

Statement

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STATEMENT IN THE HOUSE OF COMMONS

BY THE HONOURABLE PAT CARNEY,

MINISTER FOR INTERNATIONAL TRADE,

ON GATT PANELS ON SALMON AND HERRING, LIQUOR BOARDS

AND JAPANESE LUMBER TARIFFS

OTTAWA

March 21, 1988.

Minister for
International
Trade

Ministre du
Commerce
extérieur

Canada

Mr. Speaker:

Canada is currently involved in three disputes under the General Agreement on Tariffs and Trade, or GATT. Two of the cases involve decisions by GATT panels against Canada. One relates to Canada's export restrictions on Pacific salmon and herring. The other deals with the practices of provincial governments affecting imports of alcoholic beverages. A third case involves a request which we will be making for a GATT Panel on Japanese lumber tariffs. All of these cases will be addressed at the GATT Council on March 22. I want to take this opportunity to inform Members of the House of the Government's approach to these issues.

We are all aware, Mr. Speaker, of how vital the GATT and the international trading system are to Canada. International trade means jobs for Canadians. To be precise, three million jobs in this country and one-third of all we produce depend on export markets. The GATT rules are the best protection for keeping the channels of world trade open and for protecting Canadian jobs. Without these rules, Canadian industries and Canadian workers would be exposed to indiscriminate actions by our trading partners. The "law of the jungle" would prevail in international trade. An export-dependent country such as Canada would be highly vulnerable.

Members of this House from all Parties, Mr. Speaker, have recognized this reality. We all agree that the GATT system works in the interest of all Canadians and protects their employment and economic well-being. But the system is only as strong as the will of governments to respect it. To enjoy the benefits of membership in the GATT, Canada must also be prepared to fulfill its obligations.

Salmon and Herring

Let me turn first to the GATT Panel report on salmon and herring. This emerged from an investigation under Section 301 of the U.S. Trade Act. This section allows U.S. industry to file complaints about alleged unfair trading practices. What the U.S. industry alleged to be unfair in this case was that Canadian processors were buying up substantial quantities

of Alaskan salmon and herring while U.S. processors were prohibited from any access to unprocessed salmon and herring from Canada. The U.S. took the issue to the GATT, where a Panel made a clear finding that Canada's export restrictions violated international trade rules.

We have made clear from the outset, including in statements in this House, that we would be seeking a solution which would be consistent with the GATT and would also protect the long-term interests of the fishing industry.

We have consulted closely with all interested parties - processors, unions, fishermen and the B.C. government. As promised, we have pursued a three-pronged strategy. First, raising our concerns in the GATT. Second, exploring a possible bilateral solution with the U.S. Third, considering alternative measures to ensure the integrity of Canada's West Coast fisheries conservation and management regime.

In raising our concerns in the GATT, we have not received support from other members, who clearly consider the Panel's findings to be valid. While discussions with the U.S. have been useful in airing the issues, we have made little progress in reaching a bilateral solution.

We will now be pursuing a Canadian solution - one which reflects Canada's GATT obligations but which also addresses fisheries management and conservation needs and protects the future viability of the industry.

It is the Government's intention to allow adoption of the GATT Panel report and to dismantle the GATT-inconsistent export restrictions by January 1, 1989. But, at the same time, we intend to enact new regulations which will require that salmon and herring caught off the Pacific Coast be landed in Canada in order to ensure accurate catch reporting, inspection, grading and quality control. While Americans will have access to unprocessed fish landed onshore at designated landing stations along the coast, they will not be allowed to buy fish directly from Canadian fishermen "over the side" at sea. Overall, the landing requirement will improve management of the fisheries while preserving the livelihood of coastal communities.

My colleague, the Minister of Fisheries and Oceans, will be consulting closely with all interested parties to develop the details of this landing requirement. It will be consistent with the GATT, as well as with the Law of the Sea, which specifically provides for such measures. In developing

the new regime, we will be examining carefully the principles and practices which the U.S. itself employs in the fisheries area through such legislation as the Magnuson Act. The Minister of Fisheries and Oceans is also announcing today his intent to bring forward a national plan for a landing requirement, including provisions for inspection and quality control, to be applied for all species on both the Atlantic and Pacific Coasts.

There have been calls that Canada should simply block adoption of this GATT Panel report and maintain the status quo. Frankly, this is not a viable option. It would expose Canadian workers to the threat of U.S. trade retaliation. This could hit East Coast fish processors, fishermen on both coasts, or any number of other Canadian industries. Of all sectors, the fisheries industry is particularly conscious of the need for fair international trading rules to be respected. More than 80 percent of Canadian fisheries production is dependent on export markets. If we are not prepared to play by the rules ourselves, we can hardly expect to use them to protect Canadian export interests. I repeat, Mr. Speaker, that the solution we have chosen on the salmon and herring issue will respond to Canada's GATT obligations and will also safeguard the essential interests of Canada's fishing industry and the people who work in it.

Provincial Liquor Board Practices

Let me turn next to the Panel Report on Liquor Boards. Three years ago the European Community took Canada to the GATT alleging that Canadian liquor board practices are unfair. The measures in question here are provincial practices. The Panel found that these provincial practices on pricing, listing and distribution discriminate against imports of alcoholic beverages and are inconsistent with GATT rules. Canada has been asked to have the provinces bring their practices into line with international trade rules and to report back to the GATT before the end of 1988.

Canada will not stand in the way of adoption of this report at the GATT Council meeting. But we recognize that the Panel's recommendations, while not posing problems for the domestic distilling industry, do cause severe difficulties for the Canadian wine industry. The FTA has provisions covering imports of wine from the USA which provide for a seven-year phase-out of differential mark-ups. In 1986, exports of wine from the U.S. to Canada amounted to some ten million dollars. By comparison, European exports to Canada, which are

twenty-four times as large, pose a very serious threat to the Canadian wine industry. For this reason, we attempted, in consultation with the provinces and the industry, to negotiate a bilateral understanding with the European Community. These negotiations were unsuccessful because the Europeans set conditions which we could not accept.

Now, we will be working with the provinces to find ways to respond to the Panel's recommendations while addressing the adjustment concerns of this industry. The Government will also be reviewing the petition submitted by the Canadian wine industry regarding European subsidy practices on grapes and wines and their impact on the Canadian market.

Our dispute with the European Community on liquor board practices has centered on wine and spirits. European exports of beer, which account for less than one-half of one percent of the Canadian market, did not figure prominently in the complaint. In view of this and, given that discussions are now under way with the provinces to address interprovincial barriers to trade, the Government is not prepared to implement any changes in respect of beer marketing practices in the foreseeable future.

Japanese Tariffs on Dimension Lumber

Finally, I want to advise the House that Canada will be requesting on March 22 that the GATT Council establish a Panel to consider a Canadian complaint against Japan. This relates to a Japanese tariff which discriminates against Canadian lumber in favour of lumber from the USA. The tariff restricts Canadian access to a rapidly expanding market that we pioneered. This is a longstanding issue which we have raised with Japan at the highest levels for many years. Specifically, our exports to Japan of Spruce-Pine-Fir dimension lumber are assessed an 8 percent tariff while exports of competing species, mostly from the United States, are allowed to enter duty-free.

We do not feel that this is consistent with the GATT requirement to give the same tariff treatment to "like products". We have tried to settle this issue on many occasions. The Prime Minister, my colleague the Minister of State for Forestry and Mines and I have all raised this issue with our Japanese counterparts. Japan has offered us limited tariff reductions but would not agree to provide Canada with the same access provided to the U.S. Therefore, we are taking this issue to the GATT.

As we have done in the past, we will be using the GATT to defend Canadian export interests and Canadian jobs. Clearly, Canada expects other countries to live by the GATT rules. But we cannot do so unless we are also prepared to respect these rules ourselves. The decisions which I have announced today, Mr. Speaker, reflect this basic principle and protect Canadian jobs.

PRESS BACKGROUNDER ON
GATT DISPUTE SETTLEMENT SYSTEM

- Under Article XXIII of the GATT, any party has the right to bring forward complaints when they consider that their rights are being nullified or impaired by the actions of another GATT member.
- Where bilateral consultations fail to resolve the issue, the complaining party may request the GATT Council to establish an impartial Panel of experts (usually 3 to 5 persons) to consider the matter and make recommendations.
- Panel membership and its terms of reference are worked out in consultation with the GATT Council Chairman. The Panel hears the case of each disputant, as well as presentations by other interested parties. It then undertakes an objective assessment of the matter and makes a determination of whether the measures subject to complaint conform with GATT rules.
- Panel reports must be adopted by consensus in GATT Council in order to have formal legal standing. When a measure has been found inconsistent with the GATT, the offending party has a reasonable period within which to comply. Should this fail to occur, a further decision may be taken by GATT Council to authorize complainants to suspend "substantially equivalent concessions" (i.e. retaliation).
- Since the formation of the GATT in 1947, fifty-eight Panel reports have been submitted to GATT Council. Of these, forty-nine have been adopted while, in six other cases, the report's adoption became a non-issue in light of the dispute being resolved after the Panel had reported. The three remaining cases are the findings against Canada's salmon and herring export restrictions and provincial liquor boards practices, as well as a Panel report on the U.S. trade embargo against Nicaragua.
- Of the fifty-eight GATT Panels which have reported, the complainant has lost the case only seven times. Canada's record in GATT dispute settlement is similar. Since 1979, Canada has initiated eight GATT cases against other countries, and has lost only one. Most recently, the GATT Council has adopted Panel reports or cases which Canada successfully pursued against the U.S. Superfund legislation (a discriminatory tax on imported oil) and U.S. Customs User Fees. Of the four Panel reports submitted to GATT Council since 1979 where Canada was the defendant, all have found the Canadian practices in question to be inconsistent with the GATT.

PRESS BACKGROUNDER ON
SALMON AND HERRING

- This issue arose from a petition filed in April, 1986 under Section 301 of the U.S. Trade Act (retaliation against unfair trading practices). The complaint was that, while Canadian fish processors were buying significant quantities of unprocessed Alaskan salmon and herring, U.S. processors were denied any access to unprocessed salmon and herring from British Columbia.
- Canadian regulations under the Fisheries Act prohibit the export of Pacific sockeye and pink salmon and herring unless it has been processed in a federally certified plant in B.C. Other salmon species, such as coho, chinook and chum are not subject to these regulations.
- About 2,400 workers are engaged in processing West Coast sockeye and pink salmon (some 2,000 in canning operations and 400 in freezing salmon for export). Processing of roe herring involves about 1,200 seasonal jobs in B.C.
- The U.S. does not maintain comparable export restrictions. Although the U.S. Magnuson Fishery Conservation and Management Act (1976) includes a "processor preference", this has been applied only to control "over-the-side" sales to foreign floating processors and not to preclude the export of unprocessed fish. Roughly 15% of the salmon and 8% of the herring processed in B.C. is imported from Alaska.
- After two rounds of bilateral consultations in September and October, 1986, the USA took the complaint to a GATT Panel in March, 1987. The U.S. Section 301 investigation has been suspended pending the outcome of the GATT process.
- In November, 1987, the GATT Panel made its finding that Canada's export restrictions were inconsistent with the GATT. The Panel report has already been discussed in the GATT on two occasions (December, 1987 and February, 1988).
- Canada will be prepared to accept the report's adoption on March 22 and will remove the GATT-inconsistent measures by January 1, 1989. At the same time, new regulations will be implemented to put in place a landing requirement for all Pacific salmon and herring, as well as provisions for inspection, grading and quality control. This will provide access for U.S. purchasers and will address Canada's fishery conservation, management and quality requirements in a manner consistent with the GATT as well as with the United Nations Convention on the Law of the Sea.

PRESS BACKGROUNDER ON
PROVINCIAL LIQUOR BOARD PRACTICES

- A GATT Panel was established in March 1985 to examine a complaint by the European Economic Communities that the practices of Provincial Liquor Boards discriminate against imported alcoholic beverages. The United States and Australia supported the EC complaint.
- In 1985 and 1986, attempts were made to reach a bilateral settlement of this dispute. When these did not prove successful, the EEC requested the Panel to begin its work. The first meeting of the Panel with the parties to the dispute was held in December 1986. Efforts to reach a bilateral settlement continued into 1987.
- In October 1987, the GATT Panel provided the EEC and Canada with its conclusions and recommendations. The Panel found that those practices of provincial marketing agencies which discriminate between imported and domestic alcoholic beverages with respect to their pricing, listing or distribution for sale do not accord with the provisions of the General Agreement.
- The Panel's findings require non-discriminatory treatment between imports and domestic products but do not preclude the maintenance of a Provincial Liquor Board system nor affect the right of the provinces to collect revenues through mark-ups. Nor does the Panel report impinge on the provinces' ability to control the distribution and sale of alcoholic beverages, such as for reasons of health and safety.
- An attempt was made in January 1988, in consultation with the provinces and industry, to negotiate a bilateral settlement with the EEC taking into account the Panel's findings. This was not successful because the EEC established conditions for continuing negotiations which were unacceptable to Canada.
- The Government will not stand in the way of the Panel report's adoption at GATT Council on March 22 and will now be working with the provinces to find ways to respond to the Panel's recommendations. The Panel called on Canada to take such reasonable measures as may be available to ensure that the provisions of the GATT are observed by the provincial liquor boards and to report back to the GATT before the end of 1988 on action taken.

PRESS BACKGROUNDER ON
JAPANESE TARIFF ON SPF DIMENSION LUMBER

- Canada intends to request formation of a Panel to rule on the GATT consistency of the tariff applied by Japan on imports of Spruce-Pine-Fir (SPF) dimension lumber. The request will be made at the next meeting of the GATT Council on March 22, 1988.
- Japan currently applies an 8 per cent tariff on SPF dimension lumber, mainly supplied by Canada, while providing duty-free treatment to other species of dimension lumber, such as Hem-Fir, which is mainly supplied by the U.S. It is Canada's position that dimension lumber (i.e. 2 x 4s, 2 x 6s, etc.) of SPF and of other species are "like products" and should therefore receive equal tariff treatment under Article I.1 of the GATT.
- The Canadian request for a GATT Panel follows repeated efforts to resolve the issue bilaterally. The Honourable Pat Carney, Minister for International Trade and the Honourable Gerald Merrithew, Minister of State for Forestry and Mines, have raised the issue with their Japanese counterparts. It was also raised by Prime Minister Mulroney when Prime Minister Takeshita of Japan visited Canada in January, 1988.
- Canada invoked the GATT dispute settlement procedures last Fall, and bilateral consultations were held on October 8-9, 1987 and March 4-5, 1988 in an effort to find a negotiated settlement.
- During the bilateral discussions on March 4 held in Tokyo, the Japanese side offered limited reductions in the SPF tariff. However, they would not agree to provide Canada with equal access by eliminating the tariff.
- Canadian industry is concerned about the loss of its share of imports in a rapidly growing market which it pioneered and developed. The industry, through the Council of Forest Industries (COFI) has been fully consulted on the Government's approach and will continue to be involved as the issue is pursued to a GATT Panel.
- Canada exported approximately 200 million board feet of SPF dimension lumber to Japan in 1987, which was worth over \$80 million. Almost all dimension lumber is used in housing construction.