction of Canadian public forests.

PREPARED STATEMENT OF DON SERBA

Senator Baucus, Under Secretary Aldonas, members of the panel, ladies and gentlemen. I am privileged today to have this opportunity to express labor's concerns on the recently expired Canadian Softwood Lumber Agreement and the adverse effects subsidized Canadian lumber has had and is having on U.S. workers and the businesses that employ them. I

am the Special Projects Director for the Pulp and Paperworkers Resource Councils eight state Rocky Mountain Region. The PPRC is a national grassroots labor organization representing over 350,000 working men and women in the pulp, paper, solid wood manufacturing industries and related businesses. I am also employed by Smurfit/Stone Container and a member of Hellgate local 885 of the Paper, Allied Industrial, Chemical and Energy International Union.

As you know the 1996 U.S.-Canada Softwood Lumber Agreement expired on March, 31 of this year. The agreement addressed, in part, the disastrous effects of Canadian lumber subsidies on U.S. lumber producers, workers, and forest landowners. Canada gives its timber to companies based upon a formula created to insure full employment of Canadian workers. The provincially-set stumpage rate in Canada is approximately one third to one quarter of the market set rate in the United States. The previous three administrations have all found that Canadian producers have benefitted from enormous unfair lumber subsidies and taken action to establish a level playing field over the years. U.S. workers and businesses need the Bush Administration to offset these unfair Canadian subsidies as well.

There are over 700,000 primary employees that depend upon lumber and wood products companies for their livelihoods. The U.S. lumber industry and its workers are facing a major crisis. Lumber prices as of January have collapsed by 33 percent, while subsidized imports have grown to record levels. Roughly 35% of the 20 billion dollars in softwood used in the U.S. construction trades and pulp and paper manufacturing currently comes from Canadian forests.

Canadians have slowly gained U.S. lumber market share, which stood at less than 20% just two decades ago. A large part, in my opinion, due to the collapse of the U.S. Forest Service Timber Sale Program through over zealous environmental regulation and litigation by environmental organizations.

With hundreds of sawmills closing permanently or indefinitely due to subsidized shipments from Canada, our government officials should insist that foreign companies play by the same rules that U.S. companies must follow, by eliminating or offsetting unfair subsidies. U.S. trade laws are designed to protect the American worker by creating a level playing field against unfairly subsidized and dumped imports that threaten our jobs.

If we are to have free trade between the United States and Canada in lumber, we must also have free, open, and competitive markets for timber in Canada as well. Absent free and fair trade, the United States must take action! To open our lumber market unilaterally while allowing Canadian provincial governments to continue subsidizing their mills would not only be unsound trade policy, but devastating to U.S. workers, businesses and in the long run for U.S. consumers.

This issue is very important to workers, mill owners and forest landowners throughout the entire country. One way to deal with this matter is to have the governments of the United States and Canada negotiate a transitional or bridging agreement to offset the impact of the subsidies until Canada can institute systemic reforms for selling timber and move the provinces to market based competition. We must also establish a sustainable, science based timber sale program on Federal timberlands.

American labor is not going to downplay the importance of free trade policies with countries around the globe and especially not with our North American neighbors, but, American labor is very concerned with making sure our trade policies contain fair and equal treatment of American workers and businesses concerning foreign imports.

In closing, I would like to leave you with a quote from Teddy Roosevelt—"And now first and foremost, you can never afford to forget for one moment what is the object of our forest policy. That object is not to preserve the forest because it is beautiful, thou that is good in itself; nor because they are refuges for wild creatures of the wilderness, thou that is good in itself; but the primary object of our forest policy in the United States, is the making of prosperous homes. Every other consideration comes as secondary."

Thank you.

PREPARED STATEMENT OF RUSTY WOOD

Good Morning. My name is Rusty Wood and I am Chairman of the Coalition for Fair Lumber Imports. The Coalition represents hundreds of lumber companies from throughout the South, Northwest, Inland and Northeast. I am also the owner and operator of Tolleson Lumber Company—a third generation family-owned sawmill out of Perry, Georgia. I sincerely appreciate the opportunity to speak on behalf of the U.S. industry before this panel regarding our long-standing trade dispute over subsidized and dumped Canadian lumber.

Over the past few years, and still today, subsidized and dumped imports of lumber from Canada impair and threaten the viability of the U.S. lumber industry, the livelihood of hundreds of thousands of workers and the investments of millions of landowners. In the past nine months alone, according to one independent source, we've seen about 160 mill closures in the United States, 27 of which were permanent closures. During that time, the same source reported only 4 Canadian permanent closures (even though Canada controls over 40% of North American production). In 2000, U.S. lumber production dropped significantly (almost 700 MMBF of lost production), while subsidized Canadian production continued to increase. The same appears to be occurring this year, to date.

For the first time in 25 years, I was forced to run my mill 4 days a week for the past year because of unfair imports from Canada. In my 25 years in the business, I have never seen such devastation to our industry and workers. In the past two months, things have improved markedly, but there is not a single source that does not attribute a large share of that improvement to the efforts to offset Canadian unfair trade. It is important that the International Trade Commission be aware of that. If this case were to be dismissed, we would be right back to the red ink, losses and mill closures.

The central problem related to the Canadian softwood lumber imports is that in Canada the government owns approximately 94% of the forest land. Instead of selling the timber at fair market value—as the U.S. Forest Service and private U.S. landowners do.—Canada's provincial governments have a complex scheme of timber management which artificially encourages production (especially in weak markets) and fixes timber prices at about one-fourth to one-third of its true market value. The Canadian system is so perverse from a free-market perspective that one industry analyst (from the financial firm Goepel McDermid Securities) came to the following conclusion. I quote:

"In short, the Canadian forest industry is run in the same way as the controlled economies of the former Eastern Bloc. Bureaucrats and politicians allocate the resource and determine its value. It took 50 years for the East Bloc economy to collapse because of misallocation and mis-pricing of resources and we have no doubt the Canadian timber tenure system will collapse for the same reasons."

In the meantime, while that subsidized system is in place, it wreaks havoc on fair trading U.S. mills.

The prohibitions that Canada maintains on the export of unprocessed logs ensure that Canadian lumber producers—and only Canadian lumber producers—receive the benefit of these government subsidies.

In exchange for administered, below-market priced timber, Canadian lumber companies essentially agree to produce lumber and therefore maintain employment regardless of market conditions. For instance, in British Columbia some timber licenses prohibit closing a mill or even reducing capacity without government approval.

What this means is that these market-distorting policies encourage artificially inflated timber harvests, overproduction of lumber, and lead to uneconomic decisions by Canadian lumber producers. As one Canadian observer noted: "Canadian provinces continue to sell timber, no matter how low the price falls, to maintain employment and public revenues." What this means for the U.S. industry is that Canadian lumber companies are forced to pump lumber into the U.S. market at below the cost of production—a practice that is condemned as anti-competitive and actionable under domestic and international trade laws. A leading Canadian newspaper, the Montreal Gazette, noted the following admission from an industry source earlier this year: "we're caught with our pants down because there's no question we were pumping lumber into the market at below the cost of production in the last three or four months of last year."

The web of Canadian policies that results in subsidized and dumped imports is basically the product of the Canadian government's policy to artificially protect its lumber industry and its workers. These policies are designed to artificially maintain employment in the Canadian industry, which seems fine on its face. But when arti-

ficially maintaining employment in the Canadian industry comes at the expense of the otherwise competitive U.S. mills and workers, and the battleground is the U.S. market, the U.S. government most certainly has not only the right, but the obligation, to protect its industry and workers from unfair trade by vigorously enforcing the U.S. trade laws.

I should be clear here as to what the U.S. industry expects of the U.S. government. We're not seeking any special kind of protection or status; just the relief we deserve and are entitled to under nationally and internationally recognized principles of international trade.

The primary forum for this dispute is at the U.S. Department of Commerce and the U.S. International Trade Commission, and then, in all likelihood, international dispute settlement panels under NAFTA and the WTO. The Congress, however, has an important role to play in ensuring through oversight that the U.S. trade laws are fully and vigorously enforced at the agency level, and defended vigorously during international dispute settlement and negotiations.

The Congress also has a role to play in supporting a negotiated settlement. The position of the Coalition has consistently been one supportive of government-to-government negotiations, but Canada has been slow to come to the table, and we are concerned that any proposals that do arise will be wholly inadequate. Canada has refused to begin negotiations, claiming that an industry consensus in Canada for this issue does not yet exist, but is still pushing the U.S. government to appoint special "envoys." Until such time as Canada comes to the bargaining table, however, it is likely to be futile and indeed counterproductive, for the United States to seek to discuss proposed solutions.

I would also like to address arguments that have been made by certain organizations that claim to represent lumber consumers—organizations that by the way are funded at least in part by the Canadian lumber industry. These organizations raise the questions of how much the imposition of antisubsidy and antidumping duties on lumber from Canada would result in an increase to the cost of buying a home. Well, I would just like to say that this question has been asked and answered.

U.S. government agencies have looked into this issue—that is, the effect that lumber prices have on the cost of a new home—and time and time again have concluded that the cost of lumber makes up such a small part of the overall cost of a home (NAB figures show that lumber accounts for just over 2% of the cost for an average new single-family home) that an increase in lumber prices, some share of a duty passed on to consumers, simply does not have a significant impact on housing costs and does not have the effect of limiting a significant number of potential homeowners from the market. The numbers just don't support the claims that are being made. But even a moderate price impact means the difference in life-or-death for many U.S. mills and workers.

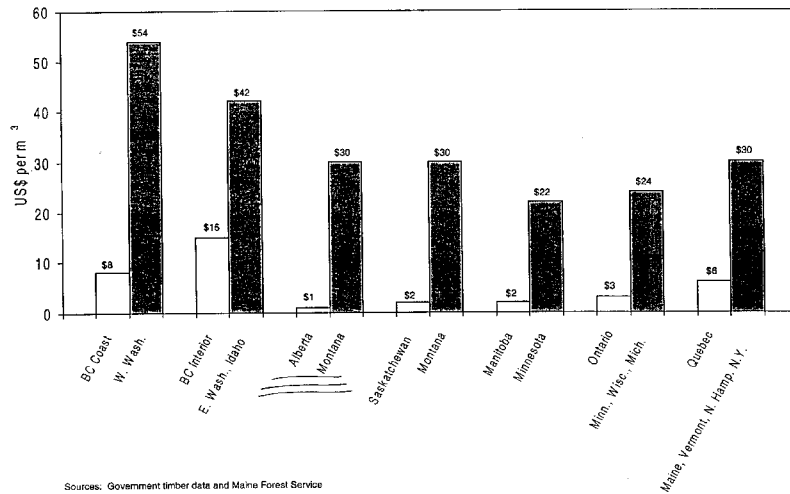
I also want to make it clear to our customers—to all lumber consumers—that what we're doing is in their long-term interest as well. Canadian subsidies and dumping have put us in such a position that if we don't get the trade relief we deserve, or come up with another type of acceptable solution, we're going to be driven out of the business of selling softwood lumber altogether. That means that our customers would be left to the mercy of a reduced supplier base and the artificial pricing practices of the Canadian industry. I think it's safe to say that no consumer wants to be in that position. U.S. consumers should, at least, join us in a call for open and competitive markets in lumber and timber; that's a long-term fair solution for everyone.

The primary and overarching aim of the U.S. industry is to have market forces, not government policies, determine the price and volume of softwood timber. That's the way a market should operate, and the only way that both producers and consumers can be satisfied. From the beginning of this dispute, all that the U.S. industry has sought is open and fair competition in timber, logs and lumber. If the Canadian governments revise their policies and provide for market-based pricing for timber, this dispute will be over. That will give us a fair chance, and that's all that we're asking for. If that is not achieved, however, as a matter of survival we have to defend our right to conduct business in our own market. And we need the Congress to ensure that our rights are fully protected.

First, the Congress should, through careful oversight, insist on the full enforcement of the antidumping, anti-subsidy and injury laws. Second, we need the Congress to insist that this terribly important issue not be undermined by international dispute settlement by supporting legislative efforts such as the Baucus-Craig bill from last year concerning Chapter 19 of the North American Free Trade Agreement. And third, we need the Congress to support real negotiations, but not misguided "talks" of non-governmental "envoys" that may jeopardize our industry.

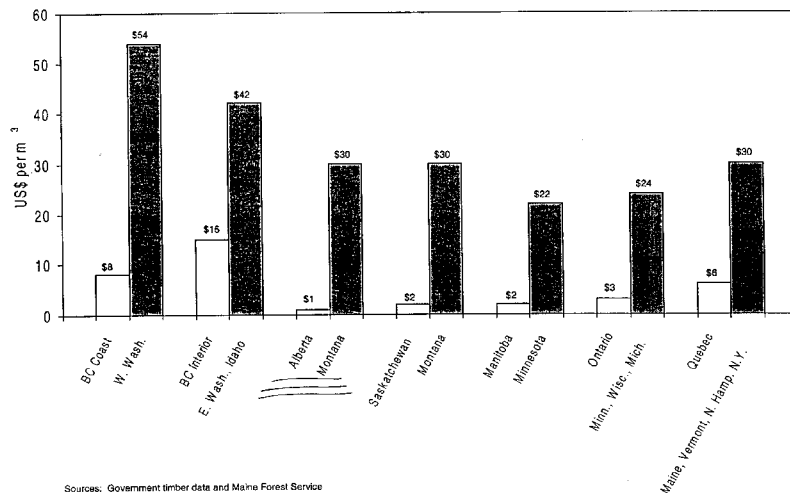
Once again, I would like to thank all the Members for the time they have taken out of their busy schedules to attend this hearing on the very important issue of softwood lumber trade between the United States and Canada. We want to thank Undersecretary Aldonas and Secretary Evans for making this matter a priority. I would like to especially thank Senator Baucus and the other Senators for their leadership on this issue.

COMPARISON OF CANADIAN PROVINCIAL SOFTWOOD STUMPAGE RATES AND U.S. SOFTWOOD TIMBER PRICES IMMEDIATELY ACROSS THE BORDER



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COMPARISON OF CANADIAN PROVINCIAL SOFTWOOD STUMPAGE RATES AND U.S. SOFTWOOD TIMBER PRICES IMMEDIATELY ACROSS THE BORDER

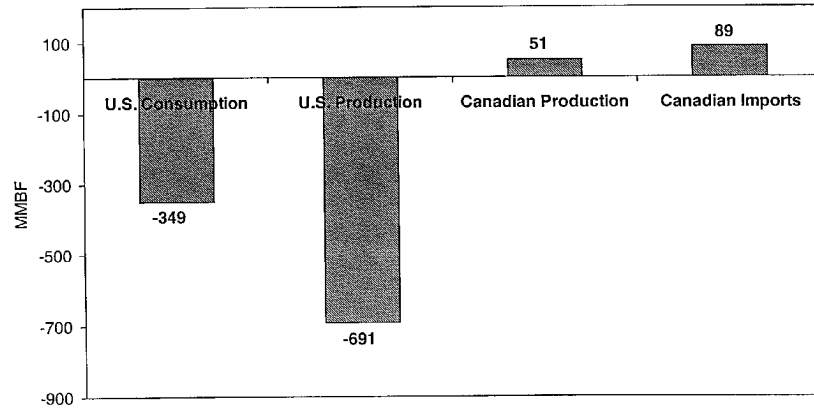


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SERIOUS INJURY TO U.S. MILLS

U.S. PRODUCTION DECLINED AS A REACTION TO THE DROP IN CONSUMPTION, WHILE CANADA INCREASED PRODUCTION

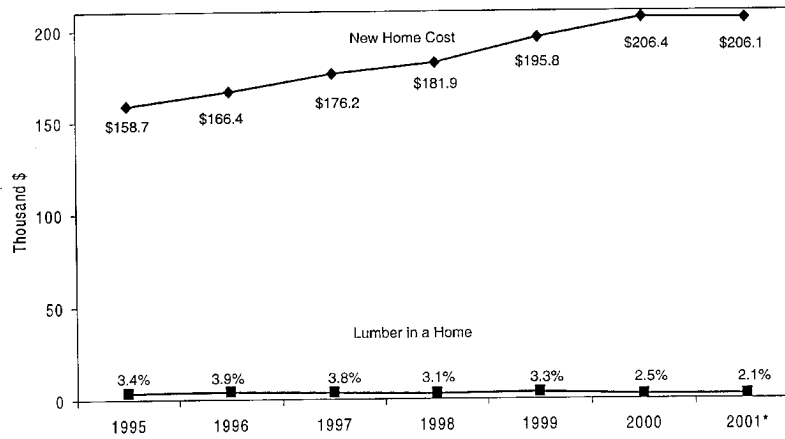
U.S. AND CANADA SOFTWOOD TRADE AND CONSUMPTION CHANGE FOR 1999 v. 2000



Source: American Forest & Paper Association, "Statistical Roundup"; Census IM-145 & EM545 data; 35-003-XPB, Statistical Canada
 Note: Canadian 2000 production estimated based on data through November.

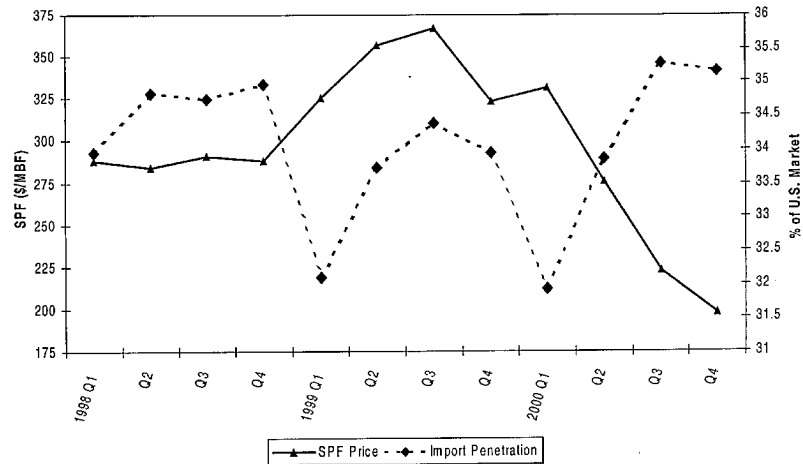
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LUMBER HAS NOT CAUSED HOUSING COST INCREASES UNDER THE AGREEMENT



Sources: U.S. Census Bureau; *Random Lengths*; NAHB
 * Preliminary data for January only.

SPF PRICE v. CANADIAN IMPORT PENETRATION



Source: Random Lengths, US Department of Commerce and AF&PA

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U.S. and Canada Softwood Lumber Trade and Production
Quantities in MMBF

	U.S.		Canadian			Prices (\$/MBF)		
	Consumption	Production	Production	Imports	IP	Western SPF	Composite	Import AUV
1998 Q1	12,461	8,423	6,906	4,229	33.9%	\$288.00	\$367.67	\$362.16
Q2	13,249	8,766	7,155	4,613	34.8%	\$283.67	\$344.00	\$351.68
Q3	13,486	8,931	6,669	4,685	34.7%	\$290.67	\$342.00	\$351.76
Q4	12,907	8,557	6,865	4,512	35.0%	\$288.33	\$340.67	\$344.50
TOTAL 1998	52,103	34,678	27,594	18,039	34.6%	\$288.00	\$349.00	\$352.36
1999 Q1	12,770	8,843	7,060	4,100	32.1%	\$325.00	\$384.00	\$367.86
Q2	14,343	9,628	7,509	4,837	33.7%	\$356.67	\$425.00	\$399.81
Q3	13,796	9,173	7,286	4,742	34.4%	\$367.33	\$424.00	\$426.86
Q4	13,447	8,961	7,147	4,565	33.9%	\$322.67	\$375.33	\$382.75
TOTAL 1999	54,356	36,606	29,003	18,244	33.6%	\$343.00	\$402.00	\$395.39
2000 Q1	14,014	9,639	7,656	4,467	31.9%	\$331.00	\$383.67	\$387.40
Q2	14,328	9,541	7,585	4,852	33.9%	\$275.67	\$337.00	\$369.50
Q3	13,142	8,559	6,781	4,630	35.2%	\$222.67	\$294.00	\$325.23
Q4	12,524	8,176	7,033	4,384	35.0%	\$198.33	\$277.00	\$308.02
TOTAL 2000	54,007	35,915	29,054	18,333	33.9%	\$257.00	\$323.00	\$347.98
2000 Jan-Feb	8,931	6,160	4,876	2,849	31.9%	\$334.50	\$386.00	\$388.61
2001 Jan-Feb	7,976	5,223	4,933	2,754	34.5%	\$188.00	\$275.00	\$290.12

Sources: American Forest & Paper Association; U.S. Department of Commerce; Statistics Canada; Random Lengths.