

Beetlemania adds new riff to softwood lumber dispute

U.S. group cries foul over low stumpage for infested trees

By PETER KENNEDY

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VANCOUVER -- A beetle epidemic that is ravaging the forests of British Columbia has become an irritant in the Canada-U.S. softwood lumber dispute, following U.S. industry allegations that B.C. is giving away infested timber, virtually for free.

The U.S. Coalition for Fair Lumber Imports says a handful of B.C. companies are benefiting unfairly from provincial incentives designed to ensure that as much of the infested wood as possible is harvested before it loses its economic value.

The coalition says Canfor Corp., West Fraser Timber Co. Ltd. and Tolko Industries Ltd. are among companies which are getting infested wood at sharply discounted stumpage rates, even though it sells for the same price as normal green lumber.

"To me, it looks like we have the B.C. government selling at very low cost, or giving away timber, so those three companies can make a tremendous amount of money," said Steve Swanson, chairman of the Washington, D.C.-based coalition.

At a time when many North American lumber producers are struggling to break even, in the wake of falling softwood prices, Mr. Swanson says Canfor and the others can take those profits and use them to acquire assets in other parts of Canada and the United States.

"It is patently unfair that they have that kind of advantage given to them by the provincial government," he said.

The cost of beetle-infested timber has become an issue in the long running trade dispute over softwood lumber because B.C. accounts for 55 per cent (or \$4.9-billion worth a year) of Canada's softwood shipments into the United States.

Nearly 90 per cent of B.C.'s softwood shipments to the U.S. are generated by licencees in the province's interior, the region that is being hardest hit by the beetle epidemic.

As the mountain pine beetle has spread across a region the size of New Brunswick, companies in affected areas are investing hundreds of millions of dollars in new saw-milling facilities to allow them to process larger amounts of the infested wood.

It is this that has gained the attention of the U.S. forest sector, which accuses provinces such as British Columbia of unfairly subsidizing their lumber industries with low harvesting fees known as stumpage rates.

In the B.C. Interior, where stumpage averaged \$19.63 per cubic metre this month, licensees are

permitted to harvest dead beetle wood for as little as 25 cents a cubic metre. But a senior industry official said the subsidy allegations are wrong.

"The timber is priced this way in order to encourage harvesting," said John Allan, president of the B.C. Lumber Trade Council, the association that speaks for the major producers in the province. "If it was priced any higher, no one would harvest it."

Mr. Allan also said the lumber industry in British Columbia is operating under a 20-year-old stumpage system that the U.S. government supported when it was introduced.

Under the existing system, if some licencees pay a lower than average stumpage fee, others must pay a higher rate so that provincial revenue targets are met. As a result, some harvesting permits require the licencees to pay as much as \$60 per cubic metre.

"I don't think that the Americans have an argument," Mr. Allan said.

A spokeswoman for the B.C. Ministry of Forests said a number of North American free-trade agreement panels have already backed Canada's argument that its lumber industry is not benefiting from unfair subsidies.

Ottawa cancelled a negotiating session scheduled for last Monday in response to the U.S. administration's decision to continue duties on Canadian softwood lumber despite a NAFTA appeals panel ruling that the duties violate the trade agreement.

The coalition, in turn, has reacted by threatened to launch a constitutional challenge to Chapter 19 [the dispute resolution portion] of NAFTA in a bid to force it to comply with U.S. laws in reaching its decision.

Mr. Swanson said the coalition will do everything it can, either to maintain, or increase, the existing duties on Canadian softwood.

These efforts are justified, he said, because stumpage rates on beetle-infested timber "represent the most significant subsidy within Canada and it is happening right there in British Columbia."

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