



RANDOM LENGTHS SPECIAL REPORT

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Details of tentative lumber deal outlined

Specific details of the U.S.-Canada lumber trade agreement will be finalized over coming weeks, but the basic terms are coming into sharper focus. Here is the latest information gleaned from the text of the seven-year agreement, which was obtained by Random Lengths.

The U.S. will revoke the countervailing and anti-dumping duty orders when the agreement is finalized. Canada will implement border measures that will go into effect based on the Random Lengths Framing Lumber Composite Price. Each producing region (the B.C. Interior, the B.C. Coast, and each of the provinces east of B.C.) will choose between an export tax (Option A), or an export tax plus volume restraint (Option B), where both the rate and volume restraint vary, depending on the Composite Price.

If the Composite Price is higher than \$355, no export tax is levied and provinces can ship to the U.S. without restraint. If the Composite Price is \$336-355, a 5% export tax is levied for those who chose Option A. Under Option B, the export tax is 2.5%, but provinces that choose this option can only ship their regional share of 34% of the U.S. market. A province's market share will be based on the region's average share of Canadian exports to the U.S. from 2001-2005. If the Composite Price is \$316-335, the export tax rises to 10% for those under Option A, and will be 3% plus that region's share of 32% of the U.S. market for those under Option B. If the Composite Price is \$315 or less, the export tax is 15% for those under Option A, and 5% plus that region's share of 30% of the U.S. market under Option B. In other words, as lumber prices drop further

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below the \$355 mark, the export tax rises and allowable shipments to the U.S. are reduced.

An official with the U.S. Trade Representative's office said it has yet to be determined if the Composite Price used for the trigger will be a monthly or quarterly average. The average Composite Price for April was \$367, and the monthly average hasn't been \$355 or less since November 2004. The Random Lengths Framing Lumber Composite Price was designed as a broad measure of price movement in the lumber market. It represents a weighted average of 15 key framing lumber prices, which cover all of the key producing regions in North America. If you would like a detailed explanation of the Composite Price, fax your request to Random Lengths at 541-686-9629.

Of the \$US5 billion in lumber duties collected by the U.S., \$1 billion will remain in the U.S. and the remainder distributed to importers of record (usually the Canadian producer). The amount going to the U.S. will be divided as follows: 50% to the members of the Coalition for Fair Lumber Imports; a portion for a

joint initiative benefiting the North American lumber market; and the remainder to meritorious initiatives in the U.S. as identified by the U.S. government in consultation with Canada. One U.S. official estimated it would take a couple months for U.S. Customs to liquidate entries and distribute the duties once an agreement is finalized.

The Maritimes are excluded from any of the above mentioned border measures. However, there is a clause that states that if exports from the Maritimes to the U.S. exceed 100% of softwood production in the Maritimes in any quarter, then exports to the U.S. from the Maritimes in the following quarter will be subject to a penalty export tax of \$C200 per thousand board feet on the excess volume.

The agreement also states that Canada and the U.S. will make their best efforts to define "policy exits" from the export measure for each province within 18 months of the agreement going into effect. Also, the export charge on products valued at more than \$US500 per thousand will be charged as if their value was no more than \$500.

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