

6.1.3 Plywood Panel Standards

The United States has delayed implementation of tariff reductions on plywood and several other classifications of manufactured wood panel products due to a dispute over differences in performance standards for the wood products.

In response to this unilateral U.S. action, Canada has suspended implementation of its tariff cuts on the same products, and requested consultations under Chapter 18 of the FTA.

This dispute has been on the bilateral agenda for quite some time. Indeed, an exchange of letters that forms part of the FTA took notice of the progress of the dispute and provided for the review, upon request by the United States, of the then-pending Canada Mortgage and Housing Corporation (CMHC) decision regarding the approval of U.S. C-D grade plywood in Canada. Article 2008 of the FTA provides for a delay in tariff reductions on the wood panel products, if the panel of experts disagreed with the CMHC findings or if the review was not completed by the time of entry into force of the FTA.

In mid-1989 CMHC announced its decision not to approve the use of U.S. C-D grade plywood on the grounds that it does not meet Canadian product standards. Although the United States objected to the CMHC decision, it also declined to establish the panel of experts called for in the FTA. Likewise, the United States decided to delay the FTA tariff cuts on plywood and the related products. It was able to do this through provisions of the U.S. implementing legislation which authorize the President to begin the tariff reductions only after common performance standards have been "sufficiently incorporated" into building codes in both countries.¹³⁷

Canada contends that the delay in implementing the full tariff cut is inconsistent with U.S. obligations under the FTA since the conditions in the FTA that would have allowed such a delay¹³⁸ have not been met. The United States maintains that CMHC did not undertake a full evaluation of plywood and that Canada therefore did not meet its obligations as set forth in the exchange of letters¹³⁹.

¹³⁷ In a related matter, on October 3, 1989, the U.S. announced in the *Federal Register* that it intended to alter the tariff classification for tongued, grooved, lapped or otherwise edgeworked plywood unilaterally, putting these products into a separate category of building boards, with a tariff rate of 8 per cent rather than 20 per cent effective October 18, 1989. This restores the tariff to the rate that had applied to this type of plywood prior to the passage of the *Omnibus Trade and Competitiveness Act* in 1988. While this brings the classifications into conformity with the FTA, the dispute over the complete removal of the tariff remains unsolved. See *Inside U.S. Trade* October 13, p. 3; October 20, p. 16.

¹³⁸ That is, the review of the CMHC decision by a panel of experts.

¹³⁹ The United States bases its argument on the claim that it expected the CMHC to undertake physical testing of the U.S. products.