goods for preferential FTA tariff treatment. Specifically, the panel decided:

> "*bona fide* interest payments on debt of any form, secured or unsecured, undertaken on arm's length terms in the ordinary course of business to finance the acquisition of fixed assets such as real property, a plant, and/or equipment used in the production of goods in the territory of the Party, and that are subject to a determination based on the criteria specified in FTA Annex 301.2, are includable in the 'direct cost of processing' or 'direct cost of assembling' set forth in Article 304 of the FTA."

The panel also found that the existing U.S. interpretation of the treatment of such interest costs is inconsistent with the provisions of the FTA.

The panel recommended that the parties resolve the dispute by the adoption of such regulations and internal administrative procedures as may be necessary to implement the panel's determination. The panel also suggested that the parties may wish to consider the adoption of regulations and procedures that would address the particular problems of establishing an objective, traceable connection between a loan and production assets, the scrutiny of intracorporate loans, and the ascertainment of ordinary business practices.

The FTA provides that the Commission has 30 days to consider the report and reach a mutually satisfactory resolution of the dispute.

The Commission noted that, despite a global recession, bilateral merchandise and non-merchandise trade had increased to $256.8 billion (US$244.1 billion) in 1991, up $12.8 billion (US$11.2 billion) from the 1988 figure of $244 billion (US$198.2 billion).

\- 30 -

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