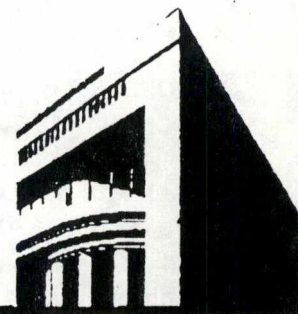


Washington Advisory



June 1992

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PRIME MINISTER MULRONEY'S VISIT

● Prime Minister Mulroney delivered a tough message to President Bush on Canada-United States trade relations during his May 20-21 visit to Washington. The Prime Minister said that "demonstrably unfair" U.S. actions, such as those taken on softwood lumber and Honda automobiles, undermine the FTA and that this kind of harassment must stop. Referring to the Prime Minister's "forceful" presentation, President Bush pledged to see that issues are engaged early at the proper level to avoid disputes.

NEGOTIATIONS

● The Prime Minister confirmed Canada's commitment to a North American Free Trade Agreement. He said that an agreement was possible by the summer but that it would be unlikely that Congress would pass it into law this year. Negotiations continue at an intensive pace. Chief negotiators and working groups will meet during the first week of June in Washington.

● The 6th round of bilateral air negotiations was held in Washington during the week of May 18. A broad range of issues was addressed, including airport access and dispute settlement which are Canadian priorities. On scheduled services, the Canadian negotiators offered a reduction in the transition period from 10 to 8 years for U.S. airline service into Vancouver and Montreal. A special round, which will focus exclusively on a

new U.S. proposal for scheduled services, is tentatively scheduled for June 19 in Canada.

UNDER THE FTA

● A meeting of the Canada-United States Trade Commission will be held in Washington on June 9. Trade Minister Wilson and U.S. Trade Representative Hills will review the bilateral trade agenda.

● Canada filed an appeal under the FTA on the softwood lumber countervailing duty case on May 28. Specifically, the governments of Canada, Quebec, Alberta, British Columbia, Ontario and the Canadian industry are challenging the 6.51% final subsidy determination made by the Department of Commerce on May 15. This rate was considerably reduced from the 14.48% rate in the preliminary determination. Trade Minister Wilson said that there is "no basis for the ruling that provincial stumpage programs confer a countervailable subsidy" and objected strongly to the finding that provincial export controls on logs are counter-vailable. No duties will be collected unless the U.S. International Trade Commission determines that the U.S. industry is being injured. The Commission will vote on June 26. Canada continues to pursue its case in the GATT and the GATT panel established at Canada's request is scheduled to report its findings this summer.

● In the fourth administrative review of the countervailing duty case on live swine, on May 20, a

FTA binational dispute settlement panel decided in favour of appeals by Canada, the Quebec government and the Canadian industry. The panel ruled that the Commerce Department had failed to substantiate its finding that Canadian programs (e.g. tripartite stabilization programs) constitute countervailable subsidies. The Commerce Department has 60 days to return to the panel with a reconsideration of its ruling.

● On the U.S. Customs Service audit of Honda automobiles, Canada has proposed a third round of consultations in June. Canada will seek a binational panel review under the FTA if these consultations fail to yield a satisfactory result. In March, the U.S. Customs Service ruled that Honda automobiles did not meet the FTA rules of origin. Canada strongly disagrees with the unilateral interpretations upon which the audit results are based.

● The FTA binational panel considering non-mortgage interest costs is scheduled to make its report on June 8. The panel was requested by Canada to confirm that non-mortgage interest costs should be included in the direct costs of processing when using the FTA's value content rules of origin.

● The third and final round of accelerated tariff elimination under the FTA is progressing. Canada and the United States have exchanged initial lists. A consolidated list is scheduled for publication in the Canada Gazette by mid-June.

● On Ultra High Temperature (UHT) milk, consultations were held in May. Canada is now considering requesting a binational panel. Puerto Rico closed its market to Canadian exports of UHT milk through changes to technical health regulations.

IN THE ADMINISTRATION

● In the antidumping and countervailing duty investigation of magnesium from Canada, the final Commerce Department determinations of both dumping and subsidy were postponed from May 18 to July 6 at the request of the Canadian exporter. Commerce found total preliminary dumping and subsidy margins of just less than 66%. Canada continues to pursue the case in the GATT.

● Following the April 30 GATT panel decision upholding most of Canada's complaints against discriminatory U.S. federal and state practices on beer, Canada is pressing for adoption of the panel report by GATT members at the next Council meeting in June. In the case of the GATT panel decision on Canadian practices, a first round of technical discussions was held in early May aiming to implement the agreement in principle reached in late April between the United States and Canada.

● The U.S. steel industry publicly indicated its intention to file large numbers of unfair trade cases against imports of flat rolled steel products from over twenty countries, as yet unidentified. Imports of steel from Canada might be included in order to bolster the case for injury through cumulation of imports. The Embassy and the Canadian industry have been active in trying to avoid Canada being included in these cases.

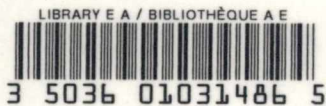
● In the countervailing duty investigation of portable seismographs from Canada, on May 8 the Commerce Department made a preliminary subsidy determination of 0.02% ("de minimis" - counts as zero) for one company and 32.4% for another company. On May 29, the U.S. industry withdrew its petition, ending the case.

IN THE CONGRESS

● The Trade Expansion Act of 1992, introduced by Ways and Means Chairman Rostenkowski, contains provisions to extend "Super 301" authority, automotive provisions for VRA's, a section 301 investigation on rice and auto parts aimed at Japan, amendments to U.S. trade law on circumvention of antidumping orders and Customs modernization provisions. A similar trade bill may be introduced in the Senate. The U.S. Administration opposes the bill. It is too early to assess the chances for enactment of the bill.

● On May 17, the House adopted its comprehensive national energy legislation. It includes provisions opposed by the Administration such as a partial ban on offshore drilling and the setting of federal standards for state gas prorating programs. The House package may go to the Senate Finance Committee and the full Senate for examination of its tax provisions before being forwarded to a House-Senate conference committee in June. The Embassy will continue to press for a resolution of Canadian concerns with the Senate provisions (passed earlier) on uranium and alternative fuels.

● The Senate Environment Committee completed its review of legislation to reauthorize the Resource Conservation and Recovery Act (RCRA). The bill would encourage pollution prevention, recycling, use of recycled content in products, and would give states greater control over the amount of out-of-state garbage they accept for disposal. The bill must now go to the full Senate for debate and a vote, but given its controversial nature, it is unclear when this will occur. Similar legislation is moving through the House where the next step will be review by the full Energy and Commerce Committee. Overall prospects for passage of RCRA reauthorization this year seem doubtful.



Need More Information?

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

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Economic Policy

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