However, to fulfill its commitments, the new government must phase out the sub-
sidies of the logging industry, because existing subsidies encourage economic ineffi-
ciency and the depletion of resources. Existing subsidies inhibit change, innovation and invest-
ment. They also hinder the development of value-added industry.

This report focuses on subsidies to the BC forest industry. Subsidies occur when public
resources are available to private interests at less than their true cost. Resource indus-
tries are frequently heavily subsidized, often receiving “perverse subsidies”—subsidies
that hurt both the economy and the environ-
ment. As a result, subsidies to the logging industry deserve special attention in the BC
government’s drive to eliminate business subsidies.

The report examines five main categories of subsidies:

Stumpage: The fee charged by government to companies cutting trees from public
land is called stumpage. This report con-
cludes that flaws in the calculation meth-
ology result in the BC government charging companies rates below those of private
stumpage. The failure to ensure that the rules for calculating stumpage are equitably
implemented and enforced provided a poten-
tial subsidy of about $350 million over a two-
and-a-half year period. Comparing BC’s stumpage to competitively driven stumpage
rates in similar timber regions in the US
demonstrates total subsidies to the BC for-
est industry resulting from undervaluing of
public timber at $2.8 billion for one year.

Bailouts and Handouts: Direct payment of
cash to forest companies is the most readily
understandable of forest industry subsidies.
Although sometimes public investment may be
justifiable to meet broader societal objec-
tives, the bailouts of subsidized mills such as
Skeena Cellulose mill is a textbook example
of a perverse subsidy. Handouts are
understandable of forest industry subsidies.

Tenure, BC logging companies operate pre-
dominantly on public land and under govern-
ment licensing. The long-term use of BC gov-
ernment consistently undervalues the
stumpage rate, tenures have acquired a mar-
et value related to the ongoing stumpage
subsidy. Furthermore, the BC government has
allowed corporate interests to shut down
mills in violation of obligations in tenure
agreement yet retain secure supplies of tim-
ber, thus providing further corporate bene-
fits.

While the BC Liberal Party has made the
general promise to eliminate business sub-
sidies, it has also other more specific prom-
ises that directly bear on the subsidies out-
lined above. These promises include:

1. Introduce a legislative framework for
legally respecting Aboriginal Rights and Title and
work to expedite interim measures agreement
with First Nations.

2. Develop a working forest land base on
public land and fully protect private property
rights and resource tenure rights.

3. Increase the Allowable Annual Cut over
time through incentives to promote en-
hanced silviculture.

4. Create a market-based stumpage system
that reflects global market realities and
local harvesting costs;

5. Cut the forestry regulatory burden by one
third within three years.

This report therefore recommends that
subsidies to the BC forest industry do not persist or even in-
crease under the Liberal watch.

The elimination of subsidies in any sector
can cause economic shock and human displace-
ment. As one researcher commented,

"Obstacles to removing subsidies tend to be
highly political. Opposition of vested inter-
est groups is inherently linked with the
workforce can be very powerful. Once pay-
ments are in place then a type of addiction
follows, and there may be uncertainty and
fear over the consequences of subsidy re-
moval."

"The principal feature of the U.S.-Jor-
dan PTA is the mutual elimination of
tariffs within 10 years. Modeled after
the U.S.-Israel FTA, it also limits other non-tariff trade barriers and es-

Jordan has been one of the few Arab
states to actively work with the United
States to establish a real and lasting
peace in the Middle East. The U.S.-Jor-
dan PTA represents an agreement as
well as a strong signal of support to a
valued ally. Although Jordan is not cur-
rently a major trading partner of
the United States, this agree-
ment should open the door for
closer trade and economic coop-
oration between the U.S. and Jordan. More
importantly, it is my sincere hope it will
help bring peace to the region through economic stability.

The U.S.-Jordan FTA has been negoti-
aed and signed. The Bush Adminis-
tration supports it and has no inten-
tion or renegotiating a new agreement.
The Jordanian Parliament ratified the Agree-
ment last May. Our colleagues in the
House have already approved the
implementing legislation for the agree-
ment. Jordan’s King Abdullah II visits the
U.S. next week to urge passage of
the agreement.

I hope his visit will encourage poten-
tial detractors to recognize the impor-
tance for swift action and agree not to
stand in the way of immediate consid-
eration of this vital legislation.

Simply put, this is a good trade agree-
tment. The time is right for the
Senate to take up and pass it without
amendment.