

THE WHITE HOUSE
WASHINGTON

September 21, 1998

MEMORANDUM FOR DISTRIBUTION

FROM: LAEL BRAINARD
SUBJECT: Deputies Meeting on Canada Trade Issues

We will hold a Deputies meeting to discuss Canada trade issues on Wednesday, September 23, 1998 at 5:00 pm in OEOB Room 180. Principals plus one are welcome. Please call Sharon Yuan at 456-5353 with clearance information.

Background paper will be distributed by COB Tuesday, September 22.

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Canada

Overall Trade with Canada

Canada is our largest trading partner with \$319.5 billion in total (two-way) goods trade during 1997, estimated to grow to \$333 billion in 1998 (larger than our two-way trade in goods with the EU, or Japan and China combined.) It is also our largest goods export market (\$151.5 billion, estimated to be \$159 billion in 1998) and largest source for goods imports (\$168.1 billion, estimated to be \$174 billion in 1998). Exports to Canada increased by 67.2% over the five years between 1992 and 1997. For comparison, U.S. exports to Japan (37%) and goods imports from Canada rose 70.4%, compared to increased imports from the Japan (25%) over the same period.

U.S. goods trade deficit with Canada more than doubled from 1992 to 1997 (from \$8.0 billion to \$16.1 billion.) In 1997, it was down 24% in 1997 and it has continued to decline through seven months of 1998. U.S. services trade with Canada, in 1996 (the latest date available), was in surplus at \$6.2 billion. U.S. is the largest foreign direct investor in Canada which results in high dividend payments by Canadian subsidiaries to their U.S. parents. The stock of U.S. foreign direct investment (FDI) in Canada in 1997 was \$99.9 billion, up from \$91.3 billion of U.S. FDI in 1996.

Bilateral Issues

Autos: The European Communities and Japan have instituted WTO dispute settlement proceedings regarding provisions of the 1965 US-Canada Auto Pact still in force. U.S. industry representatives assert that elimination of the 6.7% tariff, among other things, would result in the displacement of vehicles produced in North America; create a back-door to the United States market for Japanese imports; and reduce the incentive for Japanese transplant manufacturers in the United States to meet the NAFTA content levels. A cooperative Canadian Government is potentially important to resolving U.S. auto industry concerns.

Magazines: On July 29, 1998, Canada announced that, effective October 30, 1998, it will bring its measures into compliance with its WTO obligations. At the same time, Canada announced its intention to pass a new law that would continue the policy of channeling all advertisements directed at the Canadian market into Canadian-owned publications. Whether or not the new law affects "advertising services" covered by GATS, as Canada claims, the new law appears to

continue the existing GATT-inconsistent discrimination against U.S. magazines as goods. Interagency work on our options is underway with decisions necessary in October.

Film and CRTC Television Policies Reviews: The CRTC (similar to our FCC) is reviewing the definition of "Canadian content" for television programs and accepted public comments. CRTC's broader television policy review is ongoing and public hearings will be held from September 23 running to October 9. On film policy, Heritage Minister Copps has issued a series of proposals in an effort to prop up the Canadian film sector. Serious commercial and policy precedent-setting issues are at stake. USTR has initiated a high-level discussion but Canadian cooperation is critical to protecting U.S. interests.

Lumber: There are two "disputes" ongoing in the lumber area, the reduction of stumpage rated in British Columbia and the classification of drilled lumber by U.S. Customs under the agreement. Recently, Canada made a proposal on stumpage that, unfortunately, may be too little, too late. Concerns are rising over the prospect that the Softwood Lumber Agreement (SLA) - our largest sectoral agreement - may not survive. We held consultations on the classification of drilled lumber. Instead of going to arbitration under the SLA, Canada raised the issue in the World Customs Organization. Domestically, the Home Builders Association filed a case in U.S. court on the same classification issue.

Telecommunications (1377): We expect a favorable ruling by the CRTC to end the U.S.-bypass restriction. Canadian officials indicated that the changes should go through soon but there is still the possibility they may not. AT&T and MCI, among others, are awaiting a positive outcome.

Agriculture: We understand the concerns that have prompted the Governors to act. In fact, we are currently working with the Canadians to improve access for U.S. grain, and we are seeking an expansion of the Northwest pilot program under which U.S. feeder cattle can be shipped to Canada. By requesting an audit of the Canadian Wheat Board, we seek greater transparency on its practices. In addition, we have challenged the Canadian dairy system at World Trade Organization (WTO), and we are pushing for greater disciplines on Canada's import requirements for horticultural products. Despite the current problems that cloud our trade relationship, Canada remains our second largest customer for agricultural products -- importing \$6.6 billion worth of U.S. agricultural products last year. We have been seeking improved cooperation on other issues as well - pesticides, biotechnology, regional and multilateral trade agreements.

Plurilateral/Multilateral Agendas

In addition to the above bilateral issues, we seek Canada's cooperation in several other fora. We look to Canada to support our objectives in global E-commerce, the ongoing NAFTA Operational Review of the trilateral work program, APEC (particularly in EVSLs), WTO Agenda (transparency, labor, environment), and the FTAA where Canada currently chairs the Trade Negotiations Committee and will host the next FTAA Ministerial.

09/22/83 16:14 202 393 3640
U.S. EMBASSY SEP 18 '83 24:21PM CDN EMB TRADE POLICY

NORTH AMERICA

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TO: LORRAINE
FROM: VLAD

Canadian Embassy



Ambassade du Canada

501 Pennsylvania Ave., N.W.
Washington, D.C. 20001

September 18, 1987

The Honourable Erskine B. Bowles
Chief of Staff to the President
The White House
Washington, D.C.

Dear Mr. Bowles,

When the President and Prime Minister Jean Chrétien spoke earlier this week, the President raised certain concerns regarding wheat trade. Since that conversation there have been further developments that I wish to bring to your attention.

On September 16 Governor Janklow of South Dakota imposed new restrictions on Canadian livestock and grain. Specifically, truckers are being required to provide proof that livestock is free of certain drugs and that grain is free of Karnal bunt and wild oats. Because Canadian livestock and grain exported to the United States already meet all animal health and food safety requirements of the U.S. federal government, this action is unjustified and unwarranted. We know of no credible legal or scientific basis for this type of harassment, and therefore must conclude that its principal motivation is not related to food safety.

The harassment of trucks carrying Canadian products has already begun and is escalating. We have received reports of livestock carriers being denied entry to South Dakota, forcing them to make costly alternative arrangements.

I have written to the Secretary of State Madeleine Albright, the Attorney General Janet Reno, Ambassador Charlene Barshefsky and the Secretary of Agriculture Daniel Glickman to register the serious concerns of the Canadian Government. I am writing now to you to ask for your good offices in seeking the removal of the South Dakota restrictions so that Canada and the United States can continue to work constructively to address the difficult economic situation facing farmers on both sides of the border.

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Given the President's expressed interest in this issue, I would be grateful if you would inform him of Canada's concerns about these developments and their possible effect on our bilateral relations. I would be very happy to speak with you by telephone should you wish to discuss this matter further.

Yours sincerely,

Raymond Chrétien

Raymond Chrétien
Ambassador

cc: The Honourable Samuel R. Berger
National Security Advisor
The White House

Recent Actions

Important facts: U.S. imports of Canadian wheat have leveled off since their peak in 1993/94, the year prior to the U.S.-Canada MOU on Grains between 1.93 and 1.97 mmt in recent years. After reaching a peak of 1.5 mmt in 1993/94, imports of barley rose from 790,900 tons in 1996/7 to 835,700 tons in 1997/98 (June through May year.) Prices received by wheat farmers have fallen from \$4.55 per bushel in 1995/96 to \$2.65 in 1998/99, which is well below the five-year average of \$3.79 per bushel. Similarly, barley prices received by farmers have fallen by nearly a dollar per bushel since 1995/96 to \$1.95 in 1998/99 which is well below the previous five-year average of \$2.41/bu.

Idaho and Minnesota Gov. Phil Batt (R)

Gov. Batt announced on Sunday 9/20 that he will step up efforts to check Canadian trucks carrying grain and livestock. The state's trade corridors will be monitored to ensure the trucks meet food safety, highway safety, weight, licensing, plant and animal health, ownership, and North American Free Trade Equipment Act requirements necessary to bring in products.

News reports indicate that Minnesota began inspections of Canadian trade in livestock and grains on Monday.

Montana Gov. Marc Racicot (R)

On September 18, however, Montana issued a press release stating that the Governor will step-up efforts to inspect Canadian trucks as they cross the border into Montana. The trucks carrying Canadian commodities will be inspected for safety, weight, licensing, plant/animal health and ownership requirements. Gov. Racicot said "We in Montana are faced with a difficult issue. On one hand, our commodities are subject to extensive Canadian quarantine import restrictions, while on the other hand, Canadian commodities are allowed to freely enter the United States by the federal government. It is critical that our federal officials address this disparity." In addition, protestors blocked goods from coming across the U.S.-Canadian border at certain customs locations on September 21.

North Dakota Gov. Edward Schaefter (R)

Canadian trucks hauling cattle, wheat, and hogs through North Dakota to undergo longer inspections by state officials. Trucks will be inspected at the state's 11 weigh stations where they already stop, adding about 5-10 minutes to the normal 1-minute inspection process. The Governor is joining the actions of Gov. Janklow of S. Dakota in sending a message to the Administration that international trade policy on Canadian grain and livestock should be changed. He said that an inventory of the trucks and where they are going would "help us in our international trade negotiations." ND farmers blocked rail and highway crossings at the border.

South Dakota Gov. William Janklow (R)

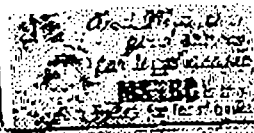
Gov. Janklow announced that Canadian trucks carrying wheat, cattle and hogs would be forced to turn around if they could not prove that they met certain disease criteria. According to Janklow, SD's state health, safety, and welfare laws contain the authority to stop trucks and inspect them for disease. Canadian wheat haulers are required to prove their grains contain no kernel bunt disease or wild oats. Truckers transporting cattle and hogs must prove the animals are free of six drugs allowed in Canada, but not the United States. Shipments of Canadian cattle and swine are expected to provide proof that the animals have not received the following drugs: dimetridazole, ipronidazole, nitroimidazoles, fluoroquinolones or glycopeptides (swine); sulfamethazine, fluoroquinolones or glycopeptides (cattle).

Recent Legislative Actions

- Sen. Dorgan has offered an amendment (section 682) to the Treasury, Postal Appropriation's bill that would require that all Canadian grains enter the U.S. through one port of entry.
- On July 16, the Senate passed the Department of Agriculture appropriation bill with an amendment, sponsored by Sen. Johnson, that requires beef and lamb sold at retail to be labeled with the country of origin. [Note: Canada believes the proposed legislation violates various U.S. obligations under the NAFTA, including country of origin markings (annex 311), national treatment (Art. 301), and standards (Art. 904). The U.S., Canada, and Mexico held Chapter 20 consultations on September 2.]
- On September 17, House and Senate Republicans announced a plan to give farmers nearly \$4 billion in emergency aid to offset losses stemming from the plunge in crop prices and crop failures resulting from bad weather.

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Home Page

Senator Daschle says America is determined to make Canada trade more fair

Senator Tom Daschle says America won't be the first to blink in a trade battle with Canada. The South Dakota democrat says he talked with US Ag secretary

Dan Glickman Friday morning who reaffirmed the country's determination to make Canada trade more fairly.

Daschle told reporters that it doesn't have to be a long-term battle, but he says the dispute was overdue. The Dakotas started inspecting Canadian trucks earlier this week and Montana plans to join them next week. Daschle says the US has pleaded with the Canadians, and a trade battle is the only recourse. He says states can take whatever actions they want under state laws. He adds it would be tough for the feds to tell governors they couldn't take action to protect their states.

Earlier this week Canadian officials blasted South Dakota Governor Bill Janklow's move to inspect Canadian agriculture shipments. Three Canadian cabinet ministers say the stops, which began at noon on Wednesday, are unwarranted and amount to harassment.

Authorities in North and South Dakota are pulling over Canadian trucks carrying grain and livestock. Both states check for certification that the grain has no wild oats or kernal bunt fungus. They are also checking for proof that the livestock did not get antibiotics that are not legal in the United States.

The governors of both Dakotas say the Canadians impede imports while flooding the United States with exports. Canada says "it's" playing by the trade rules and the Dakotas are not. South Dakota Governor Bill

Senator Daschle says America is determined to make Canada trade more fair

Janklow, who ordered the inspections, says his state is just doing what Canada does to US farm shipments into that country.

Nebraska Governor Ben Nelson says his state will join South Dakota in making spot-inspections of Canadian agricultural products brought into the state. But he says the Nebraska efforts will not be as intense as those of South Dakota.

Currently any trucks carrying hogs or cattle from Canada are being stopped at South Dakota's borders. Trucks found "inside" the borders without the right paperwork will be escorted to the nearest inspection point.

South Dakota highway patrol superintendent Gene Abdallah says the stops will take place around the entire perimeter of the state, including every port of entry and other locations. He says the motor carrier division of the patrol will do the inspections, but troopers will be nearby if there's a shortage of manpower.

Abdallah says contaminated products won't be allowed into the state, and the trucks will have to turn around. He says the inspections will go on 24 hours a day, seven days a week until further notice.

Janklow says he called for the stops to call attention to the problems American farmers face when exporting products to Canada.

Be sure to watch Channel 4 News at 6am, 12noon, 6pm, and 10pm for all the news from Siouxland.

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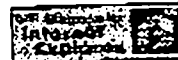
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