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Canada

Dairy and Products

Canadian Government Reaction to USTR Press

Release on Canadian WTO Dairy Case

2001

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Report Highlights:

Canada's dairy industry claims that the changes made bring itself into step with World Trade Organization (WTO) commitments and the federal government is fully prepared to defend those changes. "The Government of Canada, provincial governments and the dairy industry have worked together on measures they believe bring them into compliance and we will vigorously defend them." stated Ag Minister Vanclief. "We are confident Canada has met its WTO obligations for dairy," said International Trade Minister Pettigrew. "The federal government will vigorously defend the actions we have taken during the compliance panel process."

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1], CA

GOVERNMENT OF CANADA CONTINUES TO DEFEND DAIRY INDUSTRY

The following is from a February 16, 2001 Agriculture and Agri-Food Canada (AAFC) news release.

Canada's dairy industry claims that changes made bring itself into step with World Trade Organization (WTO) commitments and the federal government is fully prepared to defend those changes.

That was the message delivered today by AAFC Minister Lyle Vanclief and International Trade Minister Pierre Pettigrew in response to the lists of possible trade measures against Canada released by the United States and New Zealand. The Ministers also stressed that the actions from the U.S. and New Zealand are part of WTO procedure and do not mean any trade action is on the immediate horizon.

The lists outline products against which the two countries could request permission to retaliate if the WTO rules Canada has failed to bring its dairy export process into step with its WTO commitments.

"There are a number steps in the WTO process that have to take place before any retaliation is possible," said Mr. Vanclief. "Retaliation would only be possible if Canada is found non-compliant with its WTO obligations. The Government of Canada (GOC), provincial governments and the dairy industry have worked together on measures we believe bring us into compliance and we will vigorously defend them."

The U.S. and New Zealand officially requested a WTO compliance panel to look into the situation. The lists for potential retaliation were submitted as part of this request. However, neither country can retaliate until the WTO process is completed.

"We are confident Canada has met its WTO obligations for dairy," said Mr. Pettigrew. "The federal government will vigorously defend the actions we have taken during the compliance panel process."

The GOC began working with provinces and industry to bring itself into compliance in October of 1999 after the WTO appeal upheld an earlier ruling that Canada's export pricing practices on some of the milk used in dairy products constituted an export subsidy. The ruling was a result of a case brought against Canada by the United States and New Zealand.

NOTIONAL TIMETABLE

Canada - Measures Affecting the Exportation of Dairy Products and the Importation of Milk

WTO Compliance Panel (Article 21.5 of the DSU) and the Suspension of Concessions (Retaliation - Article 22 of the DSU)

The following table is a possible schedule provided by Agriculture and Agri-Food Canada that lays out the steps (and estimated dates) involved in the process based on Canada's sequencing agreements with the United States and New Zealand and the procedures set out in the Dispute Settlement Understanding. Shortly after the Panel is established a schedule for the proceedings will be issued.

Date*	Action
January 31, 2001	End of the Implementation Period
February 2, 2001	United States and New Zealand Request Consultations
	Consultations
February 16, 2001	United States and New Zealand Requests to the DSB for a Compliance Panel and Requests to Suspend Concessions
March 1, 2001	Establishment of the Panel
March 23, 2001	Submissions by United States and New Zealand
April 6, 2001	Submission by Canada
April 23 - April 24, 2001	Hearing
May 30, 2001	Report of the Panel
June - September, 2001	Appeal Process(includes Request for Appeal, submissions and hearing)
September, 2001	Report of the Appellate Body
November, 2001	Arbitration Process - Suspension of Concessions(includes submissions and hearing)
January, 2002	Report of the Arbitrator

*Indicative only and subject to change.

AAFC BACKGROUNDER: WTO Compliance Panel on Dairy

1. The WTO ruling

In October 1999, the World Trade Organization (WTO) found that some of the Canadian dairy industry's pricing practices for milk sold for export dairy products constituted export subsidies under the rules of the WTO Agreement on Agriculture. The milk sales affected by the WTO ruling account for about four percent of total Canadian production.

The WTO ruling does not prevent exports of dairy products as Canada is allowed to use export subsidies for some dairy products. However, the WTO held that exports in recent years have exceeded the commitments Canada made under the WTO to limit the use of export subsidies.

2. Canada's measures to Implement the WTO ruling

As a result of the WTO ruling, Canada has implemented changes in the way milk destined for exported dairy products is marketed. While export subsidies will continue to be granted for some milk destined for export, Canada asserts that they will ensure they do not exceed Canada's export subsidy commitments. In addition, governments at both the federal and provincial levels claim to have removed themselves from export activities and this milk for export is now bought and sold in accordance with market demands.

3. WTO Process

A sequencing agreement has been negotiated with the United States and New Zealand outlining the process to be followed in the WTO proceedings. On February 16, 2001, U.S. and New Zealand submitted a formal request to the WTO for a Compliance Panel. The GOC expects that the panel will be established in early March, and there will be a ruling on the matter by late May, 2001. If an appeal is requested, final decisions will be known by late September 2001.

4. Retaliation Action

On February 16, 2001, the United States and New Zealand submitted their draft retaliation lists to the WTO. The lists outline the level of retaliation being sought and the products to which retaliation could be applied. This is part of the normal WTO process. However, neither the United States nor New Zealand can take retaliation action until the WTO process is finished (not expected before January 2002) and only if there is a final finding of non-compliance against Canada. The final retaliation lists will only be known at that time.

5. Supply management

The WTO ruling does not affect the ability of Canadians to operate a supply management system. How milk is marketed in the Canadian market is not at issue in this dispute. Decisions on how to market milk in the Canadian domestic market will continue to be made in Canada.

6. Consultations

Since 1998, the federal government has worked closely with the provinces and the industry and

we will continue to work with them in this new phase.

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