

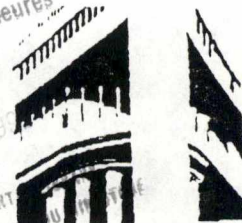
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SOFTWOOD LUMBER

On September 3, Canada gave notice of the termination of the 1986 Softwood Lumber Memorandum of Understanding (MOU) effective October 4, 1991. The U.S. industry and certain members of Congress have reacted sharply, calling for the U.S. Administration to take immediate action under U.S. law. At the request of the United States, senior Canadian and U.S. officials held consultations in mid-September.

In a September 17 letter, copied to all members of Congress, Ambassador Burney specifically rejected claims made by Senator Baucus. He pointed out that Canada is not acting in bad faith since the right to terminate the MOU had been explicitly agreed to by the United States in the MOU itself. The MOU has served its purpose and circumstances have changed substantially. Even by U.S. standards, no subsidies exist with revenues to provincial governments exceeding their expenses. There is no evidence to suggest the U.S. industry will suffer a competitive disadvantage. Finally, the letter stated that any unilateral imposition of trade restrictions which violates U.S. bilateral or international trade obligations would seriously undermine the fundamental trade relationship between the two countries and that Canada expects the United States to respect fully these obligations.

NEGOTIATIONS

The Trade Ministers of Canada, the United States and Mexico met in Seattle on August 19-20 to take stock of negotiations for a North American Free Trade Agreement. Negotiations are taking place in 19 negotiating groups covering a range of issues such as tariffs, safeguards, rules on investment and dispute settlement. Separate discussions are also taking place on labour and environmental concerns. Initial proposals for eliminating tariffs

were exchanged on September 19. The three Ministers will meet again in Zacatecas, Mexico on October 26-28.

The next round of aviation negotiations is tentatively scheduled for the end of October, in Denver, Colorado. With the exploratory work now complete, the negotiators will begin to look at specific proposals to expand air services between both countries.

UNDER THE FTA

On August 18, Trade Minister Wilson met with U.S. Trade Representative Hills for the fifth meeting of the Canada-United States Trade Commission. They agreed that implementation of the FTA continues to proceed smoothly. Two way trade in goods and services reached \$203 billion in 1990, up from \$197 billion in 1989 and \$181 billion in 1988. They noted progress in a number of areas since the last Commission meeting in October 1990. For example, the second round of accelerated tariff reductions, now in force, has meant the elimination of duties on trade valued at \$8 billion since the beginning of the FTA. In addition, the architectural societies of both countries have established criteria that will recognize the qualifications of architects from each other's country.

On July 25, Canada imposed a temporary additional duty on peaches under the "snapback" provisions of the FTA. Article 702 of the FTA provides for the temporary return to pre-FTA duty rates for fruits and vegetables under certain circumstances. A similar duty, imposed on tomatoes, has been lifted.

On July 8, Canada initiated, under Chapter 19 of the FTA, an appeal of the U.S. countervailing duty on live swine. The duty, in place since 1985, was increased in the fourth administrative review by the Commerce Department. Canada is joined in the appeal by the

Quebec government and the Canadian Pork Council. The decision of the binational panel is due by May 18, 1992.

In the GATT, member countries adopted the panel report (in Canada's favour) on the processed pork U.S. countervailing duty case. The adoption of the GATT panel report complements the June 14 decision of the Extraordinary Challenge Committee (upholding Canada's position) under the FTA.

IN THE CONGRESS

A comprehensive defence production bill (HR 3039), has been approved at the committee stage in the House. The bill, which aims to strengthen the "domestic defence industrial base", includes Canadian companies in the definition, assuring continued Canadian access to the U.S. defence market. Congress has extended the existing Defense Production Act until September 30.

In mid-September, Congress approved Cuba sanctions in the Mack amendment to the Foreign Assistance Act. The sanctions would prohibit subsidiaries of U.S. companies, in Canada and elsewhere, from trading with Cuba. The Embassy has objected to the sanctions' extraterritorial applications. Final enactment of the legislation hinges on a possible Presidential veto.

The transportation bill, reauthorizing transportation programs for the next five years, has stalled in the House over resistance to a gasoline tax and is currently being redrafted. "Buy America" provisions appear to have been kept to a minimum and both the House and the Senate have indicated they will provide conference language that will not preclude negotiations on government procurement in this sector.

•Senate action on the National Energy Security Act (S. 1220- Johnston and Wallop) is expected shortly after October 15. The bill provides for the opening of the Arctic National Wildlife Refuge to oil production and a competitiveness test for imports (Domenici-Wirth amendment) which would discriminate against Canadian natural gas in violation of the FTA. The Embassy continues to protest strongly these measures in preparation for the next legislative step, the full Senate vote. Other provisions to ensure that adequate fuel is available for the expanded use of alternatively fueled vehicles and to expand the Strategic Petroleum Reserve respect Canadian interests. Energy legislation is less advanced in the House.

•On August 17, President Bush signed legislation making "Exon-Florio" permanent. The U.S. foreign investment screening mechanism (for investments which could bear upon national security) is now no longer dependent on regular Congressional reauthorizations of the Defence Production Act. The Administration is expected to issue shortly the long-awaited regulations to administer Exon-Florio.

•Reflecting concerns about the slow pace of U.S. agricultural exports and the prospects for E.C. agricultural policy reforms, a number of legislative proposals have been introduced. These include proposals to implement marketing loans; to eliminate acreage reduction programs; to expand the coverage of the export enhancement program and to provide direct export credits, mainly to the Soviet Union.

IN THE ADMINISTRATION

•On July 18, the Department of Commerce initiated an antidumping investigation of steel wire rope from Canada. Following Embassy representations and Canadian industry arguments, the U.S. International Trade Commission unanimously threw out the case at the preliminary injury determination, an early stage in the process.

•Since August 2, Canadian exports of nepheline syenite - a mineral used in glass production - have been subject to a U.S. antidumping investigation. The U.S. Commerce Department is expected to issue a preliminary dumping determination by the end of the year.

•At the request of a small U.S. magnesium producer, antidumping and countervailing duty investigations against magnesium exports from Canada were initiated September 25. The U.S. International Trade Commission will make its preliminary injury determination by mid-October. If injury is found, the investigations will continue with preliminary determinations of subsidy and dumping respectively in November 1991 and March 1992.

•A long-standing agreement to suspend a countervailing duty investigation of red raspberries from Canada was terminated September 20 following a Canadian request on behalf of the British Columbia government and industry. Although the suspended investigation should have resumed, the U.S. industry withdrew its complaint, bringing the entire proceeding to an end.

•On July 10, the U.S. Commerce Department revoked the 1988 countervailing duty order on oil country tubular goods from Canada. This means the end of a 0.72% duty applied to one Canadian exporter following extensive litigation in the U.S. courts.

•A General Accounting Office report on foreign countries' grains programs is expected to be released in October. In Canada, on August 22, Grains and Oilseeds Minister Mayer announced the initiation of a study by the Canada Grains Council of the impact of U.S. grains and oilseeds programs on Canadian farm income.

•On July 23, Canada made its first submission to the GATT panel established to hear Canada's complaint on U.S. practices on wine and beer. The panel's decision is expected in December. A separate GATT panel, established to examine a U.S. complaint against Canadian practices for imported beer, is expected to issue its decision shortly. In a related development, Canadian officials issued a final determination of dumping against imports of U.S. beer from three U.S. producers into British Columbia. An average dumping margin of almost 30% was found. By October 2, the Canadian International Trade Tribunal will decide whether the imports are causing injury to Canadian producers.

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Need More Information?

Here is a list of Embassy officers following the developments described in this advisory.

The Main Embassy phone number is: (202) 682-1740

FTA & Trade Policy

William Dymond, Minister-Counsellor
ext.7334

Energy

Guy Saint-Jacques or
Margaret Martin, Counsellors
ext. 7741 and 7508

Economic Policy

Ted Hobson, Minister-Counsellor
ext.7427

Congress

Michael Leir, Counsellor
ext. 7344

Trade Development

David Ryan, Minister-Counsellor
ext.7742