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**UNITED STATES REQUESTS WTO PANEL TO REVIEW CANADA'S DAIRY
EXPORT SUBSIDY REGIME**

Today the United States requested that the World Trade Organization (WTO) reconvene a dispute settlement panel to examine whether Canada has complied with WTO rulings on its export subsidies on dairy products. The United States does not believe that Canada has taken the necessary steps to bring its dairy export subsidy program into compliance with WTO agreements because Canada has merely introduced new programs that do not fulfill the export subsidy reduction commitments undertaken in the WTO Agreement on Agriculture.

In accordance with WTO procedures, the United States also will request authorization from the WTO to suspend trade concessions on Canadian products if the panel determines that Canada has not complied. In that request, the United States proposes to increase tariffs on Canadian products with an annual trade value of up to \$35 million, which is the approximate amount of annual harm to the U.S. economy caused by Canada's dairy export subsidy regime. Under an agreement with Canada, the United States would not suspend trade concessions until an arbitrator has confirmed the level of trade harm suffered by the United States.

The request for authorization to suspend trade concessions includes a list of potential product categories from which the United States will draw in selecting specific products that will be subject to increased duties. At this time, USTR is not publishing a list of the specific products that may be subject to increased duties. However, at a later date the Office of the U.S. Trade Representative will publish a *Federal Register* notice seeking public comment on a specific list of products.

Background

Canada agreed to specific export subsidy limits on dairy products as part of its Uruguay Round WTO obligations. However, on August 1, 1995, Canada replaced its subsidy payments on dairy product exports, which were financed by a levy on producers, with a new permit system which

allowed Canadian processors to purchase lower priced milk for sales to export destinations. Canada claimed the new system was no longer an export subsidy.

The United States challenged Canada's export subsidy system in the WTO, and on October 13, 1999, the WTO Appellate Body found that Canada's special class milk regime, which provides reduced priced milk for export, is an export subsidy. The Appellate Body also found that Canada was shipping subsidized dairy exports in greater quantities than is permitted under its export subsidy commitment levels, violating Canada's obligation under the *Agreement on Agriculture*. The Canadian federal government eliminated one of the export subsidies that was found to be inconsistent with Canada's WTO obligations. However, other programs were introduced by Canada to replace the challenged export subsidy. Both the United States government, and the New Zealand government (which is a co-complainant with the United States), believe Canada's changes fail to bring Canada's export subsidy system into conformity with its WTO obligations.

NOTE: Interested parties, including small and medium size businesses, may register via the Internet at www.ita.doc.gov/301alert to receive notice when USTR publishes the *Federal Register* notice seeking comment on a specific list of products.

**PRODUCT CATEGORIES FOR POTENTIAL SUSPENSION OF TRADE
CONCESSIONS WITH CANADA
(LISTED BY HTSUS CHAPTER HEADINGS)**

Chapter 3	Fish and crustaceans, molluscs and other aquatic invertebrates
Chapter 4	Dairy produce, birds eggs; natural honey; edible products of animal origin, not elsewhere specified or included
Chapter 5	Products of animal origin, not elsewhere specified or included
Chapter 6	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage
Chapter 7	Edible vegetables and certain roots and tubers
Chapter 8	Edible fruit and nuts; peel of citrus fruit or melons
Chapter 9	Coffee, tea, mate and spices
Chapter 10	Cereals
Chapter 11	Products of the milling industry; malt; starches; inulin; wheat gluten
Chapter 12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits; industrial or medicinal plants; straw and fodder
Chapter 13	Lac; gums, resins and other vegetable saps and extracts

Chapter 15	Animal or vegetable fats and oils and their cleavage products prepared edible fats; animal or vegetable waxes
Chapter 16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates
Chapter 17	Sugars and sugar confectionary
Chapter 18	Cocoa and cocoa preparations
Chapter 19	Preparations of cereals, flour, starch or milk; bakers' wares
Chapter 20	Preparations of vegetables, fruit, nuts or other parts of plants
Chapter 21	Miscellaneous edible preparations
Chapter 22	Beverages, spirits and vinegar
Chapter 23	Residues and waste from the food industries; prepared animal feed