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NEGOTIATIONS

● Negotiations for a North American Free Trade Agreement continued during June at an intense pace with three meetings of the chief negotiators.

● At the June 19 bilateral air services negotiations in Ottawa, the United States presented a revised proposal on scheduled services. Canadian carriers would get full access to the United States market and a "head start" of up to 22 U.S. cities over a five year transition period. Canada will be responding to this proposal at the next round on July 14 in Washington. Airport access, a critical issue for Canada, will also be discussed at that time.

UNDER THE FTA

● On softwood lumber, Canada is appealing to an FTA binational panel the International Trade Commission's (ITC) decision on June 25 that the U.S. industry is being injured by imports from Canada. The ITC's ruling will result in the collection of a 6.51% countervailing duty. Canada has also challenged under the FTA the Commerce Department's earlier decision that Canadian lumber benefits from countervailable subsidies. The GATT panel established to consider Canada's complaint is expected to issue its report in mid-summer.

● On June 9, the Canada-United States Trade Commission (Trade Minister Wilson and U.S. Trade Representative Hills) met in Washington to review recent developments in the implementation of the FTA. Minister Wilson, calling the meeting "a follow-on to the dis-

cussions that the President and the Prime Minister had a short while ago", noted that the Commission is charged with the responsibility of managing the issues. He said "we were able to move some of the issues along and hopefully the next time we meet we'll be able to have some further successes behind us". Although a wide range of issues on the bilateral trade agenda were discussed, Minister Wilson was particularly pleased with the success in resolving the long-standing issue involving softwood plywood standards (see article below). "I think that's a good one to get behind us", he said.

● In a clear victory for the FTA, a Chapter 18 dispute settlement panel unanimously supported the Canadian position on the treatment of non-mortgage interest costs under the FTA rules of origin. As a result, the U.S. Customs Service interpretation excluding non-mortgage interest on production facilities and equipment under the value added rule of origin was declared inconsistent with the FTA. Canada will press for quick implementation of the panel recommendations. The decision is an important one for the automotive sector which has been faced with a series of unilateral U.S. interpretations of the FTA origin rules. Absent the FTA dispute settlement process, Canada would have been hard pressed to overturn such Customs rulings.

● A common performance standard for softwood plywood should be incorporated in U.S. and Canadian building codes by the end of

the year. FTA tariff reductions on plywood and certain other wood panel products (e.g. particleboard) will commence January 1, 1993 at the levels they would normally have reached. The 20% U.S. duty on plywood will drop to 10% and the 15% Canadian duty to 7.5%. The other wood panel products will become duty free since they are subject to a five year phase out. Neither country has begun FTA tariff reductions because the United States refused to lower its tariffs until a common standard was developed and put into place.

● On June 24 Canada temporarily reinstated the pre-FTA duty for head lettuce entering western Canada. Under the FTA's tariff "snapback" provisions, Canada may move to increase the duty if import prices remain below a benchmark price as defined in the FTA.

● Canadian exports to the United States climbed to a record \$10.2 billion in April, the fifth consecutive monthly increase. Canada's trade surplus with the United States stood at \$6.0 billion for the first four months of 1992 representing an increase of \$1.2 billion over the same period last year. The United States remains the only major trading partner with which Canada has a trade surplus.

IN THE ADMINISTRATION

● The U.S. steel industry is expected to include imports of steel from Canada in its requests (expected shortly) for antidumping investigations on imports from most other steel exporters in order to bolster its case for injury. The Canadian industry should include

the U.S. industry in cases under Canadian trade law if Canada is drawn into U.S. investigations. Under the FTA, producers in both countries retain their right to request unfair trade cases, however, the results are subject to an appeal to a binational panel. In the House of Commons, Minister Wilson said, "These are actions which are initiated by the industry. We cannot stop what industry wants to do. We can make our views known, and these views have been made known very, very clearly".

● On June 5, a draft countervailing duty suspension agreement on magnesium from Canada was reached with the Commerce Department. Under the agreement, the preliminary duty of almost 33% will not apply. The draft agreement confirms that Hydro Quebec electricity contracts that contain risk and profit sharing provisions are not necessarily countervailable under U.S. trade law. The suspension agreement must be finalized by July 6. The antidumping case continues with a final Commerce Department decision due by the same date.

● On June 24, the GATT adopted a panel report sustaining Canada's complaint that sixty U.S. federal and state measures on beer are contrary to the GATT. Canada will press hard for early implementation of the findings. Canada-United States consultations continue on the implementation of the agree-

ment in principle regarding Canadian provincial distribution and marketing practices for U.S. beer.

● On June 17, U.S. Secretary of Transportation Card unveiled a 16 point plan to revitalize the U.S. merchant fleet involved in international trade. The policy, supplemented by legislative, regulatory and administrative action, is designed to enhance American industry competitiveness and efficiency of international shipping services. At the same time, Card reaffirmed the "integrity" of the Jones Act and signalled the Administration's intent to enforce existing U.S. cargo preference requirements. The plan has been well received domestically and legislation is expected to emerge, and possibly pass, in the current congressional session.

IN THE CONGRESS

● The Trade Expansion Act of 1992 is expected to come to a vote shortly in the House, following which the Senate may take up trade legislation. The trade bill mandates punitive trade action if the United States unilaterally decides that its trade interests are being damaged by another country. The bill would also tighten the already restrictive U.S. antidumping and countervailing laws. Additionally, the bill would increase U.S. tariffs on a range of products. By virtue of the FTA, Canada is exempt from all of these

protectionist provisions. The Embassy continues to argue that provisions for end use certificates for imports of wheat from Canada are inconsistent with the FTA. The administration has signalled its intent to veto the legislation should it emerge from Congress.

● The tax package associated with the House-approved national energy legislation awaits adoption by the Senate before it is sent to a House/Senate conference during the summer. The Embassy will continue to press Canadian concerns with earlier passed Senate provisions regarding uranium and alternative fuels.

TRADE DEVELOPMENT

● Canadian construction materials companies showcased their products at the Embassy on June 9. The trade show attracted a large crowd of architects, manufacturers and other potential customers in the Washington, Maryland and Virginia area.

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Need More Information?

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

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