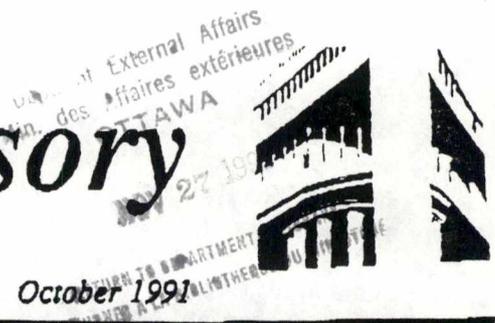


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SOFTWOOD LUMBER

On September 3, Canada gave notice of the termination of the 1986 Softwood Lumber Memorandum of Understanding (MOU) effective October 4, 1991. The U.S. industry and certain members of Congress have reacted sharply, calling for the U.S. Administration to take immediate action under U.S. law. At the request of the United States, senior Canadian and U.S. officials held consultations in mid-September.

In a September 17 letter, copied to all members of Congress, Ambassador Burney specifically rejected claims made by Senator Baucus. He pointed out that Canada is not acting in bad faith since the right to terminate the MOU had been explicitly agreed to by the United States in the MOU itself. The MOU has served its purpose and circumstances have changed substantially. Even by U.S. standards, no subsidies exist with revenues to provincial governments exceeding their expenses. There is no evidence to suggest the U.S. industry will suffer a competitive disadvantage. Finally, the letter stated that any unilateral imposition of trade restrictions which violates U.S. bilateral or international trade obligations would seriously undermine the fundamental trade relationship between the two countries and that Canada expects the United States to respect fully these obligations.

NEGOTIATIONS

The Trade Ministers of Canada, the United States and Mexico met in Seattle on August 19-20 to take stock of negotiations for a North American Free Trade Agreement. Negotiations are taking place in 19 negotiating groups covering a range of issues such as tariffs, safeguards, rules on investment and dispute settlement. Separate discussions are also taking place on labour and environmental concerns. Initial proposals for eliminating tariffs

were exchanged on September 19. The three Ministers will meet again in Zacatecas, Mexico on October 26-28.

The next round of aviation negotiations is tentatively scheduled for the end of October, in Denver, Colorado. With the exploratory work now complete, the negotiators will begin to look at specific proposals to expand air services between both countries.

UNDER THE FTA

On August 18, Trade Minister Wilson met with U.S. Trade Representative Hills for the fifth meeting of the Canada-United States Trade Commission. They agreed that implementation of the FTA continues to proceed smoothly. Two way trade in goods and services reached \$203 billion in 1990, up from \$197 billion in 1989 and \$181 billion in 1988. They noted progress in a number of areas since the last Commission meeting in October 1990. For example, the second round of accelerated tariff reductions, now in force, has meant the elimination of duties on trade valued at \$8 billion since the beginning of the FTA. In addition, the architectural societies of both countries have established criteria that will recognize the qualifications of architects from each other's country.

On July 25, Canada imposed a temporary additional duty on peaches under the "snapback" provisions of the FTA. Article 702 of the FTA provides for the temporary return to pre-FTA duty rates for fruits and vegetables under certain circumstances. A similar duty, imposed on tomatoes, has been lifted.

On July 8, Canada initiated, under Chapter 19 of the FTA, an appeal of the U.S. countervailing duty on live swine. The duty, in place since 1985, was increased in the fourth administrative review by the Commerce Department. Canada is joined in the appeal by the

Quebec government and the Canadian Pork Council. The decision of the binational panel is due by May 18, 1992.

In the GATT, member countries adopted the panel report (in Canada's favour) on the processed pork U.S. countervailing duty case. The adoption of the GATT panel report complements the June 14 decision of the Extraordinary Challenge Committee (upholding Canada's position) under the FTA.

IN THE CONGRESS

A comprehensive defence production bill (HR 3039), has been approved at the committee stage in the House. The bill, which aims to strengthen the "domestic defence industrial base", includes Canadian companies in the definition, assuring continued Canadian access to the U.S. defence market. Congress has extended the existing Defense Production Act until September 30.

In mid-September, Congress approved Cuba sanctions in the Mack amendment to the Foreign Assistance Act. The sanctions would prohibit subsidiaries of U.S. companies, in Canada and elsewhere, from trading with Cuba. The Embassy has objected to the sanctions' extraterritorial applications. Final enactment of the legislation hinges on a possible Presidential veto.

The transportation bill, reauthorizing transportation programs for the next five years, has stalled in the House over resistance to a gasoline tax and is currently being redrafted. "Buy America" provisions appear to have been kept to a minimum and both the House and the Senate have indicated they will provide conference language that will not preclude negotiations on government procurement in this sector.