Sierra Pacific Industries

P.O. Box 496028 • Redding, California 96049-6028 • (530) 378-8000

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The Honorable James J. Jochum
Assistant Secretary for Import Administration
U.S. Department of Commerce
Central Records Unit, Room 1870
Pennsylvania Avenue and 14th Street, NW
Washington D.C. 20230

ATTENTION: CVD and Section 201 Duties

Dear Assistant Secretary Jochum:

Sierra Pacific Industries is the largest privately owned lumber manufacturer in the United States and employ over 4,000 people directly, and over 8,000 with ancillary contractors and vendors that depend on our business. Our products compete directly with highly subsidized Canadian lumber and we have experienced downward price pressure over the last several years led down principally by Canadian imports.

<u>Recent Experiences</u>

While we ship lumber all over the United States our home state of California is the closest market. We constantly encounter fierce competition from eastern Canadian lumber as well as lumber from British Columbia within California. In fact, we find lumber from Quebec of all places competing against our products in the Los Angeles area.

In a recent trip to Tupelo, Mississippi to meet with Secretary of Commerce Donald Evans, in the lobby of the hotel where we met there was a remodeling project in progress. As we walked by we noticed that a unit of 2X4 lumber being used was Canadian SPF. Mississippi is one of the largest producers of lumber in the United States!

Over last few years there has been a tremendous demand for lumber in the United States with housing starts at record levels yet lumber prices have been at historic lows. Mill closures in the United States are taking place at a pace that far exceeds closures in Canada.

Last winter while in Washington D.C. on the Canadian lumber dispute two colleagues and I had dinner with a Canadian lumber producer. This particular producer made it clear that he and other Canadian producers were going to continue to increase production and put as many other mills, particularly those in the Southern United States, out of business. He referred to these mills as "road kill".

Some of this "road kill" includes our sawmill in Loyalton, CA that was permanently shut down in 2000. This put approximately 650 people out of work in a rural area where other employment opportunities are severely limited. Additionally, we have recently signed an agreement to purchase the assets of Wetsel-Oviatt Lumber Company in Eldorado Hills, CA. This sawmill was permanently shut down and put approximately 350 people out of work and is another example of the "road kill" to which the aforementioned Canadian producer referred.

<u>Duty As A Cost</u>

Canadian mills must be held accountable for the predatory dumping of softwood lumber in U.S. markets. However, the current countervailing duty (18.8%) and anti-dumping duty (8.4%) (referred to as CVD and AD, respectively) do not fully offset the subsidies received by Canadian mills and the effects of their dumping. The Commerce Department erroneously omits the CVD duty as a cost in calculating the AD. Consequently, the Canadian lumber industry continues to have an unfair advantage vis-à-vis the U.S. lumber industry.

CVDs are additional expenses that a seller incurs in selling into the United States, much like freight. They represent an expense that must be paid in order for merchandise to enter the country and involve a real transfer of funds from the seller. Moreover, CVDs are treated as expenses in corporate accounts. CVDs are intended by law to be treated by the seller as expenses with the effect that the seller will increase the selling price to account for the additional expense.

With respect to Canadian lumber, the CVD duty should be treated as a cost that a Canadian mill incurs in purchasing raw materials (logs/stumpage). After imposition of the CVD duty, the Canadian mills would be at theoretical parity, cost wise, with U.S. mills. If the Canadian mill then sells lumber to the U.S. below its cost of manufacture, the cost used for determining the AD would include the CVD imposed on Canadian mills to offset the raw material subsidy. The current AD, all things being equal, should therefore be 27.2%.

We understand that the Commerce Department is reviewing its policy regarding the treatment of CVD and section 201 duties as a cost in calculating AD duties. We strongly urge you to reflect the CVD and section 201 duty as a cost that increases the relevant AD duties where both exist in a trade case.

Solving The Problem Of Unfair Trade

The Canadian federal and provincial governments will only change their timber pricing policies to eliminate subsidies when they become convinced that the U.S. government will fully offset all subsidies through implementation of our trade laws. The Department of Commerce must communicate this to all Canadian governments and make it clear that every legal means will be employed to offset any subsidies and the effect of dumping.

In this regard, it is counter-productive to finalize the changed-circumstances policy paper until an interim negotiated agreement is implemented. To do otherwise would just invite the Canadians to game an existing flawed system and to continue to dump lumber into U.S. markets.

If you have any questions, please contact me at 530-378-8270.

Yours Very Truly,

Jon D. Gartman
Secretary