countries will require significant reform of the CAP, if the EU is to maintain adherence to the spending and deficit-reduction targets imposed by the Maastricht Agreement as part of the implementation of European monetary union. EU measures to protect the health and safety of consumers are increasing, and are of major concern to Canada since they are not always based on science and are adversely affecting Canadian exports. Canada will continue to raise these concerns with the EU at the highest levels, as outlined below, and will pursue its rights under the WTO Agreement.

Cereals Import Regime

Canada maintains that the EU's grain-import regime is inconsistent with the EU's WTO commitments, which set out that no duty is to be applied when the import price exceeds the EU intervention price plus 55%. Rather than determining the duties payable on cereals on a "transaction value" basis, the EU devised a system of reference prices based on U.S. commodity market quotations. These U.S. quotations do not account for the premium price that Canada traditionally extracted from the EU market.

Canada requested a WTO panel on this issue in July 1995, but withdrew the request in December 1995, when an agreement was reached with the EU. The agreement included a 14 ECU per tonne refund on high-quality milling wheat and, for durum, a lower minimum-quality requirement. These changes applied for the balance of the 1995-96 crop year (July 1-June 30). For the 1996-97 crop year, the EU reinstated the higher quality requirement for durum, which served to restrict market access. During the 1997-98 crop year, agreement was again reached whereby the EU lowered the quality requirement, effective to June 30, 1998. Consultations with the EU to seek a more permanent arrangement are ongoing. Renewed WTO action has not been excluded.

Export Subsidies on Agricultural Products

The EU agreed during the Uruguay Round to reduce its subsidies on agricultural commodities under the Common Agricultural Policy (CAP) by 36%, and to reduce the volume of goods subject to such subsidies by 21%. Notwithstanding these commitments, EU subsidization of agricultural exports, particularly of cereals and malt, remains a major concern to Canada.

In its first export subsidy notification for the marketing year 1995-96 to the WTO Committee on Agriculture, the EU reported that its use of export subsidies had not exceeded its annual commitment levels both in terms of value and quantity. As of mid-February 1998, the EU's export subsidy notification for the marketing year 1996-97 had not been submitted. It is anticipated that in its second notification, the EU will report that its subsidies have not exceeded its scheduled commitments. However, it is likely that the EU will adopt the practice of using a "roll-over" of unused export subsidy commitment quantities from one year to the next for products covered in its schedule. At the WTO Committee on Agriculture, Canada has expressed concern about this practice and will continue to urge all WTO Members to exercise restraint in adopting this reporting procedure.

Alcoholic Beverages

Assured access for Canadian wines to the EU is conditional on the conclusion of a bilateral agreement. The European Commission requires an agreement in two broad areas: appellations and oenological practices. These issues are now under negotiations.

Canada is pursuing discussions with the European Commission in order to reach an agreement that will provide access to the EU market for Canadian quality-labelled wines. Until now, the main stumbling block has been the inability of both Parties to agree on the protection of European-origin geographical indications. Canada has also sought to obtain from the Commission the recognition of its oenological practices. The Commission's longstanding position has been to link both of these issues to protection of EU-origin geographical indications in Canada.

Given the lack of progress in the discussions, the Canadian wine industry was informed that access to the EU market will be blocked by September 1998 unless Canada concludes an agreement with the Commission.

Canada also seeks to have the "Canadian Whisky" appellation protected under EC regulation in line with the EU's WTO obligation, similar to the protection granted to Scotch Whisky and Irish Whiskey under EC regulations on spirits.