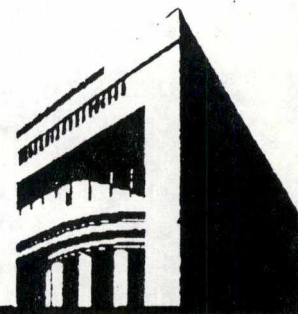


Washington Advisory



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PRIME MINISTER MULRONEY'S VISIT

● Prime Minister Mulroney delivered a tough message to President Bush on Canada-United States trade relations during his May 20-21 visit to Washington. The Prime Minister said that "demonstrably unfair" U.S. actions, such as those taken on softwood lumber and Honda automobiles, undermine the FTA and that this kind of harassment must stop. Referring to the Prime Minister's "forceful" presentation, President Bush pledged to see that issues are engaged early at the proper level to avoid disputes.

NEGOTIATIONS

● The Prime Minister confirmed Canada's commitment to a North American Free Trade Agreement. He said that an agreement was possible by the summer but that it would be unlikely that Congress would pass it into law this year. Negotiations continue at an intensive pace. Chief negotiators and working groups will meet during the first week of June in Washington.

● The 6th round of bilateral air negotiations was held in Washington during the week of May 18. A broad range of issues was addressed, including airport access and dispute settlement which are Canadian priorities. On scheduled services, the Canadian negotiators offered a reduction in the transition period from 10 to 8 years for U.S. airline service into Vancouver and Montreal. A special round, which will focus exclusively on a

new U.S. proposal for scheduled services, is tentatively scheduled for June 19 in Canada.

UNDER THE FTA

● A meeting of the Canada-United States Trade Commission will be held in Washington on June 9. Trade Minister Wilson and U.S. Trade Representative Hills will review the bilateral trade agenda.

● Canada filed an appeal under the FTA on the softwood lumber countervailing duty case on May 28. Specifically, the governments of Canada, Quebec, Alberta, British Columbia, Ontario and the Canadian industry are challenging the 6.51% final subsidy determination made by the Department of Commerce on May 15. This rate was considerably reduced from the 14.48% rate in the preliminary determination. Trade Minister Wilson said that there is "no basis for the ruling that provincial stumpage programs confer a countervailable subsidy" and objected strongly to the finding that provincial export controls on logs are counter-vailable. No duties will be collected unless the U.S. International Trade Commission determines that the U.S. industry is being injured. The Commission will vote on June 26. Canada continues to pursue its case in the GATT and the GATT panel established at Canada's request is scheduled to report its findings this summer.

● In the fourth administrative review of the countervailing duty case on live swine, on May 20, a

FTA binational dispute settlement panel decided in favour of appeals by Canada, the Quebec government and the Canadian industry. The panel ruled that the Commerce Department had failed to substantiate its finding that Canadian programs (e.g. tripartite stabilization programs) constitute countervailable subsidies. The Commerce Department has 60 days to return to the panel with a reconsideration of its ruling.

● On the U.S. Customs Service audit of Honda automobiles, Canada has proposed a third round of consultations in June. Canada will seek a binational panel review under the FTA if these consultations fail to yield a satisfactory result. In March, the U.S. Customs Service ruled that Honda automobiles did not meet the FTA rules of origin. Canada strongly disagrees with the unilateral interpretations upon which the audit results are based.

● The FTA binational panel considering non-mortgage interest costs is scheduled to make its report on June 8. The panel was requested by Canada to confirm that non-mortgage interest costs should be included in the direct costs of processing when using the FTA's value content rules of origin.

● The third and final round of accelerated tariff elimination under the FTA is progressing. Canada and the United States have exchanged initial lists. A consolidated list is scheduled for publication in the Canada Gazette by mid-June.