

excluded from the cost calculation required by Article 701.3 and that only storage and handling charges paid by the Board should be included in determining costs. The panel recommended that a bilateral working group be established to oversee periodic audits of the Board to determine compliance with Article 701.3.

On September 17, 1992, Canada requested a Chapter 18 panel to review the prohibition by Puerto Rico of UHT milk produced in Quebec. In Puerto Rico Regulations on the Import Distribution and Sale of UHT Milk from Quebec (June 3, 1993), the panel decided that Puerto Rico's prohibition of Quebec UHT milk was not in violation of the FTA. However, the panel also ruled that the U.S. had nullified and impaired benefits that Canada could reasonably expect to derive from the FTA by closing the Puerto Rican market to Quebec UHT milk while negotiations were underway with respect to equivalency. The Panel recommended that the U.S. and Canada conduct an equivalency study to determine whether Quebec UHT milk is produced under conditions which have the same effect as those set out in the U.S. Pasteurized Milk Ordinance. If Quebec and Puerto Rican standards for UHT milk are found to have the same effect, then the Panel recommended that UHT produced in Quebec should be re-admitted for sale in Puerto Rico.

Currently, Chapter 18 consultations are underway at the request of Canada with respect to the U.S. Export Enhancement Program.