

words "directly or indirectly" in Article III:2, first sentence, must also apply to Article III:2, second sentence "given the broader application of the latter". While the second sentence is broader in its product coverage, it clearly is not broader in respect of the taxation measures to which it applies.

18. The statement quoted from the Panel report at pp. 26-27 of the Appellate Body report shows that magazines need both circulation and advertising revenue, and that a shortfall of advertising will affect editorial quality. It does not show that magazines are directly competitive or substitutable as consumer products. We contend that the quotation at p. 27 of the Appellate Body report from the Report of the Task Force on the Canadian Magazine Industry does not provide sufficient evidence on which to base such a conclusion when weighed against the countervailing evidence that the relevant magazines were very "poor substitutes" as consumer products. It is our view that all that is left of the analysis on this issue is a political statement whose probative value, either as a matter of economics or of law, is minimal.

**e) "Funded" postal rates**

19. The Appellate Body said that their textual interpretation was supported by the context of Article III:8(b) examined in relation to Articles III:2 and III:4 of the GATT 1994. But the Appellate Body did not make any examination of the context of the producers' subsidy exemption in relation to national treatment disciplines. Further, the Appellate Body relied on the object and purpose of Article III:8(b) to draw their conclusions in respect of "funded" rates. Unfortunately, the Appellate Body did not then explain what the object and purpose were nor did it conduct any analysis of them. As a result, this decision fails to provide sufficient reasoning to enable us to understand why the "funded" postal rates could not benefit from the exemption allowed in Article III:8(b).

**f) Conclusion**

20. Canada's commitment to the dispute settlement system remains firm. It is Canada's intention to continue to abide by the rules and procedures governing the settlement of disputes. Canada will inform the DSB of our intentions in respect of implementation of the recommendations and rulings of the DSB by August 29, 1997. However, in lieu of making its statement at the meeting required by Article 21(3) of the DSU, Canada will inform the DSB by letter transmitted to the Chairman for circulation to the Members of the DSB. We have spoken with the United States, the other party in this case, and we both agree that our respective rights and obligations will be preserved through this approach, as if the meeting under Article 21(3) had been held.

21. In their concluding remarks, the panelists stressed "that the ability of any Member to take measures to protect its