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1992
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Washington Advisory

A Canadian Embassy Newsletter on Trade and Economic Affairs
Volume 3 No.6

Summer 1992



NEGOTIATIONS

● Negotiations for a North American Free Trade Agreement continued during June at an intense pace with three meetings of the chief negotiators.

● At the June 19 bilateral air services negotiations in Ottawa, the United States presented a revised proposal on scheduled services. Canadian carriers would get full access to the United States market and a "head start" of up to 22 U.S. cities over a five year transition period. Canada will be responding to this proposal at the next round on July 14 in Washington. Airport access, a critical issue for Canada, will also be discussed at that time.

UNDER THE FTA

● On softwood lumber, Canada is appealing to an FTA binational panel the International Trade Commission's (ITC) decision on June 25 that the U.S. industry is being injured by imports from Canada. The ITC's ruling will result in the collection of a 6.51% countervailing duty. Canada has also challenged under the FTA the Commerce Department's earlier decision that Canadian lumber benefits from countervailable subsidies. The GATT panel established to consider Canada's complaint is expected to issue its report in mid-summer.

● On June 9, the Canada-United States Trade Commission (Trade Minister Wilson and U.S. Trade Representative Hills) met in Washington to review recent developments in the implementation of the FTA. Minister Wilson, calling the meeting "a follow-on to the dis-

cussions that the President and the Prime Minister had a short while ago", noted that the Commission is charged with the responsibility of managing the issues. He said "we were able to move some of the issues along and hopefully the next time we meet we'll be able to have some further successes behind us". Although a wide range of issues on the bilateral trade agenda were discussed, Minister Wilson was particularly pleased with the success in resolving the long-standing issue involving softwood plywood standards (see article below). "I think that's a good one to get behind us", he said.

● In a clear victory for the FTA, a Chapter 18 dispute settlement panel unanimously supported the Canadian position on the treatment of non-mortgage interest costs under the FTA rules of origin. As a result, the U.S. Customs Service interpretation excluding non-mortgage interest on production facilities and equipment under the value added rule of origin was declared inconsistent with the FTA. Canada will press for quick implementation of the panel recommendations. The decision is an important one for the automotive sector which has been faced with a series of unilateral U.S. interpretations of the FTA origin rules. Absent the FTA dispute settlement process, Canada would have been hard pressed to overturn such Customs rulings.

● A common performance standard for softwood plywood should be incorporated in U.S. and Canadian building codes by the end of

the year. FTA tariff reductions on plywood and certain other wood panel products (e.g. particleboard) will commence January 1, 1993 at the levels they would normally have reached. The 20% U.S. duty on plywood will drop to 10% and the 15% Canadian duty to 7.5%. The other wood panel products will become duty free since they are subject to a five year phase out. Neither country has begun FTA tariff reductions because the United States refused to lower its tariffs until a common standard was developed and put into place.

● On June 24 Canada temporarily reinstated the pre-FTA duty for head lettuce entering western Canada. Under the FTA's tariff "snapback" provisions, Canada may move to increase the duty if import prices remain below a benchmark price as defined in the FTA.

● Canadian exports to the United States climbed to a record \$10.2 billion in April, the fifth consecutive monthly increase. Canada's trade surplus with the United States stood at \$6.0 billion for the first four months of 1992 representing an increase of \$1.2 billion over the same period last year. The United States remains the only major trading partner with which Canada has a trade surplus.

IN THE ADMINISTRATION

● The U.S. steel industry is expected to include imports of steel from Canada in its requests (expected shortly) for antidumping investigations on imports from most other steel exporters in order to bolster its case for injury. The Canadian industry should include