

INTERNATIONAL PAPER

LYN M. WITHEY
VICE PRESIDENT PUBLIC AFFAIRS

1101 PENNSYLVANIA AVENUE NW
SUITE 200
WASHINGTON DC 20004
PHONE 202 628 1223
FAX 202 628 1368
E-MAIL lyn.withey@ipaper.com

October 9, 2003

The Honorable James J. Jochum
Assistant Secretary for Import Administration
U.S. Department of Commerce, Central Records Unit, Room 1870
Pennsylvania Ave and 14th Street, NW
Washington, DC 20230
Attention: Section 201 duties

Dear Assistant Secretary Jochum:

On behalf of International Paper I am responding to the request for comments, published in the Federal Register on September 9, 2003 concerning the treatment of countervailing duties as a cost of production in antidumping duty calculations.

International Paper is the world's largest paper and forest products company. Organized in the United States in 1898, the company's core businesses today include forest, paper and packaging products. International Paper owns or manages approximately 9 million acres of forest lands in the United States, and through licenses and forest management agreements approximately 8 million acres in Canada. The company manages its forests under the principles of the Sustainable Forestry Initiative (SFI_{SM}), a program that ensures the perpetual growing and harvesting of trees while protecting wildlife, plants, soil, air and water quality. International Paper has operations in more than 40 countries, employs more than 90,000 people and sells its products to more than 120 nations. International Paper's wood products business, which is part of the company's Forest Products Group, has 27 U.S. plants producing southern pine lumber, plywood, engineered wood products and utility poles. The company's U.S. operations produced about 2.5 billion board feet of lumber and 1.6 billion square feet of plywood in 2002. Weldwood of Canada Limited, a wholly owned subsidiary of International Paper, produced 1.1 billion board feet of lumber and 430 million square feet of plywood in 2002.

International Paper participates in the Coalition For Fair Lumber Imports, and supports the comments provided for the record by the Coalition.

Background:

Trade in lumber products between Canada and the United States has been the subject of conflict for decades. Both countries are blessed with abundant forest resources and both have well-developed, competitive lumber manufacturing operations. The fundamental difference between the two countries is who owns the trees and how they are sold to lumber producers.

In Canada, 95% of timber resources are owned by federal and provincial governments. In the United States, roughly 73% of productive timberlands are privately owned, and about 27% of the timberlands are publicly owned. In Canada, the price of timber at the stump is administratively set by the governments, and set at a price and with conditions to ensure high employment levels. These administratively set prices are generally one-third to one-quarter the actual market value of the timber.

In 2002, the Department of Commerce found that the Canadian government conferred a benefit of \$1.6 billion through stumpage rates set below market values and imposed an 18.79 percent countervailing duty to offset subsidies. The Department of Commerce also found that Canadian companies sold lumber into the U.S. below their subsidized cost of production, requiring an 8.43 percent duty to offset this market advantage. The International Trade Commission affirmed that Canadian market practices threatened to injure the U.S. lumber industry.

Issue:

Subsidized and dumped Canadian lumber continues to negatively impact the U.S. lumber industry. Currently, Commerce does not adjust for the cost of countervailing duties on sales in the U.S. market. This practice effectively discounts the subsidy and undermines the intended offset effect of imposing the CVD in the first place. The intent of the antidumping duty is to reflect a comparable fair price for selling in the U.S. market. By ignoring the cost of the CVD, the department's current policy does not fully reflect the market-related costs of timber in Canada, and thus understates the dumping margin. This effectively mitigates the intended effect of trade remedies under U.S. law. We are seeing the practical effect in the market, as the imposition of duties has not significantly impacted Canadian lumber imports as Canadian producers have absorbed the cost of the duties and continued production.

The Department of Commerce is currently reviewing the agency's policy of calculating antidumping rates. If the current policy were changed to include countervailing duties as a cost in calculating dumping margins, Canadian producers would be pressed to adjust production volume and cost structure, which would result in a more level competitive playing field.

Recommendation:

International Paper supports free and fair trade of forest products. International Paper has been an advocate for industry and government to address cross border lumber trade by allowing timber prices in Canada to be determined by market competition rather than government direction. Recognizing a solution would need to be phased in over time, additional short-term solutions should be considered as a means to achieving a competitive North American lumber market. The Department's current policy of not including countervailing duties as a cost when calculating dumping rates does not accurately address the full scope of the dumping

The Honorable James J. Jochum

October 9, 2003

Page 3

International Paper continues to urge the United States government to fully and forcefully apply its trade laws and policies to resolve the continued subsidized lumber imports from Canada. We believe changing the current policy to reflect the cost of countervailing duties in calculating antidumping rates will advance the goal of finding a long term fundamental solution to the protracted dispute.

Sincerely,

A handwritten signature in black ink, appearing to read "Lyn Withey". The signature is fluid and cursive, with a large initial "L" and a long, sweeping underline.

Lyn Withey

Vice President Public Affairs