CANADIAN/U.S. COMPETITION AND TRADE POLICIES IN FOREST PRODUCTS
THE CANADIAN VIEW

BY: A. W. Guy, Canadian Senior Trade Commission
THANK YOU, MR. CHAIRMAN, FOR YOUR KIND REMARKS. IT IS A PLEASURE TO BE HERE WITH YOU AS YOU ANALYZE AN INDUSTRY THAT CERTAINLY IS ON THE UPSWING IN THE SOUTHEAST, AN INDUSTRY THAT IS CERTAIN TO PROVIDE ADDITIONAL JOBS AND OPPORTUNITIES FOR SOUTHERNERS AS WE MOVE INTO THE LATE STAGES OF THE 1900'S.

I SUPPOSE WE COULD VIEW THE RESURGENCE IN THE SOUTHEAST FOREST INDUSTRY AS HAVING COME "FULL CIRCLE" AND AS QUITE TYPIFIED BY THE RETURN TO THE SOUTH OF ONE OF THE MAJORS IN THE FOREST INDUSTRY--GEORGIA PACIFIC. WHILE OTHER MAJORS IN THIS INDUSTRY MAY NOT NECESSARILY RELOCATE THEIR ENTIRE CORPORATE HEADQUARTERS TO THE SOUTH, THERE ARE CERTAINLY OBVIOUS SIGNS OF RENEWED VIGOR AND INVESTMENT IN THE SOUTHEASTERN FOREST INDUSTRY.

I THOUGHT I WOULD TAKE THE OPPORTUNITY IN ADDRESSING YOU TODAY TO PROVIDE A LITTLE BACKGROUND ABOUT CANADA, ITS SIZE AND ITS RELATIONSHIP WITH THE UNITED STATES. I WOULD LIKE TO TOUCH ON OUR TRADE BALANCE AND ON SOME STATISTICS, WHICH EVERY ECONOMIST LOVES TO HAVE, AS TO THE VALUE AND EXTENT OF OUR TWO-WAY TRADE AND SOME EXAMPLES OF FOREST INDUSTRY TRADE. I WOULD THEN LIKE TO DISCUSS THE CURRENT SUBMISSION BEFORE THE DEPT. OF COMMERCE AND THE INTERNATIONAL TRADE COMMISSION WITH RESPECT TO THE REQUEST FOR COUNTERVAILING DUTIES DEMANDED BY THE "U.S. COALITION FOR FAIR CANADIAN LUMBER IMPORTS." IF I MAY, I WOULD LIKE TO RESPOND, PROVIDING YOU WITH THE CANADIAN GOVERNMENT'S VIEWPOINTS ON THIS COUNTERVAILING APPLICATION, WHILE FULLY COGNIZANT AND AWARE THAT THE PRELIMINARY DECISION OF LAST MONTH IS STILL BEING REVIEWED AND, IN FACT, IS BEING APPEALED AT THIS TIME IN THE COURT OF INTERNATIONAL APPEAL IN NEW YORK CITY. IT IS INTERESTING TO NOTE THAT THE JUDGE HEARING THIS APPEAL ASKED THE ESSENTIAL QUESTION OF "WHAT IS STUMPAGE?".
AFTER HAVING MY CHANCE TO EXPLAIN OUR POSITION, I WOULD THEN LIKE TO FOLLOW UP WITH WHAT WE SEE AS THE OUTLOOK FOR THE SOUTHEAST GENERALLY AS IT RELATES TO CANADA, THE CANADIAN FOREST PRODUCTS INDUSTRY AND THE RELATIONSHIPS BETWEEN THE TWO COUNTRIES.

A NUMBER OF YOU, BECAUSE OF THE NATURE OF THE INDUSTRY, WILL ALREADY HAVE HAD AN OPPORTUNITY TO VISIT CANADA—EITHER IN OUR HEAVILY FORESTED AREAS OF QUEBEC AND ONTARIO AND EVEN INTO THE MARITIMES PROVINCES, OR IN THE WESTERN PROVINCE OF BRITISH COLUMBIA, VERY SIMILAR IN TOPOGRAPHY AND TREE SPECIES TO THE U.S. NORTHWEST. FOR THOSE OF YOU WHO HAVE NOT HAD AN OPPORTUNITY I WOULD LIKE TO EXTEND AN INVITATION TO VISIT WITH US SOME TIME; IF THERE IS ANYTHING I CAN DO TO ASSIST, PLEASE DO NOT HESITATE TO CONTACT ME AT THE CONSULATE GENERAL IN ATLANTA.

COMMODITY AREAS WILL EXCEED $100 BILLION (CANADIAN) FOR 1982. THIS WILL BE A
NEW RECORD DESPITE THE DOWNTURN IN THE ECONOMY IN BOTH COUNTRIES.

MY PRIME MINISTER COINED A PHRASE IN A SPEECH IN THE UNITED STATES ONE
TIME, SAYING THAT "LIVING NEXT TO THE UNITED STATES IS LIKE SLEEPING WITH AN
ELEPHANT. YOU FEEL EVERY GRUNT AND EVERY GROAN AND ONE CERTAINLY HOPES THE
ELEPHANT DOESN'T ROLL OVER." IN OTHER WAYS, LIVING WITH THE U.S. HAS OFTEN BEEN
TERMED DANGEROUS, PARTICULARLY IN ECONOMIC DOWNTURNS, BECAUSE WE ARE SO
ECONOMICALLY INTER-RELATED THAT WHEN THE U.S. SNEEZES CANADA CATCHES THE COLD.

NOTWITHSTANDING THIS MEDICAL DANGER, WE HAVE, AS I MENTIONED, THE LARGEST
TRADE EXCHANGE OF ANY TWO COUNTRIES IN THE WORLD. EACH IS BY FAR THE OTHER'S
BEST CUSTOMER. MANY PEOPLE IN THE US MISTAKENLY BELIEVE THAT JAPAN IS YOUR BEST
TRADING PARTNER. I AM ABLE TO CONFIRM TO YOU THAT THE US SELLS TO CANADA MORE
 THAN IT SELLS TO JAPAN, BRITAIN AND GERMANY COMBINED. SIMILARLY, THE US BUYS
MORE FROM CANADA THAN FROM ALMOST THE ENTIRE EUROPEAN COMMON MARKET.

NATURALLY WITH A TRADING RELATIONSHIP OF THIS MAGNITUDE THERE WILL ALWAYS
BE GREAT IRRITANTS. A LOT OF THESE IRRITANTS, HOWEVER, ARE SETTLED IN A
FRIENDLY CROSS BORDER MANNER, BETWEEN COMPANIES THEMSELVES OR BETWEEN
ASSOCIATIONS, AND NOT ALL OF THEM REACH THE LEVEL OF GOVERNMENT NEGOTIATIONS.
ONE SUCH TRADE IRRITANT I WOULD LIKE TO DISCUSS A LITTLE LATER IN THIS ADDRESS
IS THE APPLICATION FOR COUNTERVAILING DUTIES ON IMPORTS OF CDN LUMBER.

WHAT IS THE MAKEUP OF CANADA/US TRADE? THE MAJOR DOMINATING COMMODITY IN
OUR TRADING RELATIONSHIP--AND THIS IS IN BOTH DIRECTIONS--IS AUTOMOBILES. QUITE
A NUMBER OF YOU, WITHOUT KNOWING IT, MAY ALREADY BE DRIVING AN AUTOMOBILE
ASSEMBLED IN CANADA. YOU WILL NOTE I SAID ASSEMBLED AND NOT PRODUCED IN CANADA.
WHILE THE FINAL ASSEMBLY MAY TAKE PLACE IN ONE OF THE PLANTS OF THE MAJOR THREE
NORTH AMERICAN AUTOMOBILE MFRS., A GREAT NUMBER OF COMPONENT PARTS WOULD BE MADE
IN THE UNITED STATES. THIS IS JUST AN INDICATION OF THE ENORMOUS
Range of products exchanged between our two countries. They stem from the natural resource area of minerals, oil and gas and continue through a complete range of agricultural products, fisheries products, into manufactured goods and very sophisticated high tech equipment. Canada, for example, is buying 137 F-18 fighters from McDonnell-Douglas in St. Louis for the Canadian armed services. We have recently purchased additional aircraft from Lockheed Corp. as well as Boeing Corp. both for military and civilian uses. We are probably your largest customer for computer equipment. Likewise, the United States is a destination for Canadian computer equipment and CDN aircraft. Mr. Iacocca, chairman of Chrysler Corp., recently purchased a corporate jet made by Canadair in Montreal.

I would like to cite some specific examples in the forest products industry and provide you with indicative totals of trade between Canada and the southeastern United States in that commodity area. During 1982 for example, the following indicates the value between the southeastern states and Canada as far as trading relationships. The major state exporting to Canada is Florida. Canadians purchased approximately $800 million worth of Florida goods, not restricted citrus products. Canada buys a considerable percentage of hi tech commodities from that state. Next on our list of sales into Canada from the southeastern US would be North Carolina, which in 1982 exceeded $750 million. This is very close to the Florida figure, and following that was Tennessee, with just over a half billion; Georgia at almost $400 million; South Carolina and Alabama both approx $450 million; and Mississippi at $150 million. It is interesting to note that lumber and related products, including paper, are not a one way street from Canada to the US. For example, Canada purchased almost $20 million worth of forest related products from Alabama, double that amount from North Carolina, almost $20 million from Georgia, $12 million from
TENNESSEE AND APPROX $31 MILLION WORTH FROM BOTH FLORIDA AND SOUTH CAROLINA, AS WELL AS A LITTLE OVER A MILLION DOLLARS WORTH FROM MISSISSIPPI. OBVIOUSLY THE FOREST INDUSTRY IN THE SOUTH IS IMPORTANT NOT JUST TO THE U.S. AND OTHER OFFSHORE MARKETS, BUT ALSO TO CANADA, GENERALLY REGARDED AS THE HEWER OF WOOD AND DRAWER OF WATER.

THE TOTAL PURCHASES FROM THE SOUTHEASTERN U.S. THEREFORE EQUAL $3.3 BILLION. TURNING THIS AROUND, WE FIND THAT THE TOTAL SALES FROM CANADA TO THE SOUTHEASTERN U.S. WERE JUST UNDER $3 BILLION. AS YOU CAN SEE THERE IS A SUBSTANTIAL TRADE BALANCE IN FAVOR OF THE SOUTHEASTERN STATES. I WOULD WISH TO ASSURE YOU THAT CANADA DID NOT IMMEDIATELY APPLY FOR COUNTERVAILING DUTIES TO OFFSET THIS FAVORABLE BALANCE.

CANADIAN SALES TO THIS AREA ARE SPEARHEADED BY APPROX $800 MILLION TO THE STATE OF GEORGIA, FOLLOWED BY $600 MILLION TO TENN, THE SAME TO FLORIDA, $400 MILLION TO NORTH CAROLINA, $230 TO ALABAMA, OVER $150 TO SOUTH CAROLINA AND APPROX $76 MILLION TO MISSISSIPPI. IN THE SPECIFIC AREA OF LUMBER & RELATED PRODUCTS, CANADA DOES HAVE A FAVORABLE BALANCE. IN 1982 OUR EXPORTS TO THIS SOUTHEASTERN AREA WERE PREDOMINATED BY SALES OF LUMBER AND PAPER INTO FLORIDA—APPROX $250 MILLION. THERE IS A SIGNIFICANT DROP AFTER THAT TO TENN. OF APPROX $150 MILLION, WHICH HAS A SUBSTANTIAL CONTENT OF FINE PAPER FOR THE SONG SHEETS, BIBLICAL PUBLICATIONS, ETC. PRODUCED IN TENN. GEORGIA FollowS with APPROX $120 MILLION, NORTH CAROLINA WITH $88, SOUTH CAROLINA WITH $67, ALABAMA WITH APPROX $40 MILLION and MISSISSIPPI WITH JUST LESS THAN $20 MILLION.

YOU WILL NO DOUBT HAVE SEEN CHARTS THAT INDICATE THE CANADIAN SHARE OF THE LUMBER MARKET IN THE SOUTHERN STATES IS, IN SOME CASES, TERMED OVERWHELMING AND IN OTHERS JUST MARGINAL. FOR EXAMPLE, IT IS CLAIMED THAT 60% OF THE SOFT LUMBER SALES IN FLORIDA ARE FROM CANADA. THESE ARE PRINCIPALLY COMING BY BARGE THROUGH THE PANAMA CANAL WITH OFFLOADING AT TAMPA, MIAMI, FT. LAUDERDALE AND
JACKSONVILLE. SOME OF THIS IS ALREADY MOVING UP THE EAST COAST INTO SAVANNAH, AND CANADA CURRENTLY ENJOYS A 57% SHARE OF THE GEORGIA MARKET FOR LUMBER. IN THE CAROLINAS AND TENN. THE MARKET IS APPROX 40% CANADIAN LUMBER AND IN ALABAMA ONLY 20% AND DOWN TO 12% IN MISSISSIPPI. IN PARTS OF GEORGIA AS WELL AS MOST OF THE SALES INTO THE CAROLINAS AND TENN., LUMBER IS COMING DOWN BY RAIL NORMALLY ON UNIT TRAINS ACROSS CANADA BY BOTH CANADIAN NATIONAL AND CANADIAN PACIFIC RAILWAYS TO OFFLOADING STATIONS IN SOUTHERN ONTARIO. IT IS THEN CUSTOM SELECTED AND SHIPPED TO THE VARIOUS LUMBER YARDS IN THE SOUTHERN STATES AND SHIPPED BY RAIL. THERE HAVE RECENTLY BEEN SOME INCREASES IN TRUCK SHIPMENTS.


WE HAVE OUR ECONOMIC PROBLEMS IN CANADA. WE HAVE A PROPORTIONATELY HIGHER DEFICIT BY THE FEDERAL GOVT IN CANADA THAN YOU HAVE IN THE US. I SAY PROPORTIONATELY GIVEN THE SIZE OF THE ECONOMY IN GENERAL AND THE POPULATION. IF THE ANTICIPATED CDN GOVT BUDGET WERE EXTRAPOLATED INTO US TERMS, YOU WOULD FIND THAT YOUR OWN BUDGET DEFICIT WOULD BE APPROX TWICE AS LARGE AS IS CURRENTLY BEING PROJECTED. WHEN ONE STARTS TO THROW AROUND FIGURES SUCH AS YOUR DEFICIT IT CERTAINLY LEADS PERSPECTIVE ON THE TOTAL TRADE BETWEEN OUR TWO
COUNTRIES. AS I MENTIONED, WE ARE NOW OVER $100 BILLION DOLLARS IN TRADE VALUE, WHICH I THOUGHT UNTIL RECENTLY WAS A SIGNIFICANT AND OVERWHELMING AMOUNT OF MONEY. I NOW REALIZE THAT $100 BILLION IS ACTUALLY NOT EVEN ONE YEAR’S DEFICIT OF THE US FEDERAL GOVERNMENT.

NOTWITHSTANDING THE FAVORABLE BALANCE OF TRADE IN CANADA’S FAVOR IN FOREST PRODUCTS BETWEEN THE SOUTHEASTERN REGION AND CANADA, I WOULD SUGGEST THAT THE CURRENT APPLICATION FOR COUNTERVAILING DUTIES IS NOT AN APPROPRIATE METHOD OF SETTLING ANY TRADE DISPUTES WITHIN THAT COMMODITY AREA. WE HAVE ALWAYS HAD AN OPEN BORDER POLICY, AND PRODUCTS MOVE BACK AND FORTH QUITE FREELY. TO HAVE IT ANY OTHER WAY WOULD BE DISRUPTIVE IN BOTH OUR OWN ECONOMIES AND WOULD RESULT IN HIGHER PRICED PRODUCTS TO THE CONSUMER, OUR ULTIMATE CUSTOMER. AS IT STANDS NOW, THE US DEPT. OF COMMERCE HAS ISSUED ITS PRELIMINARY DECISION THAT CANADA IS NOT SUBSIDIZING LUMBER SHIPMENTS TO THE UNITED STATES. I WOULD LIKE TO GO INTO THIS TOPIC AT A LITTLE MORE DEPTH AND EXPLAIN WHY WE FULLY AGREE WITH THE DEPARTMENT’S FINDING AND LOOK FORWARD TO ITS CONFIRMATION NEXT MONTH WITH THE FINAL RULING. FIRST, HOWEVER, I THINK IT’S ONLY PROPER TO REVIEW THE TWO KEY WORDS USED IN THIS ENTIRE MATTER—SUBSIDY AND STUMPAGE.

ACCORDING TO WEBSTER, A WELL KNOWN AMERICAN WHO PRODUCED A DICTIONARY OF GREAT USE, SUBSIDY IS DEFINED AS “A GOVERNMENT GRANT TO A PRIVATE ENTERPRISE.” THAT SEEMS FAIRLY CLEAR. STUMPAGE, HOWEVER, IS SOMEWHAT NEBULOUS AND IS USUALLY DEFINED AS THE “VALUE OF STANDING TIMBER” OR SOMETIMES AS “THE RIGHT TO CUT THAT TIMBER.” IN ESSENCE, THE DIFFERENCE BETWEEN THE STUMPAGE PRICES IN CANADA CHARGED BY PROVINCIAL GOVERNMENTS TO LUMBER COMPANIES AND THE STUMPAGE PRICES CURRENTLY IN PLACE IN THE UNITED STATES HAS BEEN INTERPRETED AS A SUBSIDY. OBVIOUSLY THERE ARE SEVERAL DIFFERENT LEVELS OF GOVERNMENT INVOLVED, INCLUDING TWO NATIONAL GOVERNMENTS; THEREFORE, WE’RE NOT EVEN SPEAKING OF THE SAME COUNTRY. ALSO YOU WILL NOTICE THE SUBSIDY TERMED AS A GRANT TO PRIVATE
ENTERPRISE HAS NOW BEEN INTERPRETED AS THE AMOUNT CHARGED BY ONE GOVERNMENT NOT BEING THE SAME AS THAT CHARGED BY ANOTHER GOVERNMENT FOR ESSENTIALLY THE SAME PRODUCT. LOOSELY INTERPRETED, THEREFORE, THE LOWER CHARGING GOVERNMENT IS SUBSIDIZING ITS INDUSTRY. IN THE VIEW OF CDN AUTHORITIES, THESE ALLEGATIONS HAVE NEITHER SUBSTANCE NOR MERIT. WHAT IS CLEARLY AT PLAY IN THE ECONOMIES OF BOTH COUNTRIES IS AN EXTREME DOWNTURN IN THE CONSTRUCTION BUSINESS, PARTICULARLY HOME CONSTRUCTION, AND IN THE NATURAL EVOLVEMENT IN THE SCHEME OF THINGS IN THE FREE MARKET INDUSTRY; THERE ARE CLOSURES AND CUT BACKS.

LET ME RETURN TO THE CONCEPT OF STUMPAGE. IT IS WELL ACCEPTED THAT THERE IS NO INTERNATIONAL NORM GOVERNING CHARGES FOR STUMPAGE, NOR IS THERE ANY INTERNATIONAL "STUMPAGE MARKET." IN FACT, PRACTICES VARY WIDELY FROM COUNTRY TO COUNTRY. THIS DEPENDS ON THE OWNERSHIP OF THE TIMBER, ITS TYPE AND ITS QUALITY, ITS ACCESSIBILITY, THE OBLIGATIONS REQUIRED OF THE HARVESTER AND A BROAD RANGE OF OTHER FACTORS. THIS IS CERTAINLY THE CASE CURRENTLY BETWEEN CANADA AND THE US, AS IT IS BETWEEN INDIVIDUAL STATES IN THE U.S AND INDIVIDUAL PROVINCES IN CANADA.

USUALLY, PROVINCIAL GOVERNMENTS IN CANADA CHARGE CROWN STUMPAGE DETERMINED WITHIN CONTRACTUAL CONDITIONS OF LONG TERM FOREST TENURE ARRANGEMENTS. IT IS SIMPLY NOT THE FACT THAT IF YOU WISH TO CUT THIS STAND OF TIMBER TODAY YOU MUST PAY ME X DOLLARS. THE ARRANGEMENTS, LONG TERM, USUALLY CONFER ON THE APPLICANT THE RIGHT TO HARVEST A PARTICULAR FOREST AREA WITHIN, OF COURSE, SUSTAINABLE ANNUAL LIMITS, IN RETURN FOR THE APPLICANT'S ACCEPTANCE OF SPECIFIED FOREST MANAGEMENT OBLIGATIONS AND, OF COURSE, THE EVENTUAL PAYMENT OF STUMPAGE WHEN THE CUTTING RIGHTS ARE EXERCIZED. NOW WHILE THIS GENERATES REVENUE FROM THE SALE OF TIMBER, IT ALSO ENSURES THE MAINTENANCE OF AN EFFECTIVE SYSTEM OF FOREST MANAGEMENT AND ENCOURAGES LONG TERM AND INTEGRATED DEVELOPMENT OF INDUSTRIES BASED UPON THOSE RESOURCES. YOU WILL NOTE THAT THERE IS AN ACTUAL PAYMENT OF
THE PRIVATE ENTERPRISE TO THE GOVERNMENT IN ALL THESE STUMPAGE CONSIDERATIONS. IT IS NOT A GOVERNMENT GRANT, BUT ACTUALLY A GOVERNMENT COLLECTION.

IN SEEKING THE IMPOSITION OF COUNTERVAILING DUTIES THE PETITIONERS INCLUDED THE DIFFERENCE BETWEEN THE STUMPAGE PRICE PAID BY CDN MILLS AND SOME ALLEGED MARKET VALUE. IN NORTH AMERICA THEY SUGGESTED THE VALUE SHOULD BE THE PRICE ESTABLISHED BY AUCTIONING TIMBER. THE CDN AUTHORITIES, HOWEVER, SEE NO GROUNDS WHATSOEVER FOR THIS POSITION. THE VALUES ESTABLISHED UNDER THAT METHOD CURRENTLY IN USE IN THE US ARE BASED ON LITTLE MORE THAN SPECULATION REGARDING THE LEVEL OF FUTURE DEMAND AND OF COURSE FUTURE PRICES. IT APPEARS TO BE MORE OF A COMMODITY GAME THATS USUALLY PLAYED ON THE CHICAGO COMMODITY EXCHANGE THAN THE LONG TERM INTERESTS OF FORESTRY DEVELOPMENT AND CONSUMER PRICES.

WHAT MIGHT BE INTERESTING TO NOTE, AND THIS WAS POINTED OUT IN THE U.S. INTERNATIONAL TRADE COMMISSION REPORT TO THE SENATE FINANCE COMMITTEE LAST SPRING, IS THAT THE AUCTION SYSTEM OVER THE PAST SEVERAL YEARS HAS RESULTED IN PRICES FAR ABOVE WHAT MIGHT BE CONSIDERED ECONOMIC IN TODAY'S DEPRESSED MARKET. IT IS ALSO NOTEWORTHY THAT THE CURRENT BIDS ARE CONSIDERABLY LOWER.

THE AUCTION SYSTEM IS ONLY ONE OF MANY METHODS USED TO ESTABLISH STUMPAGE IN THE US. THEREFORE, IT SCARCELY SEEMS REASONABLE TO SUGGEST THAT THIS SYSTEM SHOULD BE APPLIED TO CANADA OR THAT THE DIFFERENCE BETWEEN CDN PRICES AND THE USA AUCTION PRICES THAT WERE USED SHOULD BE SOME MEASURE OF SUBSIDIZATION. LET ME CLEARLY EXPLAIN THAT THERE ARE FOUR MAIN REASONS WHY CDN STUMPAGE PRACTICES CONCERNED WITH LONG TERM MANAGEMENT OF THE FOREST INDUSTRY CANNOT BE HELD TO CONSTITUTE A SUBSIDY. THEY ARE:
1. Unlike the United States, the overwhelming proportion of forest resources in Canada is owned by the various provincial governments. Where forest lands are privately held, they are generally not available for stumpage sale. The provincial government, in offering these resources, is not providing the operator with timber which might otherwise have been supplied by private owners or even at prices lower than some presumed market value.

2. The resources are available to all potential operators on a similar basis, regardless of whether the industry is producing softwood or hardwood lumber, pulp & paper, shingles, shakes or any other associated product. It is also available regardless of whether it is produced for CDN domestic consumption or for export, not only to the United States, but also to Europe and the Far East. (I might note at this time that we are a significant supplier of lumber to Japan as well as to European countries. We have taken the lead in introducing to Europe, as well as to Japan, the concept of timber frame housing. I am sure you will appreciate that this concept has benefited not just Canada and CDN suppliers but those firms located in the US as well).

3. The third main reason that stumpage practices cannot be held to constitute a subsidy is the fees collected, by the provincial governments in each case, together with the downstream benefits of forest management be it for environmental, recreation or otherwise, more than compensate for any costs incurred in acquiring and maintaining these resources.

4. The fourth reason is that stumpage fees established by these provincial governments are periodically adjusted to reflect changing commercial conditions. As a result there is a market force in play, but they are not "bid up" the way they are in the United States.
There are a broad range of other federal and provincial programs that have been introduced as other subjects of complaint by the petitioners. In a number of cases the facts presented are quite erroneous and actually show a complete misunderstanding of the situation described. Some of the programs cited are not designed to benefit any particular industry, in this case such as the forest industry, but are generally available to all qualified enterprises in every category. The few that do deal with the forest products sector are concerned with efficient management and regeneration of the resource which is clearly comparable to activities of a number of U.S. federal and state agencies.

Under the GATT code on subsidies and countervailing duties, such injury must be material and must be causally linked to the subsidized imports. There is no question, and all recognize that various forest products industries in the US as in Canada are currently facing serious difficulties. However, in both countries the main reason for the difficulties is, as I mentioned earlier, the steep decline in housing starts. I would confirm to you that CDN production of softwood lumber was actually 12% less in volume in 1981 than in previous years, and although I do not have the full figures for 1982, it is further expected to be less than in 1981. For the first eight months in 1982 it fell actually a further 7%. This is, of course, the same situation that applies to US forest industries. Some mills across Canada have already had to close or substantially cut back their operations.

As I indicated earlier, CDN suppliers have gained a slightly larger share of the US market in very recent years; but, as I mentioned, this is viewed as entirely due to such competitive factors as the decline in the value of the CDN dollar and, of course in certain areas of the US market, to uneconomic stumpage
PRICES BID UP IN THE LATE 70'S WITH AN EXPECTATION IN GROWTH AND DEMAND AND RATE OF INFLATION THAT FAILED TO MATERIALIZE.

IT MAY BE SURPRISING TO NOTE, AND I REITERATE, THAT CDN SHIPMENTS TO THE UNITED STATES HAVE ACTUALLY DECLINED DURING 1982. THEY ARE ROUGHLY 1/3 BELOW THAT REACHED JUST THREE YEARS PREVIOUSLY.


BEARING IN MIND THE BROADER IMPLICATIONS OF A SUCCESS OF THIS TYPE OF COUNTERVAILING APPLICATION, CONSIDERATION WOULD NEED TO BE GIVEN TO THE PRECEDENT THAT WOULD BE ESTABLISHED IF ALL REGULATED PRICES OF RAW MATERIALS AND OTHER PRODUCTION INPUTS WERE VULNERABLE TO CHARGES OF "GOVERNMENT SUBSIDIZATION." FOR THE U.S., THIS WOULD AFFECT THEIR EXPORTS OF PETROCHEMICALS THROUGH THE REGULATION OF NATURAL GAS PRICES. IT WOULD ALSO AFFECT AGRICULTURAL PRODUCTS THROUGH THE PRICING OF WATER AND GRAZING RIGHTS. IT WOULD ALSO AFFECT A WIDE RANGE OF MANUFACTURED GOODS, BECAUSE THESE COSTS ARE,
IN TURN, AFFECTED BY REGULATED UTILITY RATES. THESE REGULATED RATES IN GAS,
WATER, UTILITIES, ETC. ARE NOT THE SAME FROM STATE TO STATE, THEY ARE NOT THE
SAME ACROSS INTERNATIONAL BORDERS. IT IS IN THIS CONTEXT THAT I WOULD SUGGEST
YOU VIEW THE ERRONEOUS ASSUMPTION MADE BY THE COMPLAINANTS THAT THE CDN
GOVERNMENT SUBSIDIZES LUMBER PRODUCTION. THE ODD AND IRONIC FACTOR OF THIS
WHOLE MATTER IS THAT THE CDN GOVERNMENT ITSELF, THE FEDERAL GOVERNMENT, DOES
NOT REGULATE STUMPAGE AT ALL. IT IS ACTUALLY APPLIED BY EACH PROVINCIAL
GOVERNMENT DEPENDING ON ITS OWN CONSIDERATIONS.

NOTWITHSTANDING THIS CURRENT TRADE IRRITANT, I DO SEE THE FUTURE OF THE
SOUTHEAST LUMBER INDUSTRY AS VERY ROSY. I AM SURE RECENT INDICATIONS OF THE
INCREASE IN HOUSING STARTS AND THE REDUCTION IN INTEREST RATES FORESHADOW A
BRIGHTER ECONOMIC PICTURE. WE ARE PARTICULARLY POSITIVE AND BULLISH IN OUR VIEW
OF THE USE OF SOUTHERN FOREST PRODUCTS. WE RECENTLY COMMISSIONED A STUDY ON THE
POTENTIAL FOR FOREST MACHINERY AND EQUIPMENT IN THE SOUTHEASTERN U.S., GIVEN OUR
BELIEFS THAT THE FUTURE OF THE FOREST INDUSTRY IN THE U.S. WILL BE CENTERED IN
THE SOUTH. THIS STUDY CONFIRMED OUR BELIEFS AND, IN FACT, STATES THAT THE
HARVESTING OF TIMBER IN THE SOUTH IS PROJECTED TO INCREASE BY 80% OVER THE NEXT
50 YEARS. I DO NOT HAVE TO TELL YOU, AS FORESTRY EXPERTS, THAT THE SOUTHEAST
GENERALLY CONTAINS TREES OF SMALLER DIAMETER AND GREATER DENSITY PER ACRE, OR
THAT THESE ARE FAST GROWING AND WIDELY RANGING IN SITE QUALITY. THERE ARE OF
COURSE, OTHER FACTORS WITH RESPECT TO THE SHIFT OF THE INDUSTRY, SUCH AS THE
GENERAL ACCESSIBILITY TO THE TIMBER STANDS BY EXISTING ROADS, ELIMINATING
ENORMOUS COSTS IN ROAD CONSTRUCTION. THEY DO, HOWEVER, REQUIRE DIFFERENT TYPES
OF EQUIPMENT FOR LOG REMOVAL, WHICH WAS ONE REASON FOR OUR STUDY. ODDLY ENOUGH,
STUMPAGE COSTS HERE IN THE SOUTH HAVE LAGGED BEHIND OTHER AREAS OF THE COUNTRY,
HOWEVER, RECENT TRENDS SEEM TO INDICATE THAT THIS IS CHANGING. SOMETHING THE
STUDY CONFIRMED AND WHICH WE ALL ASSUMED IS THAT TREES IN THE SOUTH ARE MORE
CROOKED, HAVE MORE LIMBS THAN THOSE IN OTHER SECTIONS OF THE U.S. AND CANADA, AND ACTUALLY TEND TO BE VINE-COVERED. THIS IS IMPORTANT NOT ONLY FOR FOREST HARVESTING, BUT IT IS ALSO IMPORTANT TO NOTE FOR WOOD USAGE. NATURALLY, ONE CAN ASSUME THAT THE SOUTHERN LOBLOLLY PINE IS NOT AS GOOD A STOCK LUMBER AS TREES PRODUCED IN A NORTHERN CLIME WHICH TEND TO BE STRAIGHTER WITH DENSER FIBRE AND THEREFORE A BETTER USE IN LUMBER PRODUCTION.


ODDLY ENOUGH, IN THE LAST TEN YEARS, THE TOTAL OF COMMERCIAL FORESTS IN THE SOUTHEASTERN STATES HAS INCREASED BY LESS THAN 1%. WHAT HAS ALSO BEEN HAPPENING IS THE DEMAND FOR AGRICULTURAL LAND AND RESIDENTIAL HOUSING HAS MORE THAN KEPT PACE WITH THE CONVERSION OF LAND TO FOREST PLANTATIONS OR TO NATURAL REGENERATION. NOTWITHSTANDING THIS LACK OF INCREASE, THERE IS, HOWEVER, A SIGNIFICANT CHANGE IN THE CHARACTER OF FOREST OWNERSHIP. THE RATE THAT FOREST PRODUCT CORPORATIONS SUCH AS INTERNATIONAL PAPER, WEYERHAUSER AND GEORGIA PACIFIC HAVE PURCHASED LAND HAS ACTUALLY DECREASED, BECAUSE THIS LAND HAS INCREASED TO THE APPROXIMATE VALUE OF AGRICULTURAL LAND. SOMETHING NEW THAT IS
HAPPENING, WHICH I AM SURE YOU ARE ALL AWARE OF, IS THE TREND TO NEW OWNERSHIP COMING FROM INVESTMENT GROUPS SUCH AS BANK TRUSTS AND PRIVATE INVESTMENTS, INCLUDING FOREIGN INTERESTS. WHILE IN 1980 ONLY 3% OF PRIVATELY HELD AGRICULTURAL LAND IN THE U.S. WAS IN GEORGIA, SOUTH CAROLINA AND ALABAMA, THE VOLUME OF LAND OWNED IN GEORGIA BY FOREIGN INTERESTS IS NOW EQUAL TO THAT OF ANY OF THE THREE LARGEST LAND-OWNING TIMBER COMPANIES IN GEORGIA, WHICH ARE UNION CAMP, GEORGIA KRAFT, AND CONTINENTAL CAN. I MIGHT ADD THAT SOME OF THIS, OF COURSE, IS CDN OWNERSHIP, BUT A LOT OF IT IS EUROPEAN AND MIDDLE EAST INTERESTS. SOME THOUGHT TO LEAVE WITH YOU IS THAT IN GEORGIA, AS IN MOST OF THE SOUTHEASTERN STATES, THE FOREST LAND IS TAXED AT A BASE RATE ON A COUNTY BASIS AND THEN AN AD VALOREM TAX IS ADDED BY THE STATE BASED, OF COURSE, ON THE AGE AND CONDITION OF THE TREE CROP. NATURALLY THIS RESULTS IN A WIDELY RANGING TAX RATE PER ACRE, WHICH IN GEORGIA RANGES FROM $0.34 TO $19.10 PER ACRE. I AM SURE YOU WOULD ALL THEREFORE ASSUME FROM THIS STATISTIC THAT SOME COUNTIES ARE ACTUALLY SUBSIDIZING THEIR TIMBER HARVESTING AT THE EXPENSE OF OTHER COUNTIES AND STATES, AND PERHAPS SOME NEW COUNTEVRAILING DUTIES COULD BE APPLIED WITHIN STATES OR IN FACT INTERSTATE.

LET ME BACK OFF THIS SUBJECT OF COUNTERVAILING DUTIES AND RETURN TO THE ROSY FUTURE OF THE SOUTHEAST FOREST PRODUCTS INDUSTRY. CDN COMPANIES HAVE TAKEN A GREAT INTEREST IN THIS AREA—WITNESS MACMILLAN BLOEDEL AND ABITIBI-PRICE, AMONG OTHERS. THERE IS NO QUESTION THAT THEY CAN SEE THE RAPIDLY INCREASING VALUE OF THE SOUTHERN FOREST PRODUCTS INDUSTRY TO NOT ONLY THE LUMBER BUT PARTICULARLY TO THE PULP & PAPER INDUSTRY IN THE U.S. AND THE POTENTIAL FOR EXPORTS EVEN TO SUCH COUNTRIES AS SCANDINAVIA, WHICH HAS TRADITIONALLY BEEN REGARDED AS RICH IN FOREST RESERVES. OUR OVERVIEW FROM CANADA, ON THE ASSUMPTION OF A CONFIRMATION BY THE U.S. DEPT. OF COMMERCE AND A FINAL RULING OF NO SUBSIDIZATION, IS THAT THE TRADE BETWEEN CANADA AND THE UNITED STATES
WOULD AGAIN BE UNCLOUDED AND CLEARLY DEPENDENT UPON FREE MARKET CONDITIONS. WE
VIEW THIS AS POSITIVE AND CERTAINLY FLYING IN THE FACE OF NARROW PROTECTIONIST
INTERESTS THAT CURRENTLY EXIST DUE TO ECONOMIC CONDITIONS BOTH IN THE UNITED
STATES AND IN CANADA. ALL OF US, WE BELIEVE, SHOULD BE DILIGENT IN OUR CONCERN
TO PREVENT TOO MUCH INTERFERENCE IN THE MARKET ECONOMY AND TO INSURE AN
EFFECTIVE AND ECONOMICAL UTILIZATION OF ALL OUR RESOURCES.

MAY I CLOSE BY THANKING YOU FOR YOUR ATTENTION TO MY REMARKS. I HOPE THAT
I HAVE BEEN ABLE TO SHED LIGHT ON CANADIAN VIEWPOINTS OF A CURRENT TRADE
IRRITANT WHICH WE HOPE WILL DISAPPEAR IN THE NEAR FUTURE, MUCH TO THE RELIEF OF
ALL CONCERNED, PARTICULARLY AS THE ECONOMY EXPANDS, IDLE MILLS ARE PUT BACK
INTO PRODUCTION AND WE RETURN TO A LESS INFLATIONARY ATMOSPHERE IN THE MID
1980'S THAN WAS EXPERIENCED IN THE MID TO LATE 1970'S. THANK YOU AGAIN FOR YOUR
ATTENTION. IF THERE ARE ANY QUESTIONS, I WOULD BE PLEASED TO ATTEMPT TO ANSWER
THESE.