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December 22, 2000

**DELIVERED
TELECOPIED**

Office of the Deputy Attorney General of Canada
Justice Building
284 Wellington Street
Ottawa, Ontario
K1A 0H8

Dear Sirs:

North American Free Trade Agreement

We are Canadian counsel for Ketcham Investments, Inc. and Tysa Investments, Inc. (collectively, the "Investor"). We are writing to notify you, as a representative of the Government of Canada ("Canada"), of the intention of the Investor to submit to arbitration a claim against Canada for breach of its obligations under the North American Free Trade Agreement ("NAFTA"). This notice is delivered pursuant to Article 1119 of NAFTA.

1. Name and Address of Investor and Enterprise The Investor is the indirect joint controlling shareholder of West Fraser Mills Ltd. ("West Fraser"). The address of the Investor is c/o Sandler Ahern & McConaughy, PLLC, 1200 Fifth Avenue, Suite 1900, Seattle, Washington, 98101-3135. The address of West Fraser is 1000 - 1100 Melville Street, Vancouver, British Columbia, V6E 4A6.

2. NAFTA Provisions Breached The Investor's claim is that Canada, acting pursuant to the U.S.-Canada Softwood Lumber Agreement (the "Softwood Lumber Agreement") and related enabling legislation and regulations, has breached

(a) Article 1102 of Section A of Article 11 of NAFTA by failing to accord to West Fraser no less favorable treatment than that which it accords, in like circumstances, to investments of Canadian investors with respect to the expansion, conduct or operation of investments,

(b) Article 1103 of Section A of Article 11 of NAFTA by failing to accord to West Fraser no less favorable treatment than that which it accords, in like

circumstances, to investments of any country other than the United States with respect to the expansion, conduct or operation of investments,

(c) Article 1105 of Section A of Article 11 of NAFTA by failing to accord to West Fraser treatment in accordance with international law, including fair and equitable treatment,

(d) Article 1106 of Section A of Article 11 of NAFTA by imposing and enforcing performance requirements on West Fraser that have the effect of according a preference to goods produced in certain provinces of Canada to the detriment of producers operating in British Columbia, and

(e) Article 1110 of Section A of Article 11 of NAFTA by expropriating, or taking by a measure tantamount to expropriation, an asset of West Fraser in a manner contrary to Article 1110.

3.

Factual Basis for Claim

(a) Each of Ketcham Investments, Inc. and Tysa Investments, Inc. is a corporation incorporated under the laws of the State of Washington with its head office in Seattle, Washington.

(b) The Investor has, since at least 1986, indirectly controlled West Fraser as contemplated under Article 1117 of NAFTA.

(c) West Fraser operates various forestry-related businesses including the manufacture of softwood lumber at various facilities located in British Columbia and Alberta.

(d) On May 29, 1996, duly authorized representatives of the Governments of the United States of America and Canada signed the Softwood Lumber Agreement which was implemented in Canada on June 21, 1996 by the enactment of the *Export Permits Regulations (Softwood Lumber Products)* (the "*Softwood Lumber Export Regulations*").

(e) In October, 1996 West Fraser received notice from Canada that advised West Fraser that it had been allocated a specific quota (a "First Year Quota") of softwood lumber which West Fraser was permitted to export to the United States free of export fees for the period April 1, 1996 to March 31, 1997.

(f) On June 5, 1997 West Fraser received a notice from Canada that advised West Fraser that its softwood lumber export quota for the period April 1, 1997 to March 31, 1998 (a "Second Year Quota") would be _____ than the First Year Quota by a magnitude of _____ %.

(g) Certain other companies that were subject to the *Softwood Lumber Export Regulations* and that were not controlled by U.S. investors received Second Year Quotas that either exceeded or equalled First Year Quotas or represented reductions from First Year Quotas

In certain cases, certain such companies received Second Year Quotas when they had not received First Year Quotas. West Fraser was not offered, and did not receive, any compensation

(h) On May 20, 1998 West Fraser received a notice from Canada that advised West Fraser that its softwood lumber export quota for the period April 1, 1998 to March 31, 1999 (a "Third Year Quota") would be _____ than the Second Year Quota by a magnitude of _____ % and _____ than the First Year Quota by a magnitude of _____ %.

(i) Certain other companies that were subject to the *Softwood Lumber Export Regulations* and that were not controlled by U.S. investors received Third Year Quotas that either exceeded or equalled Second Year Quotas or represented reductions from Second Year Quotas

West Fraser was not offered, and did not receive, any compensation

(j) On May 25, 1999 West Fraser received a notice from Canada that advised West Fraser that its softwood lumber export quota for the period April 1, 1999 to March 31, 2000 (a "Fourth Year Quota") would be _____ than the Third Year Quota by a magnitude of _____ %.

(k) Certain other companies that were subject to the *Softwood Lumber Export Regulations* and that were not controlled by U.S. investors received Fourth Year Quotas that exceeded Third Year Quotas

(l) On May 29, 2000 West Fraser received a notice from Canada that advised West Fraser that its softwood lumber export quota for the period April 1, 2000 to March 31, 2001 (a "Fifth Year Quota") would be _____ than the Fourth Year Quota by a magnitude of _____ %. The Fifth Year Quota included the operations of a business (the "New Business") purchased by West Fraser in late 1999. If the New Business had not been included, the Fifth Year Quota would have been _____ than the Fourth Year Quota by a magnitude of _____ %.

(m) Certain other companies that were subject to the *Softwood Lumber Export Regulations* and that were not controlled by U.S. investors received Fifth Year Quotas that exceeded Fourth Year Quotas

(n) If West Fraser's First Year Quota had prevailed throughout the period beginning April 1, 1996 and ending on March 31, 2001, West Fraser would have had the opportunity to export, in addition to the volumes exported fee-free under its export quotas, a total in excess of _____ FBM of softwood lumber. The imposition of lower export quotas in years two to five inclusive resulted in this opportunity, and the profits associated therewith, being lost. In addition, West Fraser incurred additional export fees and other costs in connection with the sale of softwood lumber that would not have been incurred, if the First Year Quota had been maintained.

(o) At the times that the Second Year Quota, the Third Year Quota, the Fourth Year Quota, and the Fifth Year Quota were imposed on West Fraser, Canada failed to provide West Fraser with adequate information or reasons concerning the process and rules relating to, and the calculation of, such quotas. West Fraser was not afforded any hearing concerning the quota impositions and no review procedure was provided. West Fraser has sought to obtain information from representatives of Canada concerning such impositions but has been unable to obtain adequate information or reasons.

(p) During the period April 1, 1997 to the date of this notice there has been an increase in the fee-free export to the United States of softwood lumber produced in

(i) certain of those provinces whose softwood lumber exports are not subject to *Softwood Lumber Export Regulations*, and

(ii) Quebec.

During the same period there has been a decrease in the fee-free export to the United States of softwood lumber produced in British Columbia and Alberta. Such increases and decreases are the direct result of the imposition and enforcement of the *Softwood Lumber Export Regulations*.

(q) The *Softwood Lumber Export Regulations* have also imposed measures affecting West Fraser, in addition to variations in its fee-free softwood lumber export quota, in a manner that has been less favourable to West Fraser than to other companies that were not controlled by U.S. investors including, without limitation, allocation of "bonus volumes."

4. Issues

- (a) Has Canada taken measures which are inconsistent with, or a breach of, its obligations under all or any of Articles 1102, 1103, 1105, 1106 or 1110 of Part A of Chapter 11 of NAFTA?
- (b) If the answer with respect to any of the Articles described in §(a) is yes, what is the amount of compensation to be paid to West Fraser as a result?

5. Relief Sought and Approximate Amount of Damages Claimed The Investor claims damages on behalf of West Fraser for the following:

- (a) Specific damages of approximately CDN\$30 million as compensation for the direct damages caused by, or arising out of, Canada's measures that constitute a breach of its obligations under Part A of Article 11 of NAFTA;
- (b) General damages to compensate for such indirect economic harm suffered by West Fraser as a result of Canada's measures that constitute a breach of its obligations under Part A of Article 11 of NAFTA;
- (c) Costs associated with these proceedings, including all professional fees and disbursements;
- (d) Expenses incurred to mitigate the effect of the implementation of the Softwood Lumber Agreement in Canada;
- (e) Pre-award and post-award interest;
- (f) An additional amount to offset any taxes payable on any portion of the damages recovered; and
- (g) Such further relief as counsel may advise and as an arbitration tribunal struck under these provisions may deem appropriate.

If you have any questions or require any further information concerning this claim please contact either myself or my partner Francois E. Tougas (604) 691-7425 or E-mail: ftougas@lmis.com.

Yours very truly,

Larry S. Hughes
for LANG MICHENER LAWRENCE & SHAW

LSH/jvh

cc: Ketcham Industries, Inc.

Tysa Investments, Inc.

West Fraser Mills Ltd.

Sandler Ahern & McConaughy
Attention: Michael Sandler

Meg Kinnear
General Counsel, Trade Law Division (JLT)

John Gero
Director General, Trade Policy Bureau II