

APPLETON & ASSOCIATES

INTERNATIONAL LAWYERS

New York Toronto

PRIVILEGED & CONFIDENTIAL

NOTICE OF ARBITRATION
UNDER THE ARBITRATION RULES
OF THE
UNITED NATIONS COMMISSION ON INTERNATIONAL TRADE LAW
AND
THE NORTH AMERICAN FREE TRADE AGREEMENT

BETWEEN:

POPE & TALBOT, INC.

Claimant / Investor

- AND -

GOVERNMENT OF CANADA

VICE OF A TRUE COPY HEREOF
RIFICATION DE COPIE CONFORME

Respondent / Party

dated the 25th day
ptée le _____ jour
March 19 99

B. H. Purdy 815 1111

Pursuant to Article 3 of the United Nations Commission on International Trade Law ("UNCITRAL") and Articles 1116 and 1120 of the North American Free Trade Agreement ("NAFTA"), the Claimant initiates recourse to arbitration under the UNCITRAL Rules of Arbitration (Resolution 31/98 Adopted by the General Assembly on December 15, 1976).

1. DEMAND THAT THE DISPUTE BE REFERRED TO ARBITRATION

Pursuant to Article 1120(1)(c) of the NAFTA, the Claimant hereby demands that the dispute between it and the Respondent be referred to arbitration under the UNCITRAL Rules of Arbitration.

2. NAMES AND ADDRESSES OF THE PARTIES

Claimant/
Investor

POPE & TALBOT, INC.
1500 S.W. First Avenue
Portland, OR 97201

Respondent/
Party

GOVERNMENT OF CANADA
Office of the Deputy Attorney General of Canada
Justice Building
284 Wellington Street
Ottawa, ON K1A 0H8

3. REFERENCE TO THE ARBITRATION CLAUSE OR THE SEPARATE ARBITRATION AGREEMENT THAT IS INVOKED

The Claimant invokes Section B of Chapter 11 of the NAFTA, and specifically Articles 1116, 1120 and 1122 of the NAFTA, as authority for the arbitration. Section B of Chapter 11 of the NAFTA sets out the provisions agreed concerning the settlement of disputes between a Party and an investor of another Party.

4. REFERENCE TO THE CONTRACT OUT OF OR IN RELATION TO WHICH THE DISPUTE ARISES

The dispute is in relation to the Claimant's investment in Canada and the damages that have arisen out of the Government of Canada's ("Canada") breach of its obligations under Section A of Chapter 11 of the NAFTA.

E. THE GENERAL NATURE OF THE CLAIM AND AN INDICATION OF THE AMOUNT INVOLVED

1. Pope & Talbot, Inc., the Investor, is a United States company with its head office in Portland, Oregon. Pope & Talbot, Inc. owns Pope & Talbot, Ltd. (the "Investment"), which operates three softwood lumber mills in the southern interior of British Columbia.
2. In 1849, the Investor commenced business operations in the softwood lumber sector. Since 1969, the Investor has maintained softwood lumber operations in Canada primarily for export to the United States.
3. In May 1996, Canada and the United States entered into the *Softwood Lumber Agreement*. This Agreement required Canada to charge a fee for all exports of softwood lumber to the United States from the Canadian provinces of Quebec, Ontario, Alberta and British Columbia once a threshold of 14.7 billion board feet of softwood lumber exports had been reached.
4. Pursuant to the *Softwood Lumber Agreement*, Canada established an Export Control Regime for softwood lumber (the "Export Control Regime") that:
 - (a) required exporters from Quebec, Ontario, Alberta and British Columbia to obtain export permits before exporting softwood lumber products to the United States;
 - (b) established a fee of US\$104.18 per thousand board feet (approximately 30% of the cost of producing one thousand board feet) for a permit to export softwood lumber to the United States; and
 - (c) created a discretionary quota allocation regime to allocate among Canadian softwood lumber exporters the rights to export 14.7 billion board feet of softwood lumber free of export fees (the "fee-free quota") and an additional 650 million board feet of exports that were subject to a reduced fee.
5. Harm to the Investment has been caused by the measures Canada has taken to establish and implement the Export Control Regime. This harm has resulted in particular from:
 - (a) The Investment's loss of market share to softwood lumber exporters in provinces that are not subject to the quota, where softwood lumber exports increased substantially as a result of the imposition of the Export Control Regime.
 - (b) Unfair and inequitable allocation of quota to the Investment, which has had its share of the initial allocation of fee-free exports reduced from [REDACTED]

feet to only [REDACTED] between 1996/97 and 1998/99. This represents a decline of 6.27%.

F. RELIEF OR REMEDY SOUGHT

The Investor claims the following:

- i. Damages as compensation caused by or arising out of Canada's measures that are inconsistent with its obligations contained in Part A of Chapter 11 of the NAFTA for not less than the following:

(a) Minimum Standard of Treatment	US\$ 50,578,700
(b) National Treatment	US\$ 125,657,900
(c) Most Favoured Nation Treatment	US\$ 125,657,900
(d) Performance Requirements	US\$ 125,657,900
(e) Expropriation	US\$ 80,000,000
- ii. Costs associated with these proceedings, including all professional fees and disbursements.
- iii. Fees and expenses incurred to oppose the effect of the *Softwood Lumber Agreement* and those changes to Canadian domestic law made pursuant to that Agreement.
- iv. Pre-award and post-award interest at a rate to be fixed by the Tribunal.
- v. Tax consequences of the award to maintain the integrity of the award.
- vi. An Interim Order providing interim measures of protection pursuant to NAFTA Article 1134 to preserve the rights of the Investor and to provide that the Investment's annual softwood lumber allocation from Canada not be decreased pending a final award of the Tribunal.
- vii. Such further relief that counsel may advise and that this Tribunal may deem appropriate.

G. APPOINTMENT OF ARBITRATORS

Pursuant to Article 1123 of the NAFTA, the Investor and the Party have agreed on the number of arbitrators, which shall be three, and on the procedure for appointment. One arbitrator is to be appointed by each of the disputing parties and the third, which is the presiding arbitrator, is appointed by agreement of the disputing parties.

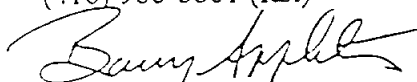
March 25, 1999

H. STATEMENT OF CLAIM

Pursuant to paragraph 4(c) of Article 3 of the UNCITRAL Arbitration rules, the Investor has included its Statement of Claim with this Notice of Arbitration.

DATE OF ISSUE: MARCH 25, 1999

Appleton & Associates International Lawyers
1140 Bay St., Suite 300
Toronto, ON M5S 2B4
(416) 966-8800 (voice)
(416) 966-8801 (fax)



BARRY APPLETON

Counsel for the Claimant / Investor

ERVED TO:

GOVERNMENT OF CANADA
Office of the Deputy Attorney General of Canada,
Justice Building
34 Wellington Street
Ottawa, ON K1A 0H8