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# News Release

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September 15, 1995

No. 166

## CANADA SEEKS RULINGS ON EUROPEAN UNION GRAIN IMPORT REGULATIONS AND JAPANESE LIQUOR TAXES

Minister for International Trade Roy MacLaren and Minister of Agriculture and Agri-Food Ralph Goodale announced today that Canada will ask the World Trade Organization (WTO) for dispute settlement panels on the European Union's duties on grain imports and on the Japanese liquor tax regime.

Canada's request for panels on the two issues will be put before the WTO dispute settlement body on September 27.

"The Government intends to take full advantage of the new, improved WTO dispute settlement process to provide further assurance that our trading partners implement their trade agreement obligations," Mr. MacLaren said.

He stated that new European Union regulations, which determine the duties on grain imports, are not consistent with the EU's obligations under the WTO. "In our view, EU duties will frequently be higher than warranted on its imports of Canadian grains."

"The new regulations will have an adverse impact on the flow of Canadian wheat into the European market," Mr. Goodale said. "I understand that some durum wheat shipments have already been delayed because of uncertainty about the duties to be paid."

The ministers said that under the new regulations, duties are based on import prices set by the EU rather than on the actual purchase price for imported grains. The EU price calculations draw on such sources as prices on certain commodity exchanges. The price levels set by the EU will often lead to higher rates than if the duties are based on actual import prices. This is contrary to the EU's obligations under the WTO and its commitment on grains in the Uruguay Round trade negotiations.



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"The EU's commitment in the Uruguay Round was an important concession," Mr. Goodale said. "We are determined to get the access to the European market to which we are entitled."

Canada and the EU held consultations on the regulations in July. Under WTO rules, Canada is entitled to seek a panel if the issue is not resolved in the consultations.

"We still prefer a resolution of this issue through negotiations," Mr. MacLaren said. "But we are confident we can get the results we are seeking through the WTO dispute settlement process."

The ministers also said that Canada is requesting a panel regarding Japan's liquor tax regime. Distilled spirits such as Canadian whiskey are taxed at higher rates than Japanese distilled spirits such as shochu. In July, the EU the United States and Canada, in consultations with Japan, failed to arrive at a satisfactory solution.

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## Backgrounder

### WTO DISPUTE SETTLEMENT PROCESS

Under the World Trade Organization (WTO), Canada held consultations with the European Union (EU) on the grains issue on July 18, 1995. Consultations were held with Japan on the liquor tax question on July 20. These consultations have not been successful in achieving settlements. Canada has therefore requested panels into these matters.

### EUROPEAN UNION CEREALS REGULATIONS

#### Description

In the Uruguay Round of trade negotiations, the EU made certain commitments which were intended to improve access to its markets for grains. In particular, the EU agreed "to apply a duty at a level and in a manner so that the duty-paid import price for such cereals will not be greater than the effective intervention price increased by 55 per cent." (The "intervention" price is the support price in the European Union for grains.)

On July 1, the EU implemented a system of representative import prices for calculating the import duty, based on prices in U.S. markets of U.S. grades of wheat and other grains, rather than on actual transaction prices.

#### Trade Affected

The use of representative import prices as opposed to actual transaction prices to determine the level of import duties on grains will not provide Canada with the full benefits of the EU's obligations under the World Trade Organization (WTO). It will have an adverse effect on access for Canadian wheat into the EU market.

Canadian grain exports to the EU will be hindered by higher duties on wheat shipments and uncertainty over the level of duty to be paid at the time of importation. There have already been reports of disruptions to Canada's durum wheat trade with the EU. Durum shipments have been delayed and orders for certain grades of Canadian durum wheat are down.

Canada is the principal supplier of wheat to the EU. In 1995, Canada exported 1.1 million tonnes of wheat (including durum) to the EU valued at over \$250 million.

### Canada's Position

In Canada's view, the EU's grain import regulations are inconsistent with its WTO obligations under Articles II and VII of the General Agreement on Tariffs and Trade 1994, Article I of the Customs Valuation Agreement, and with its WTO tariff schedule.

### THE JAPANESE LIQUOR TAX REGIME

Japan currently imposes different tax rates on various competing types of distilled liquor. Under this system, distilled spirits such as whiskey are taxed at higher rates than Japanese distilled spirits such as shochu.

This has a negative impact on Canada's ability to compete in the Japanese distilled spirits market, which is Canada's second-largest export market for whiskey.

A 1987 GATT panel report ruled that because of the tax differential, Japan's liquor tax regime was inconsistent with Article III:2 of the GATT. Although Japan has amended its liquor tax regime, the tax differential still exists. Canada considers that the Japanese Liquor Tax System remains inconsistent with Article III:2 of the GATT 1994.