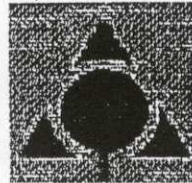




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Thursday August 7, 2003.

The Hon. Grant D. Aldonas  
Undersecretary of Commerce  
U.S. Department of Commerce  
14<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20230

**Re: Policy Bulletin**

Dear Mr. Undersecretary:

The Ontario forest products industries, represented by the Ontario Forest Industries Association ("OFIA") and the Ontario Lumber Manufacturers Association ("OLMA") (together, "the Ontario Associations") are writing in reference to the Department's Policy Bulletin, entitled "Proposed Policies Regarding the Conduct of Changed Circumstance Reviews of the Countervailing Duty Order on Softwood Lumber From Canada (C 122 839)" ("the Bulletin"). We are submitting detailed comments separately and formally, in accordance with the Federal Register Notice, largely consistent with our letter to you of February 15, 2003. In this letter, we are addressing directly our two most important concerns.

**Mill Delivered Wood Costs**

The technical objectives of the Policy Bulletin exercise, as we understand it, are to assure that Canadian crown stumpage is market-based, and to establish reliable benchmarks for

confirming market prices. Because the focus is on stumpage, inevitably comparisons are drawn to standing timber. However, in our view standing timber comparisons require a nearly endless array of adjustments to make the comparisons fair.

Mill delivered wood costs overcome most of the technical and economic adjustment problems (but not border effects, to be discussed below) associated with standing timber. The only such adjustments required are for log quality (including size), log species, mill-to-market hauling distances, and return on investment. All other potential adjustments are absorbed in the delivered costs of logs to the factory gate.

The Ontario Associations are persuaded that fair technical comparisons may be achieved using mill delivered wood costs. Therefore, the Ontario Associations cannot support the Policy Bulletin, particularly as it applies to "Province B," without inclusion of the option of mill delivered wood costs for standing timber.

The Ontario Associations recognize that the alternative of mill delivered wood costs presents a potential problem in the United States where such data have not been collected. The Bulletin requires "verifiable" information for reference markets, and Province B is expected to use information from the United States.

The Ontario Associations respectfully suggest that a solution to obtain verifiable mill delivered wood costs in the United States would involve the engagement of an independent contractor, agreed upon by both Canada and the United States, to collect and verify private source information. Information independently collected and verified should provide a reliable benchmark.

### Use Of Ontario's Private Market

Ontario's robust private market in raw forest materials satisfies the criteria indicated in the Bulletin for a potential benchmark. Charles River Associates established definitively in the investigation that the market is suitably free of government influence; is open to easy entry and exit; has informed buyers and sellers; and has no dominant participants with market power. The Bulletin itself accepts that market size is not dispositive of a quality market, and the Ontario private market transacts much more wood fiber than is transacted in the public domains proposed for reference markets across the Canadian-U.S. border. Hence, there is no empirical, economic, or legal impediment to use of Ontario's private market as benchmark for crown stumpage.

The Ontario Associations recognize that the Province of Ontario has not yet installed and routinized adequate systems for the collection and publication of information regarding private market transactions in timber and mill delivered wood costs. The Ontario Associations recognize that a transitional period will be required while such systems are installed.

Recognizing the need for time to install and routinize systems to collect and disseminate information on private market transactions in Ontario, the Ontario Associations have been willing to contemplate the use of mill delivered wood costs in the United States on a temporary basis, in order to effect a transition from Ontario's current residual pricing model to



another system that fixes crown stumpage according to private market prices. However, the Ontario Associations are not prepared to rely on comparisons with mill delivered wood costs in the United States on a continuing basis.

The Ontario Associations therefore are prepared to accept a one-time comparison of U.S. mill-delivered costs, but then expect to rely on mill delivered costs in Ontario's own private market. Public and private markets within the same political jurisdiction are subject to the same public policy influences, and therefore, are inherently and inevitably more reliable.

The Ontario Associations propose that the Bulletin provide, in its Province B section, an option for independently verified mill delivered wood costs to be compared with Ontario crown stumpage, and that a changed circumstances review would be initiated and satisfactorily completed on this basis. As the Bulletin then specifies, with the satisfactory completion of a changed circumstances review, the countervailing duty order would be revoked for Ontario.

Ontario would not be expected to repeat this exercise. Instead, Ontario would, within twelve months, confirm with the Department of Commerce, the application of U.S. data to Ontario stumpage, the full and satisfactory installation of routinized systems for the collection and dissemination of information and the institutionalization of market mechanisms that would satisfy the Bulletin's criteria for an open and competitive market. Ontario then would replace U.S. pricing or mill delivered wood costs with the cost to Ontario mills of wood directly purchased from other than the Crown.

### Conclusion

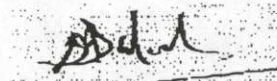
These proposed changes in the Policy Bulletin are modest, almost entirely confined to the section on Province B, and easily implemented through language changes in a handful of paragraphs. They are faithful to the object and purpose of the Policy Bulletin, and would assure that crown stumpage in Ontario is market-based and that the provincial government will be adequately remunerated.

These proposed changes are also essential for the Ontario Associations' continued cooperation with the settlement efforts of Canadian and U.S. Governments in the softwood lumber dispute. We trust, therefore, that you will give these two changes your utmost and most urgent consideration.

Signed,



Mr. Tim Millard  
OFIA



Mr. David Milton, R.P.F.  
OLMA