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**United States Wins WTO Case Challenging
New Canadian Dairy Export Subsidies**

WASHINGTON - The United States has won an important agriculture case before the World Trade Organization (WTO) that challenged Canadian dairy export subsidies as a violation of WTO rules. In a ruling released today, a WTO dispute settlement panel found that the steps Canada took to address an earlier adverse ruling regarding its dairy export practices were insufficient. The panel ruled that Canada's dairy export subsidies are inconsistent with its WTO commitments. The U.S. calculates that Canadian dairy export subsidies result in lost sales by American farmers and dairy processors of up to \$35 million per year.

"This is a victory for American dairy farmers and processors. Canada has been improperly subsidizing its dairy exports - that's unfair to American dairy farmers and dairy processors who are competing with the Canadians in world markets," said U.S. Trade Representative Robert B. Zoellick. "Trade and export competition is a critical issue for American farmers. America's farmers support President Bush's legislative trade agenda and Trade Promotion Authority because they know that agricultural exports are critical to the health of our economy and rural America."

Besides the direct economic impact, the WTO ruling sets an important precedent which will help prevent other countries from adopting similar export subsidy programs harmful to America's dairy industry.

"This is another example of how the United States is able to work within the WTO dispute process, make a strong case for America's interests and come away with a win - in this case for our dairy producers," Zoellick added.

Background

In 1997, the National Milk Producers Federation, the U.S. Dairy Export Council and the International Dairy Foods Association petitioned the Office of the U.S. Trade Representative to challenge Canada's

dairy trade practices as inconsistent with its WTO obligations on export subsidies and market access. After bilateral consultations, the U.S. referred its complaint to a WTO dispute settlement panel in February 1998. New Zealand joined the WTO challenge to Canada's export subsidies.

In 1999, a WTO dispute settlement panel found that Canada's special milk class system and import restrictions on dairy products violated WTO obligations. The WTO Appellate Body affirmed the panel's finding on export subsidies.

In response to the panel and Appellate Body reports, Canada replaced its special milk class system with a new dairy export program in each province. However, Canada's new measures left unchanged the fundamental aspects of the programs found by the WTO to constitute export subsidies. As a result, the United States and New Zealand requested that the WTO review the new provincial programs. The United States argued, and the panel agreed, that the continued involvement of Canadian federal and provincial governments in the provision of low-cost milk to processors for export constituted an export subsidy and that Canada had already exceeded its commitment under the WTO Agriculture Agreement on subsidized cheese exports. Canada has 60 days to appeal the report to the WTO Appellate Body.

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