

**Testimony of Deputy United States Trade Representative Susan Schwab
Before the Senate Committee on
Commerce, Science, and Transportation
Subcommittee on Trade, Tourism and Economic Development**

February 14, 2006

Thank you Mr. Chairman, Senator Dorgan, and Members of the Subcommittee for providing me the opportunity to discuss the Canadian softwood lumber issue. I appreciate your interest in this matter, as well as the strong leadership you and other members of this Subcommittee have shown on this issue, and I welcome the opportunity to brief you today on the Administration's interest in negotiating a mutually agreed solution to this dispute. As you know, the softwood lumber issue has a long history, but before I delve into some of the details, I'd like to step back for a moment and put this dispute in the context of our broader bilateral trading relationship with Canada.

Today, the United States and Canada enjoy the largest bilateral trading relationship in the world. Canada is the largest export market for U.S. goods. In 2005, U.S. goods exports to Canada were \$211.4 billion, while U.S. goods imports from Canada were \$287.9 billion. Softwood lumber, while a major issue, comprises some 2 percent of our total bilateral trade with Canada.

As you are well aware, the United States and Canada have been involved in the dispute over cross-border trade in softwood lumber for decades. The current disagreement began when the 1996 Softwood Lumber Agreement expired in 2001, and the U.S. industry subsequently filed antidumping and countervailing duty petitions. In 2002, the U.S. International Trade Commission found that the domestic industry was threatened with material injury by reason of dumped and subsidized imports of softwood lumber from Canada, and the U.S. Department of Commerce instituted antidumping and countervailing duty orders on imports of Canadian softwood lumber. Subsequently, the Government of Canada and Canadian lumber producers filed approximately two dozen cases challenging the orders in various fora, including under the North American Free Trade Agreement, at the World Trade Organization, and in the U.S. Court of International Trade.

Despite this large volume of litigation, much of which is still ongoing, the current dispute continues into its sixth year. Throughout the dispute, we repeatedly have stressed to our Canadian counterparts that, given the long history of this disagreement, there is little reason to believe that the current round of cases will resolve the matter once and for all, regardless of how the process plays out. Without a negotiated solution, chances are high that the dispute will continue.

In this regard, let me make clear longstanding U.S. policy regarding dispute settlement cases: The United States will continue to enforce our trade remedy laws vigorously to ensure that U.S. industry is able to compete fairly and will mount strong defenses of U.S. agency determinations if and when they are challenged. This is true whether we are

facing one challenge or two dozen. Let me also make clear, however, that the United States takes its international agreement obligations seriously, and will continue to comply with the NAFTA and WTO.

As previously mentioned, however, our strong preference is to get off the litigation track and reach a negotiated resolution. As you know, the two sides have been talking, off and on, since the current cycle of cases began in order to try to find such a resolution. Discussions have focused on three main areas: market-oriented reforms to Canadian provincial forestry practices, interim measures that Canada could impose to stabilize the market pending completion of reforms, and the disposition of the more than \$4 billion in cash deposits currently being held by U.S. Customs and Border Protection. While we have been close to reaching an agreement on more than one occasion, as of yet no deal has been reached. Nevertheless, the Administration believes that reaching a negotiated solution to this dispute is possible, and indeed, the only way to a lasting solution that will create a stable, fair, and open lumber market in North America.

Ambassador Portman already has spoken with David Emerson, Canada's new Trade Minister, informing him that we look forward to working with the new government in Canada, and indicating our willingness to sit down and begin discussions at any time. We believe that it will help the progress of such discussions if no new issues, such as the granting of additional subsidies, emerge. We pledge to continue to consult with the relevant stakeholders -- producing and consuming industries alike -- throughout the process. The Administration remains committed to a negotiated solution that will end this dispute, and we look forward to working with our Canadian counterparts in order to do so.