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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. bio	re: Ambassador Raymond A.J. Chretien; [Personally Identifiable Information] [Partial] (1 page)	05/03/1994	b(6)
002a. letter	L. Ian MacDonald to Thomas O'Donnell; re: Meeting with Laura Tyson;[Personally Identifiable Information] [partial] (1 page)	05/03/1994	b(6)
002b. bio	re: Ambassador Raymond A.J. Chretien; [Duplicate of 001] (1 page)	05/03/1994	b(6)

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Clinton Presidential Records
Council of Economic Advisers
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FOLDER TITLE:

Trade Issues (Canadian)

2017-0364-F
jp3838

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
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MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

May 24, 1994

MEMORANDUM FOR LAURA TYSON

FROM: PETER ORSZAG

SUBJECT: Visit of Mr. Roy MacLaren, Canada's Trade Minister

Mr. Roy MacLaren, Canada's Minister for International Trade, will be visiting today. In my background memo for the meeting (dated May 20), I mentioned that Erik Lichtenberg would assemble some of his previous CEA memos on various trade disputes with the Canadians. (The State Department's talking points on these disputes were attached to my original memo.) Please find attached a series of Erik's memos on lumber, peanut butter, and various other contentious agricultural issues.

cc: ASB, JES, TPO'D, MN, BC, EL

EL

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

April 6, 1994

TO: LAURA TYSON

FROM: ERIK LICHTENBERG

SUBJECT: Canadian Lumber Imports

On April 1, Alan Wolff of Dewey Ballantine, the law firm representing the Coalition for Fair Lumber Imports (the group working to get the government to take action against imports of softwood lumber from Canada), sent you a letter requesting a meeting with you. The purpose was to follow up on a meeting I had with their staff shortly after the Washington Post ran a story about your memo to Mickey Kantor on the issue of Canadian lumber imports. At that meeting, we discussed the question of whether low Canadian provincial stumpage fees constituted export subsidies. The Dewey Ballantine representatives claimed to have information contradicting our position, which they subsequently sent me.

Their main argument is that Canadian provincial governments charge lower-than-market-rate stumpage fees that harm the U.S. industry by increasing Canadian lumber supply and driving down lumber prices. They further allege that Canadian lumber supply can increase in response even though the allowable harvest is set administratively, because provincial governments explicitly allow deviations from that allowable harvest (called the annual allowable cut).

After further investigation of these issues, I see no reason to change our original position or to discuss this matter further with the Coalition or their representatives.

- There is little evidence that provincial stumpage fees contain a subsidy component of any appreciable size.

    - Stumpage fees are now calculated subtracting estimated harvesting and transportation costs (both of which can be estimated reasonably reliably) from observed prices in a market where logs are actively traded. This method should give stumpage fees that are close to the true market value of stumpage.

    - One would expect significant subsidies to be reflected in an increased rate of return in lumber industries, especially since opportunities for dissipating rent through excessive investment are limited because provincial governments limit harvesting. In fact, the rate of return for Canadian wood products industries is not significantly different from manufacturing industries generally.

● Even if provincial stumpage fees did contain a substantial subsidy component, the impact on the U.S. industry would be small.

   ○ Econometric evidence indicates that the long-run elasticity of lumber supply is extremely low, on the order of 0.2 to 0.3, suggesting that even large changes in stumpage fees would have small effects on lumber supply. Suppose for example that stumpage made up half of the cost of logs to a sawmill, and that logs made up half of the cost of producing finished lumber. Doubling stumpage fees would increase the cost of lumber by only 25 percent and quantity by only 5 to 7.5 percent. Assume that 60 percent of this additional lumber were exported to the U.S. and that Canadian imports had a 30 percent share of U.S. consumption, as has been characteristic of recent years. Then the increase in imports would amount to only 0.9 to 1.35 percent of U.S. consumption. Even if price elasticity of U.S. demand were extremely low, the impact on U.S. lumber prices would be quite small.

   ○ British Columbia--which accounts for almost 80 percent of imports into the U.S.--allows deviations from the annual allowable cut of only 10 percent over a five-year period. Thus, while companies operating in British Columbia can increase production in the short run in response to price fluctuations like those observed recently--and thus serve the buffer stock function we discussed in the WEB--they cannot increase production appreciably over the medium to long term.

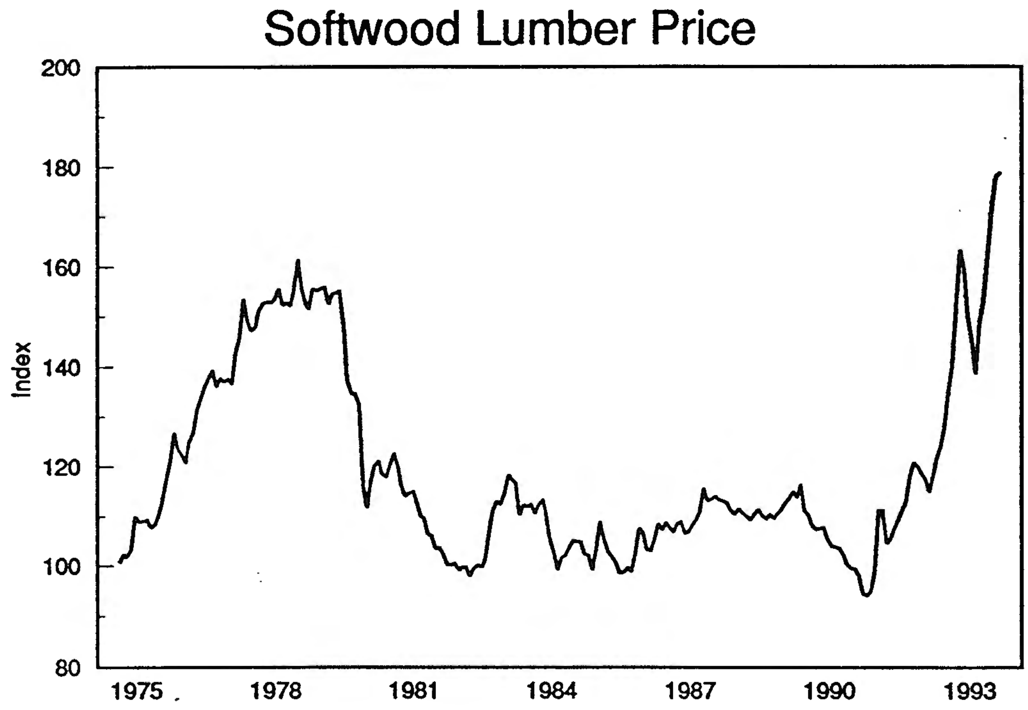
I had been planning to write Dewey Ballantine acknowledging the material they sent, thanking them for their concern, and indicating in general terms that it was insufficient to change our views. I would appreciate any suggestions you have about an appropriate response.

cc: AB, JS, TO'D

ARTICLE

Construction Boom Strains Domestic Softwood Lumber Capacity

Spurred by the sharp rebound in housing starts, capacity utilization in the lumber industry has reached 92 percent. The price of softwood lumber—used in framing houses—has spiked recently.



Note: Lumber price is corrected for inflation (deflated by PPI for finished goods).

Price pressure from tight domestic capacity. Lumber supply is a potential bottleneck for housing construction, and increased lumber prices could push up the price of housing. Since lumber accounts for 3 to 5 percent of the cost of a new house, the 30 percent increase in the price of lumber over the last 12 months adds between 1 and 2 percent to the cost of a house.

Imports ease inflationary pressure. Tight sawmill capacity and limitations on U.S. forest production need not lead to sharply higher lumber prices. Imports from Canada have played an important role in supplementing U.S. softwood lumber supply, thereby moderating price pressures.

- Over the past 2 years, Canadian imports have increased their share of the U.S. market from 28 percent to 33 percent as U.S. softwood lumber prices have skyrocketed.

- When the economy recovered from recession between 1982 and 1984, U.S. lumber production increased by 24 percent while Canadian imports increased by 45 percent.

- When the economy faltered between 1989 and 1991, U.S. lumber production decreased by 8 percent and Canadian imports fell by 23 percent.

The market for lumber illustrates a general point: <u>Our ability to import commodities that are in scarce supply provides an important cushion against inflationary pressure and production bottlenecks</u>.

Trade Dispute with Canada

A long, bitter dispute over imports of softwood lumber from Canada began in 1986 with complaints from the U.S. forest products industry that provincial governments in Canada were charging too little for the right to harvest on government-owned land (called "stumpage fees"), in effect subsidizing Canadian timber companies. The United States and Canada agreed that Canada would impose a 15 percent tax on softwood lumber exported to the United States until provincial governments changed their forest management practices.

Canada notified the United States of its intention to end that export tax in 1991, citing changes in the prices charged for the right to harvest wood by British Columbia and Quebec, which together account for 90 percent of softwood lumber exports to the United States. The Bush Administration responded by imposing a countervailing duty. Canada appealed under the terms of the Canada-U.S. Free Trade Agreement and a binational panel ordered that the duty be removed. The United States complied, but is presently considering whether to file an extraordinary challenge.

Ironically, the U.S. Government can be accused of subsidizing the domestic lumber industry in much the same manner as Canadian provincial governments. The fees the Forest Service and Bureau of Land Management collect for the right to harvest timber on Federal lands frequently fail to cover the costs the government incurs, which range from administration to road building.

EL

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

March 10, 1994

TO: LAURA TYSON
ALAN BLINDER
JOE STIGLITZ

FROM: ERIK LICHTENBERG EL

SUBJECT: Possible Import Restrictions on Peanut Butter

I met today with a delegation from the Independent Bakers Association, some of whose members manufacture snack foods containing peanut butter and peanut paste (e.g., Little Debbie). They are concerned about possible restrictions on imports of peanut butter and peanut paste from Canada, and sought Laura out after reading about her softwood lumber stance in the Washington Post.

Background

The U.S. peanut program supports the price of peanuts by restricting production and imports. Peanuts may be marketed only through approved cooperative warehouses. Every grower is issued a quota for sales in the U.S. edible (as opposed to market; over-quota production (so-called "additional peanuts") can be sold only for crushing or export, except in cases of short harvest or other emergencies. Section 22 import quotas have been in place since 1953 to prevent imports from undermining the price support features of this system. The Section 22 quota covers raw peanuts, shelled or unshelled, and prepared peanuts such as snack nuts; it does not cover peanut butter. The U.S does levy a tariff on imports of peanut butter; this tariff was reduced, but not eliminated, for Canada under the U.S.-Canada Free Trade Agreement (CFTA).

Food uses account for 54 percent of U.S. peanut consumption, crush for 20 percent and exports for 19 percent; seed, loss and shrinkage account for the remainder. Peanut butter accounts for 51 percent of food use, snack peanuts for 26 percent and peanut candy for 21 percent. The U.S., Canada and the Netherlands account for almost all of the world's peanut butter consumption.

Imports of peanut butter and peanut paste from Canada have been rising over the past few years. U.S. imports of peanut butter and peanut paste increased from 971 metric tons in 1988 to 12,000 metric tons in 1992 and 15,000 metric tons in 1993. This is still quite small relative to total consumption, only about 3 to 4 percent. According to the representative from "Little Debbie," U.S. snack manufacturers actively sought to diversify suppliers--

looking particularly to Canada--after droughts in 1990 and 1991 induced U.S. suppliers to double of the price of peanut butter.

Current Activity

The Department of Agriculture is seeking to extend Section 22 import restrictions to peanut butter and peanut paste. The International Trade Commission is scheduled to hold hearings on the topic in late April. Meanwhile, USDA and USTR are seeking to negotiate voluntary restrictions on peanut butter and peanut paste imports as part of the overall trade package with Canada (which includes sugar as well as wheat, dairy, eggs and poultry). Representative Charlie Rose of North Carolina has been a vigorous proponent of action against imports.

The Independent Bakers Association is requesting that any such restrictions accommodate existing contracts, and that they not go into effect until January 1, 1995 at the earliest to avoid disrupting long-term contract sales.

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

October 25, 1993

TO: LAURA TYSON
ALAN BLINDER
JOE STIGLITZ

FROM: ERIK LICHTENBERG EL
SHERMAN ROBINSON SR

SUBJECT: U.S.-Canada Agricultural Trade Disputes

Trade tensions are mounting between the U.S. and Canada over a number of agricultural issues. We are concerned that the U.S. posture in many of these disputes does not make sense economically and is souring our overall relationship with Canada. Our positions are certainly contrary to the spirit, if not the letter, of the NAFTA and the U.S.-Canada free trade agreement (CFTA), and are undermining Canadian support for both agreements. Rather than continue to pursue unilateral retaliatory trade policies, which often fail in their purpose and/or have undesirable spillover effects, it is time to work with the Canadians, and the Mexicans, to coordinate domestic and international agricultural policies. We suggest that the CEA recommend an interagency task force be convened to initiate a review of domestic and international agricultural policies in the U.S., Canada, and Mexico, with the goal of negotiating with our NAFTA partners to harmonize agricultural support policies across North America.

Agricultural trade disputes have plagued the CFTA since its inception. These disputes are symptomatic of a single underlying problem: neither the U.S. nor Canada is willing to adjust its domestic agricultural programs to better mesh with the other's. In the past, in both countries, trade policies have been designed to support domestic support programs. As the Europeans understood early on, in sectors such as agriculture, where there are extensive domestic subsidy programs, it is necessary to coordinate domestic and international policies if countries are to form a free trade area. The result in Europe was the Common Agricultural Policy (CAP). The problem is especially acute if the countries do not have a common external trade policy (*i.e.*, a customs union).

When CFTA was formed, agriculture was largely left out on the argument that changes in domestic agricultural programs would be handled under the GATT negotiations, which were expected to be completed soon after CFTA was implemented. With the delay in completing GATT negotiations, the results were entirely predictable. Given the similarities in production conditions and low transportation costs between the two countries, domestic support/protection programs have come into conflict with the patterns of trade generated by the CFTA.

USDA and USTR have consistently taken the position that Canada's domestic support programs constitute export subsidies and have supported countervailing actions on that basis. In fact, total subsidy rates in the two countries are roughly similar (*e.g.*, as measured by producer subsidy equivalents, PSE's). Problems arise because the mix of domestic and trade subsidies differ, which leads to different distortions in incentives in the two countries.

The fact that, in agriculture, most domestic support programs distort trade has long been recognized. Indeed, it is precisely this recognition that motivated the U.S. to insist on bringing domestic agricultural subsidies under the GATT in the Uruguay Round. It is bizarre for us now to argue, in the case of Canada, that some of their policies affect trade, justifying retaliation, while the trade-distorting characteristics of our domestic and export policies are somehow exempt from consideration.

In sum, what we are now seeing are policy tensions arising from the lack of coordination of agricultural trade and domestic support policies between the U.S. and Canada. The Mexicans have become involved because we have started to subsidize wheat exports into their market. Such subsidies are viewed as dumping by the Mexicans, and are very unwelcome given that Mexico is in the process of an extensive and politically delicate restructuring of its entire system of agricultural support policies. The CFTA was implemented to foster increased trade, economic integration, productivity, and growth in the U.S. and Canada. Attempts to resolve agricultural trade tensions through unilateral U.S. trade policy initiatives will require the U.S. to close its agricultural markets, defeating the purpose of the CFTA (and of NAFTA). We discuss some specific examples below.

- **Durum wheat.** U.S. imports of durum wheat have been rising rapidly over the past few years. The reason is that U.S. prices exceed Canadian prices; a gap caused by a combination of increased U.S. consumption, highly inelastic domestic production, and continued subsidization of exports by the U.S. to maintain export volume. The ITC has ruled that Canadian rail subsidies are legal under the CFTA and an audit of Canadian Wheat Board (CWB) pricing practices is under way. Having essentially lost their case in CFTA dispute resolution, a number of Plains states senators and congressional representatives are trying to exert leverage through the NAFTA debate to obtain import restrictions.

- **Wheat exports to Mexico.** Last June, the U.S. extended the EEP program to include Mexico, explicitly targeting Canada as a subsidizer on account of rail subsidies and alleged CWB pricing practices. The result of our displacing Canadian exports was increased U.S. imports of Canadian wheat —an entirely predictable result.

  In fact, the case against Canada is very weak. A CFTA dispute resolution panel has ruled that Canada was not unfairly subsidizing wheat exports to the U.S. Canada is in the process of decoupling its rail subsidies from exports by transforming them into lump-sum direct payments to farmers —a non-distorting form of support that would be allowed under the new GATT rules, if the Uruguay Round is competed. The fact that the CWB has run a deficit in its wheat account only twice in its history suggests that their pricing practices are no different than those of any grain trading company.

U.S. wheat growers have claimed that the CWB was selling feed (low-quality) wheat as milling (high-quality) wheat, but there is nothing illegal, unfair, or even unreasonable about that. Wheat use is determined by physical characteristics rather than legal designations. Moreover, one would expect that an export subsidy like EEP —which accounted for almost 60% of U.S. wheat exports last year— would result in a higher U.S. price and lower world price, making Canadian wheat more attractive in the U.S. market.

• **Barley.** U.S. barley producers have raised complaints about imports of barley from Canada that are similar to the complaints raised by U.S. wheat producers; *e.g.*, transportation subsidies and unfair pricing. Again, we EEP barley fairly vigorously, so an increase in Canadian imports might well be expected. There was some talk this summer about linking NAFTA votes to Section 22 import quotas for barley, but nothing ever materialized.

• **Hogs and pork.** The U.S. has been attempting to place countervailing duties (CVDs) on imports of Canadian hogs and pork since 1985, citing Canada's Tripartite Meat Stabilization Program as an export subsidy. The Tripartite Program applies to all meat animals and is similar to our deficiency payment programs for grains and cotton: the government guarantees a target price and pays producers the difference between the target price and market price. The Tripartite Program does not impose production controls, unlike our deficiency payment program. The predictable outcome of such a policy is increased production and a lower market price. Concern about exacerbating this dispute was one reason the CEA cited for opposing the FSU pork EEP. At present, the CFTA dispute resolution panel has overturned the CVD on pork, since it was not clear that much of the Tripartite subsidy was passed on to pork processors. The hog CVD is still being adjudicated under CFTA procedures.

• **Sugar.** Last spring, the Administration discussed imposing an emergency Section 22 quota on imports of sugar from Canada (mainly processed products that are mostly sugar like Tang, Jello, and iced-tea mix) in response to low sugar prices. Had prices remained low, producers would have defaulted on CCC loans, which would have violated the provision that the sugar program be run at no net cost to the government. USDA ended up supporting prices by imposing marketing allotments —a form of supply control.

The status of Canadian import quotas is problematic since we converted from an outright quota system on sugar to a tariff-rate quota system <u>after the CFTA had gone into effect</u>, at a time when we had agreed not to impose new tariffs on U.S.-Canada trade. The U.S. and Canada had reached a "gentlemen's agreement" that Canada would restrict its imports to its historical share, but that agreement has not held. Canadian imports have been growing while its quota (based on a market share of 1.1%) has been shrinking as the quota on total imports shrinks. This issue will probably resurface after the Canadian election, since the Administration still has the option of imposing a non-emergency Section 22 quota on Canadian sugar imports. While the total amount of Canadian imports is small, sugar imports are near the statutory minimum for the quota, meaning that production controls could become necessary to maintain the no-cost nature of the sugar program.

In addition, sugar has become a contentious issue in the NAFTA debate. Under NAFTA, Mexico is agreeing to establishing a common external policy regarding sugar. U.S. sugar interests are now questioning this agreement, and want to reopen negotiations with the Mexicans.

Our concern is that these types of disputes undermine support in Canada for both the CFTA and for NAFTA. We cannot insulate our markets from Canada's if we want free trade, nor can we succeed in increasing our exports to Canada without accepting greater Canadian imports. Moreover, a GATT agreement on agriculture that roughly follows the Blair House Accord will not remove the basis for disputes like these, since it allows a number of distorting policies to remain in place. The underlying problem is that the U.S. and Canada have decided to support different sectors of agriculture and to use different instruments for agricultural support, most of which affect domestic production and trade incentives.

In our view, if CFTA and NAFTA are to succeed, it is imperative to initiate an effort to harmonize agricultural policies between the U.S. and Canada, and with Mexico as well. Harmonization would:

- ensure that CFTA and NAFTA are viable;

- make our overall international trade policies (*e.g.*, our efforts to end EC agricultural export subsidies) more effective by bringing to bear more market power;

- reduce or eliminate negative spillovers from policies like EEP into domestic markets; and

- reduce the cost of carrying out trade policies and, potentially, domestic policies.

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

May 20, 1994

MEMORANDUM FOR LAURA TYSON

FROM: PETER ORSZAG

SUBJECT: Background for meeting with Canadian Trade Minister Roy MacLaren

Mr. Roy MacLaren, Canada's Minister for International Trade, and Ambassador Raymond Chretien, Canadian Ambassador to the United States, will be visiting on Tuesday, May 24. Their unclassified resumes are attached.

Overview on Canadian economic conditions

The Canadian economy is continuing its recovery from the recession of 1990-1. Real GDP is expected to grow by over 3% this year, led primarily by an expansion in investment and exports. Significant productivity gains are also expected, ensuring relatively low consumer price inflation (in the 1% to 2% range) despite the strengthening recovery. But unemployment, the budget deficit, and the current account deficit remain problems. The unemployment rate is currently over 10.5%, the general government budget deficit was 7% of GDP in 1993, and the current account deficit is expected to average 3.7% of GDP for the 1993-5 period.

Economic indicators

o GDP: Canada's macroeconomic performance over the past several years seems broadly similar to ours. Canada experienced a recession in 1990-1, and the initial stages of the subsequent recovery were disappointing—with real GDP expanding by 0.8% in 1992. Growth then increased to 3.0% in 1993. Forecasts range from 3.0% to 4.0% for 1994 and from 3.2% to 4.4% for 1995.

o Unemployment: The unemployment rate in March 1994 was 10.6%, down slightly from an average of 11.2% during 1993. It is expected to average 11.0% this year and 10.5% next year. Canada's relatively high unemployment is often ascribed to its generous unemployment benefits system, excessive nonwage labor costs, and high minimum wage. But cyclical factors are also clearly pertinent: the unemployment rate was over 3% lower (at 7.5%) before the 1990-1 recession. Many Canadians blame the subsequent increase in unemployment on the Canadian-US Free Trade Agreement rather than the recession!

o Inflation: Consumer price inflation was only 0.2% (year-over-year) in March, and is projected at 0.9% this year and 2.1% next year.

o Budget: The general government budget deficit was 7.0% of GDP in 1993 and is expected to fall to 5.4% this year, largely because of cyclical effects. A new federal budget, released by Finance Minister Martin on February 22, maintains the current level of real expenditure in a "job-friendly" way: expansions in spending on training and infrastructure are coupled with tighter eligibility requirements for unemployment insurance. Provincial governments also face substantial budgetary problems.

o Money and interest rates: Canada's nominal interest rates are strongly correlated with ours (the correlation coefficient of our ten-year bond yields during the 1990's is 0.97), but tend to be somewhat higher. Short-term rates averaged 6.7% in 1992 and 5.0% in 1993. They are expected to average 4.5% in 1994. The ten-year government bond yield averaged 8.8% in 1992 and 7.9% in 1993. The broad money supply rose by 3.5% in 1993.

o Exchange rate and external sector: Canada's real effective exchange rate depreciated in 1993 by 8%. This, along with recovery in the U.S., has helped to boost Canadian exports—which are expected to rise by 8.2% in real terms this year. Canada runs a merchandise trade surplus (of US$9.1 billion in 1993). But a massive services deficit (especially in interest payments and tourism) results in a substantial current account deficit (of close to 4% of GDP).

Bilateral issues

o The State Department has informed me that the primary purpose of Mr. MacLaren's visit is to discuss the Uruguay Round. I have attached a brief set of general talking points on the Round. One specific issue that could prove controversial is our displeasure with Canada's market access offer in agriculture. Eric Lichtenberg will be submitting a memo on this topic.

o There are a series of other contentious bilateral issues (including softwood lumber, wheat, etc.). Mr. MacLaren may not raise these at your meeting, but I have nevertheless attached the State Department's talking points on them. And since State's position is not necessarily the same as CEA's position, Eric Lichtenberg will be re-submitting a package of his memos on these topics.

cc: ASB, JES, TO'D, MN, BC

The Honourable Roy MacLaren, P.C., M.P.
Minister for International Trade

Biographical Note

Education	Born in 1934 in Vancouver where he attended school. Bachelor of Arts, University of British Columbia (1955); Master of Arts, Cambridge University (1957); Advanced Management Program, Harvard University Graduate School of Business Administration (1973); Master of Divinity, University of Toronto (1991).
Diplomatic Service	Joined the Department of External Affairs Service Officer (1957). Third Secretary, International Supervision and Control Commission Vietnam (1958-59). Second Secretary, Canadian Legation, Prague, Czechoslovakia (1959-60). Economic Division, Department of External Affairs, Ottawa (1960-63). First Secretary, Permanent Mission to the United Nations, New York (1964-68). Deputy Head, Aid and Development Division, Department of External Affairs, Ottawa, with rank of Counsellor (1968-69).
Business	Director, Public Affairs, Massey Ferguson Ltd. (1969-73). President, Ogilvy and Mather (Canada) Ltd. (1974-76). Chairman, CB Media Ltd. (1977-) publishers of *Canadian Business* and *Profit* magazines. Director: Deutsche Bank (Canada); Royal LePage Ltd., Royal LePage Morgage Corporation; London Insurance Group Inc.
Member of Parliament	Elected Member of Parliament of Etobicoke North (1979). Re-elected 1980, 1988 and 1993. Parliamentary Secretary to Minister of Energy, Mines and Resources (1980-82). Co-Chairman Special Joint Committee on Senate Reform (1983). Sworn to the Privy Council and appelated Minister of State (Finance) (1983); Minister of National Revenue (1984). Chairman of Liberal Economic Policy Committee and Official Opposition Critic for International Trade (1990-93). Appointed Minister for International Trade, November 4, 1993, in the Government of the Right Honourable Jean Chrétien.
Federal Task Force	Chairman, Federal Task Force on Business/Government Relations (1975-77).

University Lectureship	Special Lecturer in Economic Geography, University of Toronto (1971-75).
Public Service and Associations	Member of Toronto Planning Board (1974-76). Past Member National Executive Canadian Institute of International Affairs and National Secretary UNICEF Canada. Member Royal Canadian Yacht Club and Rideau Club (Ottawa). Director, Canadian Opera Company; Cambridge Canadian Trust; Fellow, Royal Society of the Arts (Britain), Governor, Etobicoke General Hospital; Governor, Canadian Journalism Foundation; Director, Toronto School of Theology.
Publications	Author of Canadians in Russia, 1910-1919, Toronto, 1976; Canadians on the Nile, University of British Columbia Press, 1978; Canadians Behind Enemy Lines, 1939-1945, University of British Columbia Press, 1981; Honourable Mentions, Toronto, 1988.

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Canadian Embassy
Ambassade du Canada

Public Affairs Division
Direction des affaires publiques
501 Pennsylvania Avenue, N.W.
Washington, D.C. 20001
(202) 682-1740

Information

AMBASSADOR RAYMOND A.J. CHRÉTIEN

[001] [redacted] (b)(6) He attended university at the Seminaire de Joliette (B.A.) and Laval University (LL.L). In 1966 he was admitted to the Québec Bar.

Later that year he joined the Legal Affairs Bureau in the Department of External Affairs (now the Department of Foreign Affairs and International Trade). Over the next twelve years he had assignments in Ottawa with the Privy Council Office, the Treasury Board and the Canadian International Development Agency. Outside Canada, he served at Canada's Permanent Mission to the United Nations in New York and the Embassies in Beirut and Paris.

In 1978 Mr. Chrétien was named Canada's Ambassador to Zaire. He returned to Ottawa in 1981 where he was Policy Director for Industry, Investments & Competition (81/82), Assistant Under-Secretary, Manufacturing, Technology & Transportation (82/83) and Inspector General (83/85), respectively, in the Department of External Affairs.

In 1985 he was appointed Canada's Ambassador to Mexico. During his service there he was awarded the Order of the Aztec Eagle, the highest award the Mexican government has presented to a Canadian.

Upon completion of his assignment in Mexico, he was named to the position of Associate Under-Secretary for External Affairs, the second highest in the Department.

Mr. Chrétien served as Canada's Ambassador to Belgium and Luxemburg from 1991 to 1994.

In January 1994 he became Canada's eighteenth representative to the United States.

Mr. Chretien is married (Kay Rousseau) and has a daughter and a son.

January 29, 1994

Talking Points on the Uruguay Round

o The Uruguay Round agreement signed in Marrakesh on April 15 was the culmination of seven years of trade negotiations. This agreement is more comprehensive than any of the previous seven GATT accords: it addresses issues that had not been subject to multilateral disciplines (such as intellectual property rights, trade in services, and investment), it vastly improves the dispute settlement system, and it sets up a new World Trade Organization.

o The agreement is expected to boost U.S. income by between $100 billion and $200 billion by 2005. Reduced barriers to trade both here and abroad will allow us to concentrate our resources in areas in which our productivity advantages over other nations are greatest. These efficiency gains will become manifest in more and better jobs for Americans.

o The Uruguay Round opens up a variety of opportunities for American producers. We are the world's largest exporter, and the agreement's provisions should allow us to expand our exports to other countries. It is estimated that every billion dollars of exports supports 17,000 jobs in export-related industries.

o The agreement covers many crucial areas. It cuts foreign tariffs on manufactured goods by over one-third, improves protection of intellectual property rights, establishes clear rules for the use of subsidies and anti-dumping laws, reduces agricultural and textile trade distortions, phases out voluntary restraint agreements, imposes disciplines on trade-related investment measures, establishes new rules on trade in services, and addresses a series of technical barriers to trade.

o One of the problems with the GATT system has been an ineffective dispute settlement procedure. Before the Uruguay Round, a country found to be violating a GATT provision could veto the investigating panel's decision! But the new agreement eliminates this provision, and establishes a swift, sure, and effective mechanism to resolve trade disputes. When a country contravenes the trade rules, this new dispute settlement system will strengthen the opportunities for the aggrieved parties to obtain relief.

o The Uruguay Round also creates a successor to the GATT— the World Trade Organization. The WTO will be an umbrella organization that encompasses the GATT, the GATS (General Agreement on Trade in Services), the TRIPs (trade-related intellectual property rights), and the new dispute settlement procedure. The WTO is not a leviathan, and it does not take away our right to set our own laws. Rather, it should facilitate further trade liberalization—producing further benefits for the U.S.—while forcing countries to recognize the costs of any laws that break the trade rules.

o The "new issues" meant to be addressed after adoption of the Uruguay Round include trade & the environment, competition policy, and internationally recognized labor standards. (Developing countries are concerned about all three initiatives, which they believe could become pretexts for protectionism.)

o At Marrakesh, we agreed to create a standing committee on trade and the environment, tasked with examining issues like processes and production methods (PPMs), among others. (The issue is whether the trade laws can be expanded to address production methods. Current GATT rules are oriented toward the physical characteristics of goods, rather than how they were produced. This is basically the tuna dolphin issue.)

o The central premise of our competition policy initiative is that anti-competitive practices can serve as barriers to trade. Our goal is not to standardize competition policies, but rather to establish a dispute settlement process so that anti-competitive practices which result in barriers to market access can be addressed in a multilateral forum.

o On labor rights, we want to concentrate on five internationally recognized standards: freedom of association, right to organize and bargain collectively, freedom from compulsory labor, minimum employment age for children, and minimum standards for conditions of work. (These are basically the labor standards embodied in GSP.)

o Negotiations are continuing over a variety of Uruguay Round topics (trade in civil aircraft, the Multilateral Steel Agreement, parts of the financial services agreement, etc.) which were not completed before the end of the Round.

BILATERAL TRADE

- **U.S. - Canada trade is the largest bilateral trade relationship in the world, worth nearly $220 billion per year.**

- **NAFTA continues the bilateral FTA trend to lower duties and improved market access for goods and services. Two-way trade is up 14 percent over last year.**

- **The U.S. is the destination of 83 percent of Canada's exports and the source of 74.2 percent of imports.**

Background: U.S. - Canada trade has grown at double digit rates since the 1989 U.S. - Canada Free Trade Agreement came into effect. The 1994 NAFTA extended FTA liberalizations into new areas such as trade in financial services.

TRADE DISPUTES

- **NAFTA and GATT dispute settlement procedures may be used in the small percentage of trade in which disputes arise.**
- **Leaders in both countries wish to contain trade disputes, and turn to extensive consultations and panel procedures as well as unilateral remedies.**

Background: The conclusion of the Uruguay Round and NAFTA turns bilateral trade attention to several issues put on hold or arising as unfinished business from the two trade agreements. The two countries are at loggerheads over market access and market share questions involving grain, dairy, poultry, sugar and peanuts. The U.S. assessment of countervailing duties against softwood lumber subsidies is currently in the dispute resolution process. Our beer market access complaints are being managed under a memorandum of understanding, but some restrictive provincial practices still remain. Steel is subject to antidumping orders. A uranium agreement designed to help Russia has negative consequences for the Canadian relationship. Canada is wary of perceived threats to its culture by the pervasive U.S. media, publishing and entertainment industries.

SOFTWOOD LUMBER

- **A December 1993 Canada-U.S. Free Trade Agreement (CFTA) dispute panel ordered the Commerce Department to overturn its finding that Canadian stumpage fees and British Columbia's log export ban are countervailable.**
- **The U.S. filed an extraordinary challenge on April 6 addressing both substantive issues and a conflict of interest question involving two Canadian panelists.**
- **Political stakes are high. The case has raised questions in both countries about the dispute settlement process.**

Background: Softwood lumber has long been an issue in trade relations. A December FTA panel found Canadian stumpage fees and British Columbia's log export ban were not countervailable and ordered the Commerce Department to overturn its earlier determination. The panel's 3-2 decision split on national lines, with the two American panelists strongly dissenting. In February, Canada refused to remove two Canadian panelists who failed to disclose that their law firms represented Canadian lumber industry and government clients.

The FTA, and now NAFTA, allows either party to bring a panel decision before an extraordinary challenge committee (EEC) in the event of serious ethical violations or legal error. The U.S. filed an extraordinary challenge April 6 which addresses both substantive issues and the conflict of interest question presented by the panelists' client relationships. The EEC has 60 days to reach a decision.

A lumber shortage is expected in the U.S. this year due to environmental restraints on logging and a rising housing demand. Lumber prices doubled since the U.S. imposed a duty on Canadian lumber in 1991. Dealers and home builders support removing duties on Canadian lumber imports.

AGRICULTURE

- **U.S. agriculture interests seek to limit rapidly growing imports of Canadian wheat and barley.**
- **We seek better access to Canada's supply managed dairy, poultry, and egg markets, consistent with Canada's GATT and NAFTA obligations. We have similar problems with peanut butter and sugar.**
- **The U.S. has initiated use of a GATT provision, Article 28, to address the flood of grain imports. We are currently in a period of negotiations before limits can be imposed.**

Background: Agriculture and Trade ministers tried during the Uruguay Round and subsequently to address the constellation of sticky agriculture trade problems between the two countries. Canadian access to U.S. grain markets expanded greatly with the 1989 U.S. - Canada FTA, and took a substantial share of the U.S. durum wheat market (20-30 percent) and a smaller share, but significant quantity of the overall wheat and barley market (4-6 percent, more than 2 million tons this year.) Canadian success may be attributed to competitive factors (high prices, supply shortfall in the U.S.) or to unfair competition (subsidies and pricing practices of the Canada Wheat Board.) Regardless of the reason, there are significant regional impacts, with congestion at points of sale near the border.

The U.S. has filed a GATT Article 28 action, which provides for a 90 day negotiation period. If no agreement is reached by July, the U.S. may increase tariffs on grain imports, but Canada would have the right to compensation by increasing tariffs on U.S. goods. Canada has already made public its intention to raise tariffs on U.S. sales of rice, wine, apples, pasta, cereal, and bourbon if the U.S. raises tariffs on imported grain.

The Uruguay Round agriculture agreements permit countries to convert non-tariff protection, such as quantitative restrictions, into tariffs, which are transparent and will be gradually lowered. However, the FTA and NAFTA prohibit the U.S. and Canada from raising tariff barriers to each other. Canada has converted its dairy and poultry protection into triple-digit, GATT-consistent tariffs, but may violate NAFTA in so doing. Because the U.S. has parallel problems with sugar and peanut tariffication, we believe a negotiated settlement with Canada should take into account our special domestic constituencies and let both countries avoid contravening of international trade obligations.

PROVINCIAL SALES TAXES

- **New Brunswick's collection of sales taxes from cross border shoppers may violate Canada's national treatment obligations.**
- **The U.S. is considering a NAFTA Chapter 20 panel review.**

Background: In an effort to discourage cross-border shopping, New Brunswick began collecting an 11 percent provincial sales tax from residents returning to New Brunswick from shopping trips in Maine. Canada claims the tax is GATT-legal. However, the practice is a violation of national treatment since New Brunswick makes no effort to collect taxes from mail order or cross-border purchases from other provinces. Formal consultations under the FTA dispute settlement mechanism were held in the fall.

A dramatic drop in cross border shopping over the past year has had an adverse affect on U.S. border communities which rely on Canadian consumers. There are several factors involved in this decline, including a weaker Canadian dollar and the collection of provincial taxes.

BEER DISPUTES

- **The U.S. is working to halt discriminatory treatment of U.S. beer exports to Ontario and other provinces as agreed in the 1993 Memorandum of Understanding (MOU).**

- **The U.S. is moving to implement the GATT dispute panel's recommendations regarding excise tax and other measures denying national treatment for Canadian beer and wine.**

Background: The U.S. and Canada agreed in August, 1993 to end Canadian provinces' import, pricing, distribution, and retail sales practices that discriminate against U.S. beers (the so-called "Beer I" dispute). The U.S. had taken the issue to GATT following a 1990 Section 301 petition from Heileman and Stroh. The GATT panel agreed in October 1991 that provincial practices were discriminatory.

When Ontario refused to negotiate, we imposed a 50 percent duty in July 1992 on Ontario beer. Canada retaliated with a 50 percent duty on Stroh and Heileman. The 1993 MOU ended these punitive duties. We consulted with the GOC in February on the MOU's implementation in Quebec, particularly problems such as obtaining licenses and a proposed minimum price on beer.

After our Beer I GATT dispute, Canada took the U.S. to the GATT charging that some federal/state measures applied to domestic beer/wine are inconsistent with GATT national treatment requirements (Beer II); GATT agreed. Some of the 40 states affected in the Beer II dispute have reformed their practices. Congress has not yet brought the federal excise tax exemption for small brewers into GATT conformity.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002a. letter	L. Ian MacDonald to Thomas O'Donnell; re: Meeting with Laura Tyson; [Personally Identifiable Information] [Partial] (1 page)	05/03/1994	b(6)

COLLECTION:

Clinton Presidential Records
Council of Economic Advisers
Laura D'Andrea Tyson
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FOLDER TITLE:

Trade Issues (Canadian)

2017-0364-F
jp3838

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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BY FAX Canadian Embassy . Ambassade du Canada

5/24/94

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

May 3, 1994

Mr. Thomas O'Donnell
Special Assistant to the Chairman
Council of Economic Advisers
Old Executive Office Building
17th and Pennsylvania Avenue N.W.
Washington, D.C. (Fax: 395-6958)

Dear ~~Tom.~~ Tom

Pursuant to my conversations with you and Alice Williams today, this will confirm that Canadian Trade Minister Roy MacLaren (b)(6) would be delighted to meet with Dr. Tyson the morning of May 24th from 10:15 a.m. to 10:45 a.m. approximately, at the offices of the Council of Economic Advisers in the Old Executive Office Building. Minister MacLaren will be accompanied by Ambassador Raymond Chrétien (b)(6) (b)(6)

Many thanks for setting this up. I am sure that it will be a worthwhile meeting for all concerned. Attached you will find brief biographies of both Minister MacLaren and Ambassador Chrétien.

See you for dinner on May 16th! Best regards,

Yours sincerely,

L. Ian MacDonald
Minister, Public Affairs

[002a]

The Honourable Roy MacLaren, P.C., M.P.
Minister for International Trade

Biographical Note

Education

Born in 1934 in Vancouver where he attended school. Bachelor of Arts, University of British Columbia (1955); Master of Arts, Cambridge University (1957); Advanced Management Program, Harvard University Graduate School of Business Administration (1973); Master of Divinity, University of Toronto (1991).

Diplomatic Service

Joined the Department of External Affairs Service Officer (1957). Third Secretary, International Supervision and Control Commission Vietnam (1958-59). Second Secretary, Canadian Legation, Prague, Czechoslovakia (1959-60). Economic Division, Department of External Affairs, Ottawa (1960-63). First Secretary, Permanent Mission to the United Nations, New York (1964-68). Deputy Head, Aid and Development Division, Department of External Affairs, Ottawa, with rank of Counsellor (1968-69).

Business

Director, Public Affairs, Massey Ferguson Ltd. (1969-73). President, Ogilvy and Mather (Canada) Ltd. (1974-76). Chairman, CB Media Ltd. (1977-) publishers of *Canadian Business* and *Profit* magazines. Director: Deutsche Bank (Canada); Royal LePage Ltd., Royal LePage Morgage Corporation; London Insurance Group Inc.

Member of Parliament

Elected Member of Parliament of Etobicoke North (1979). Re-elected 1980, 1988 and 1993. Parliamentary Secretary to Minister of Energy, Mines and Resources (1980-82). Co-Chairman Special Joint Committee on Senate Reform (1983). Sworn to the Privy Council and appelated Minister of State (Finance) (1983); Minister of National Revenue (1984). Chairman of Liberal Economic Policy Committee and Official Opposition Critic for International Trade (1990-93). Appointed Minister for International Trade, November 4, 1993, in the Government of the Right Honourable Jean Chrétien.

Federal Task Force

Chairman, Federal Task Force on Business/Government Relations (1975-77).

University Lectureship	Special Lecturer in Economic Geography, University of Toronto (1971-75).
Public Service and Associations	Member of Toronto Planning Board (1974-76). Past Member National Executive Canadian Institute of International Affairs and National Secretary UNICEF Canada. Member Royal Canadian Yacht Club and Rideau Club (Ottawa). Director, Canadian Opera Company; Cambridge Canadian Trust; Fellow, Royal Society of the Arts (Britain), Governor, Etobicoke General Hospital; Governor, Canadian Journalism Foundation; Director, Toronto School of Theology.
Publications	Author of Canadians in Russia, 1910-1919, Toronto, 1976; Canadians on the Nile, University of British Columbia Press, 1978; Canadians Behind Enemy Lines, 1939-1945, University of British Columbia Press, 1981; Honourable Mentions, Toronto, 1988.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002b. bio	re: Ambassador Raymond A.J. Chretien; [Duplicate of 001] (1 page)	05/03/1994	b(6)

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Washington, D.C. 20001
(202) 682-1740

Information

AMBASSADOR RAYMOND A.J. CHRÉTIEN

(b)(6) He attended university at the Seminaire de Joliette (B.A.) and Laval University (LL.L). In 1966 he was admitted to the Québec Bar.

Later that year he joined the Legal Affairs Bureau in the Department of External Affairs (now the Department of Foreign Affairs and International Trade). Over the next twelve years he had assignments in Ottawa with the Privy Council Office, the Treasury Board and the Canadian International Development Agency. Outside Canada, he served at Canada's Permanent Mission to the United Nations in New York and the Embassies in Beirut and Paris.

In 1978 Mr. Chrétien was named Canada's Ambassador to Zaire. He returned to Ottawa in 1981 where he was Policy Director for Industry, Investments & Competition (81/82), Assistant Under-Secretary, Manufacturing, Technology & Transportation (82/83) and Inspector General (83/85), respectively, in the Department of External Affairs.

In 1985 he was appointed Canada's Ambassador to Mexico. During his service there he was awarded the Order of the Aztec Eagle, the highest award the Mexican government has presented to a Canadian.

Upon completion of his assignment in Mexico, he was named to the position of Associate Under-Secretary for External Affairs, the second highest in the Department.

Mr. Chrétien served as Canada's Ambassador to Belgium and Luxemburg from 1991 to 1994.

In January 1994 he became Canada's eighteenth representative to the United States.

Mr. Chretien is married (Kay Rousseau) and has a daughter and a son.

January 29, 1994