

IMPROVING ACCESS FOR TRADE IN GOODS

Common Agricultural Policy

Protection for agricultural producers under the EU's Common Agricultural Policy (CAP) continued to be a key concern for Canada during 1998, since the CAP both restricts access to the EU market for Canadian agricultural products and distorts third-country markets through EU subsidization of the production and export of several agrifood products including grains. The proposed changes under the CAP are a step towards reducing some of the market distortions caused by EU policies of producer protection. However, more should be done, particularly to reduce the need for subsidies and to decouple farm support from production decisions.

Subsidies on Agricultural Products

EU subsidization of agricultural exports for oats, barley and malt, and their continued use of production subsidies for dehydrated alfalfa, remains a major concern to Canada. In addition, Canada considers that the use of export subsidies by the EU has the potential to trigger a trade subsidy war with the U.S. Canada has made representations to both the United States and the European Union on this issue.

In the dehydrated alfalfa industry, EU subsidies have significantly increased the production of alfalfa in the European Union. The result has been the sale of excess production to third country markets at very low prices which has had a significant market destabilizing effect. Canada has requested the EU to review the current regime and to include the use of alfalfa production subsidies under the auspices of CAP reform.

The sale of EU oats to the United States with the use of high export subsidies also severely impacts on prices received by Canadian producers. Canada has encouraged the EU to restrain the use of export subsidies on oats and eventually eliminate them. Canada will be pursuing this issue with both the United States and EU to limit exports of subsidized oats into Canadian markets.

With regards to barley and malt, Canada has expressed its disappointment with the high level of export subsidy set by the EU for these products and with the manner in which the subsidy levels

are determined. Canada intends to continue discussions with the EU in mid-1999 on the rationale and methodology for malt subsidization with a view to reducing its impact on Canadian markets.

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 percent. 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 received in the EU market.

One of the major access concerns for Canadian wheat exports to the EU was resolved in November 1998 when the European Union implemented a second reference price level for "medium" quality durum wheat, thereby reducing applied duty. This change in EU import regulations will not end with the crop year which was a shortcoming of previous derogations. It provides market access which is equivalent to the access that would be available under a WTO-compatible EU grain import regime. The improved market access under this provision will be monitored and commercial experience will guide Canada's future position with respect to the EU grain import regime.

Wine

Access for Canadian wines to the EU is conditional on the conclusion of a bilateral agreement. The EU requires that exports of wine in excess of 1,000 hectolitres per year be subject to certification of conformity with EU oenological practices. It also seeks an end to the use by foreign wineries of European origin wine names (geographic appellations). Important Canadian products such as ice wine are subject to product-specific derogations.

Canada has begun discussions with the European Commission on a framework for negotiating improved access to the EU market for Canadian wines. Canada will seek to ensure that Canadian wines can be exported to the EU during the negotiating period.

Canada is seeking to have "Canadian Whisky" appellation protected under EU regulation.