

## **Rules of Origin**

On January 1, 2003, Canada and the United States implemented measures to liberalize the NAFTA rules of origin applicable to seven products, including alcoholic beverages and petroleum/topped crude oil. The NAFTA Trade Commission (including Mexico) had agreed to these changes in 2002. The changes are currently under consideration by the Mexican Senate and will become effective in Mexico following ratification. These changes, requested by industry associations in Canada, the United States and Mexico, will make it easier for exporters to meet the rules of origin and benefit from duty-free treatment under NAFTA. This will increase the competitiveness of Canadian exporters, in particular the petroleum industry, which exported over \$7 billion worth of petroleum oils to the United States in 2003.

## **Forest Certification**

In the last few years, U.S. demand for certified wood products has continued to grow, fuelled in part by the recent decision of a few large U.S. wood retailers to give preference to certified wood products. The Canadian forest industry is responding to this recent trend through increased certification of their operations and wood products. As of December 2003, more than 57 million hectares of forest land in Canada had been third-party-certified to one or other of the three sustainable forest management certification schemes available in Canada (if certifications to the ISO management system are included, this total rises to over 145 million hectares). Expectations are that 136 million hectares will be certified to such sustainable forestry management schemes by 2006.

Canada supports certification as a voluntary, market-based tool to promote sustainable forest management. However, it wants to ensure that certification is not used as a market access barrier. In particular, Canada would be concerned by any measure requiring mandatory labelling for forest products based on non-product-related process and production methods. Also of concern are procurement policies, potentially imposed by large U.S. businesses or local governments, that specify that all products must carry the label of one particular certification scheme to the exclusion of other equivalent approaches. Canada will continue to monitor its access to key markets with a

view to ensuring that certification remains a voluntary marketplace activity and that criteria are consistent with Canadian forest values.

Certification best supports sustainable forest management when all equivalent certification schemes are recognized in the market. For this reason, Canada supports those who propose equivalency and mutual recognition of various similar certification schemes. It is also Canada's view that a diversity of certification systems is necessary to reflect the variety of producers' circumstances and to safeguard against the risks associated with monopolies. In this context, Canada will continue to encourage and support the recognition of a diversity of forest certification systems.

## **Marine Mammal Protection Act**

The U.S. Marine Mammal Protection Act (MMPA) prevents the import of almost all marine mammal products, including Canadian seal products, into the United States. In Canada's view, the MMPA prohibition on the import of seals and seal products cannot be justified on conservation grounds, since it applies to species that are not endangered. There are an estimated 5.2 million harp seals and 460,000 hooded seals in Canada. Canada supports the efforts of all coastal communities that depend on sealing and will continue to consult these communities in order to develop the best means of addressing this U.S. import ban. Canada has communicated its concerns about the ban on seal product imports to the U.S. government and will continue to do so.

## **U.S. State Taxation Issues**

Specific tax issues with respect to Canadian trucking companies in Pennsylvania and New Jersey have been resolved. However, the fact that states are not parties to the Canada-U.S. tax treaty, and therefore can impose income taxes on any entity that conducts business in a particular state, remains an issue. Canadian companies entering the export market may not know that they may be subject to income tax in each state where they do business. Many states are running budget deficits and the collection of taxes from out-of-state businesses presents a potential source of new revenue. Furthermore, the standard by which out-of-state companies reach "nexus" (and are then subject to taxes) has become rather ill-defined in