

**IMPLEMENTATION OF THE
UNITED STATES-CANADA
FREE TRADE AGREEMENT**

HEARING
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED FIRST CONGRESS
SECOND SESSION

SEPTEMBER 28, 1990



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1991

40-629 ±±

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IMPLEMENTATION OF THE UNITED STATES-CANADA FREE TRADE AGREEMENT

FRIDAY, SEPTEMBER 28, 1990

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:05 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the subcommittee) presiding.

Also present: Senators Riegle, Daschle, and Symms.
[The press release announcing the hearing follows.]

[Press Release No. H-54, Aug. 30, 1990]

TRADE SUBCOMMITTEE TO HOLD HEARING ON IMPLEMENTATION OF UNITED STATES-CANADA FTA; PROGRESS ON IMPLEMENTATION, PROBLEMS WITH SUBSIDIES TO BE MAIN FOCUS

WASHINGTON, DC—Senator Max Baucus (D., Montana), Chairman, announced Thursday the Subcommittee on International Trade will hold a hearing on implementation of the United States-Canada Free Trade Agreement (FTA), focusing on remaining problems, including Canadian subsidies.

The hearing is scheduled for *Friday, September 28, 1990 at 10 a.m.* in Room SD-15 of the Dirksen Senate Office Building.

"Canada is our most important trading partner. The 1988 United States-Canada FTA institutionalizes the strong trade relationship between the United States and Canada. The FTA is still in its early implementation stage, but it appears to be working reasonably well," Baucus said.

"However, when two nations trade more than \$200 billion in goods and services each year, there are bound to be problems. That is the case with the United States and Canada," Baucus said.

The purpose of this hearing is to review progress made on important trade issues between the United States and Canada, including subsidies, dispute settlement panels, general implementation of the FTA and the 1986 Softwood Lumber Memorandum of Understanding (MOU).

"As I said repeatedly during the debate on the FTA, the most important remaining trade issue between the United States and Canada is the elimination or discipline of Canadian subsidies. The subsidy issue crops up again and again in sector after sector. Until we address the subsidy issue, true free trade between the United States and Canada will be impossible," Baucus said.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN OF THE SUBCOMMITTEE

Senator BAUCUS. This hearing will come to order.

Canada is the United States' most important trading partner. The United States and Canada trade about \$200 billion worth of

goods and services each year. The United States and Canada trade more goods and services than any other two nations.

Two years ago the United States and Canada concluded the United States-Canada Free Trade Agreement. That agreement phases out tariffs, sets trading rules in most sectors, and establishes dispute settlement mechanisms. It institutionalizes the most important trading relationship in the world. The agreement is truly a historic and ground-breaking achievement and I consider the implementing legislation for the FTA to one of the most important pieces of trade legislation I have worked on during my time in the Senate. I have been pleased at the relative ease with which the FTA has been implemented.

Thus far, the dispute settlement panels seem to be working. Much of the political controversy surrounding the FTA, particularly in Canada, seems to have subsided. But when two nations exchange \$200 billion in goods and services disputes can be expected, and this case is no exception.

There are a number of serious trade disputes between the United States and Canada that deserve immediate attention at the highest levels.

Today I plan to address four issues in particular. First, the U.S. Department of Agriculture's proposed open border experiment; second, the 1986 Softwood Lumber Memorandum of Understanding between the United States and Canada; third, a recent GATT panel decision affecting a countervailing duty on hog and pork imports from Canada; and fourth, the ongoing bilateral discussions on disciplining subsidies.

The FTA includes a commitment by both sides to work toward improving and streamlining health and safety inspections on agricultural goods between the United States and Canada. But the FTA does not have force of law, and no provision relating to this commitment was related in the FTA implementing legislation.

Nonetheless, the USDA, after a consultation with its Canadian counterpart, has implemented a number of changes in inspection procedures. Last February USDA took the further step of announcing the open border experiment with Canada. The experiment involves suspending all border inspections on meat traded between the United States and Canada and relying exclusively upon the inspection procedures of the exporting country.

After careful examination of this issue, I believe that the USDA's attempt to implement the open border experiment is a grave error. I have received more constituent mail against the open border experiment than I have on any other previous United States-Canada trade issue. Farm groups in my State unanimously oppose the experiment. Numerous stories critical of the experiment have appeared in the national and regional press. Meat inspectors on both sides of the border have criticized the experiment. Most seriously, the level of public concern over this proposal has risen to a boil.

Implementing the experiment now could greatly undermine public confidence in the safety and wholesomeness of meat. This in turn could cause a sharp decline in demand for meat generally, not just Canadian meat imports.

Further, I am disappointed and concerned by the way in which the USDA has pursued the experiment. The Federal Meat Inspection Act requires the Secretary of Agriculture to appoint inspectors to ensure the safety of all meat. The Act does not allow the Secretary to delegate this responsibility to a foreign government.

Legal opinions by the General Accounting Office, congressional Research Service, and USDA's own General Counsel all confirmed that the USDA is exceeding its legal authority by implementing the experiment without congressional approval. I have twice written USDA to raise the issue, and I am yet to get more than a cursory response.

The members of this committee work closely with the administration to devise procedures for gaining congressional approval of trade agreements. For USDA to ignore those procedures in favor of unilateral action undermines the working relationship between Congress and the administration.

I have worked closely with Secretary Yeutter. I am familiar with Assistant Secretary Smith's long background in the meat industry. I do not believe either one is intentionally attempting to spark a meat scare or confrontation with the Congress. Nevertheless, that is the result of their efforts.

The USDA has gone too far. It has overstepped its authority. Its actions are undermining public confidence in the wholesomeness of meat and the working relationship between Congress and the administration. I urge the USDA to immediately halt its attempt to implement the open border experiment and send its proposals to Congress for consideration. If the USDA chooses to ignore this advice, it will spark a confrontation which I do not think it wishes to incur.

On another front, I am anxious to review the 1986 Softwood Lumber Memorandum of Understanding, better known as the MOU. I have worked closely with the administration and other members of the committee on the MOU. The MOU has been a very successful agreement. It has protected the U.S. industry from the effect of Canadian lumber subsidies. And since the MOU the decline of the U.S. softwood lumber industry has been stopped and 60,000 new jobs have been created.

Further, the MOU has had the positive environmental affect of discouraging cutting of marginal Canadian timber. Unfortunately, some in Canada remain critical of the MOU. There are frequent calls from Canada for renegotiation of the MOU on one pretext or another. Frankly, I can see absolutely no rationale for renegotiation of the MOU.

A fundamental purpose of the MOU was to offset Canadian provincial subsidies and in several provinces those subsidies remain in place. As long as the Canadian subsidies remain in place, the MOU should remain in place.

Further, the MOU sets up a consultation procedure to review the application of the export tax and other issues that may arise. Certainly at a time when the lumber industry in the United States is under pressure because of environmental concerns, it would be senseless to also expose the industry to unfair competition. I trust the administration continues to share that view.

Another issue that has long strained United States-Canadian trade relations has recently flared anew—that is the countervailing duty on hog and pork imports from Canada. The issue rose in the early 1980's when subsidized hog production in Canada resulted in a sharp increase of U.S. imports of Canadian hogs and of pork.

In 1985 the U.S. producers filed a countervailing duty case to stem the flow and subsidized imports. But the ITC, in a strange decision, decided to impose the countervailing duty only on live hogs and not on pork. As you might expect, Canadian producers switched from exporting to live hogs to exporting pork to avoid the duty. The U.S. producers gained no protection; and the United States also lost the value added from processing the hogs into pork.

Like a number of other Senators, I sought to address the problem with two amendments to the 1988 Trade Act that had the effect of extending the duty from hogs to pork. Last year the United States extended the countervailing duty on live hogs to pork. But Canada challenged the decision before a GATT panel and two FTA panels.

The FTA panels have an extremely limited mandate, merely insuring that U.S. laws properly applied by the ITC and the Commerce Department. Though an FTA panel did remand the case to the ITC to correct some numerical errors, the narrow mandate of the panels should limit their impact.

The GATT panel is quite a different matter. A few weeks ago a GATT dispute settlement panel issued a preliminary decision in this case that could severely limit the ability of the U.S. impose duties on agricultural products. I will not go through all the details of this decision, but suffice to say, the GATT dispute settlement panel's decision, if accepted, could deprive most agricultural producers of protection of countervailing duty laws.

Subsidizing nations could avoid countervailing duties by simply doing minor processing of their product before export. Because Canada applies its own countervailing duty law in much the same way as the United States, I strongly urge the administration to block acceptance of this decision. The decision should be blocked at least until suitable changes can be negotiated in the GATT subsidies code.

And finally, it is critical that the governments of the United States and Canada begin serious work on limiting subsidies. Subsidies are just as much a barrier to free trade as tariffs or quotas. According to the OECD, Canadian subsidies are on average three times higher than U.S. subsidies. Canada extends particularly generous subsidies to its forest products, its mining, smelting, agriculture and other natural resource based industries.

As many of the witnesses at this hearing will attest, these Canadian subsidies create an extremely serious trade problem. The subsidy problem was recognized in the FTA. Both sides agreed as part of the FTA to begin negotiations aimed at disciplining subsidies, yet the Canadian government dragged its feet for months before appointing its subsidy negotiating team and there are now complaints from Canada that the subsidy talks should not proceed until the current GATT Round is concluded. This is nothing more than stalling.

True free trade between Canada and the United States will be impossible unless subsidies are controlled. New subsidies distort

trade and will inevitably force the United States to impose more and more countervailing duties. Any true supporter of free trade should recognize the necessity of limiting these subsidies.

All of the disputes raised today should be kept in context. In general, the trade relations between the United States and Canada are going quite well. That does not lessen the seriousness of the trouble spots. Problems must be addressed if the trading relationship is to continue to grow and prosper. If ignored, these disputes could fester and become much more serious.

I hope today's hearing will provide a good comparing of the issues and I trust the administration will be responsive.

[The prepared statement of Senator Baucus appears in the appendix.]

Senator BAUCUS. I will now defer to any of my colleagues if they have any statements. The Senator from Michigan.

**OPENING STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S.
SENATOR FROM MICHIGAN**

Senator RIEGLE. Thank you, Mr. Chairman. I want to just say not to Congressman Frenzel, I want to say with respect to him appearing before us in a moment, but I want to say with reference to our trade representatives who will be up here a little bit later, I am very much interested in the North American content requirement on autos going from 50 percent to 60 percent.

The Select Auto Panel established by the Free Trade Agreement recently recommended an increase in the North American content requirement from 50 percent to 60 percent, and even a majority of the Canadians on the panel agreed that this would be in our mutual interest.

So I am very much concerned about it and hope that our representatives will be able to tell us what happens next. I think it is very important that we press ahead on that issue. We have gone through the appropriate steps. But we now have a recommendation from the study panel and I think it is time to see if we cannot get that locked in place. So I would be very much interested in that.

With respect to Congressman Frenzel, I am very pleased that he has the opportunity to be here today and I would like to take note of the fact that he has announced his retirement. So this will probably be one of the last times that he testifies before—at least as a sitting member of Congress—before a panel either in the House or the Senate.

But I just want to say how much I respect the work you have done over the years. I think you have been one of the members in the House—not that we have always agreed on issues—who has really tried in every way to address issues, bring them forward, see them debated, see them acted upon.

In any event, I appreciate your service and sorry to see you go.

Congressman FRENZEL. Thank you very much, Senator.

Senator BAUCUS. Thank you, Senator.

Senator Symms?

OPENING STATEMENT OF HON. STEVE SYMMS, A U.S. SENATOR
FROM IDAHO

Senator SYMMS. Mr. Chairman, thank you for having this hearing and also for your in depth statement which covered several areas that many of us are interested in. I am very pleased that we are having this oversight hearing because there are some difficulties, as the chairman points out, with what I think is basically a good Canadian and United States Free Trade Agreement.

There is no question that the Canadian and United States trade is the largest bilateral trading relationship in the world. I feel that the FTA, between the United States and Canada, is an agreement that can be beneficial to both nations. But it is important that we strive to maintain this close relationship and work out these problems that will come along in the future and have come along already.

The FTA provides for a dispute settlement process to address and remedy the concerns either side may have and to promote a mutually advantageous bilateral trade agreement between the two countries.

I would say again, I will have some questions dealing with the MOU that the chairman mentioned on lumber and on some of the problems of what I perceive to be subsidies going into the fertilizer producing industry that have a negative impact on fertilizer producers south of the Canadian border and some other issues, but I do look forward to this hearing.

Senator SYMMS. I would like to join in with my former colleague, both I guess of these two Senators—we are all former colleagues from the House here at this table—and with our former colleague Bill Frenzel, and thank you, Congressman Frenzel, not only for your friendship over these past many years but for the fine and responsible work I think you have done as a member of the House.

But, Senator Riegle, this probably will not be the last time that we will see Bill Frenzel before this committee. But it will be the last time that we see him before this committee testifying for such a low rate of pay per hour. [Laughter.]

Mr. Chairman, thank you.

Senator BAUCUS. Thank you very much.

Congressman, I join in the accolades of my two colleagues. We have all four served together at the same time. We have all four worked very much on trade issues. I personally believe that the House is losing one of its finest public servants when you retire. I have been very impressed, and always impressed, with your thoughtfulness, the depth of your inquiry in all subjects, your fairness, and I just repeat in saying that I think you are one of the finest public servants I have had the privilege to know.

It may be that there is a certain greater remuneration per hour in another life, but I suspect that the cyclic awards per hour in your present life are probably even greater. I join my colleagues. You have been a great public servant. The country will still be well served in whatever capacity you attempt to pursue.

Senator RIEGLE. You may just want to put your statement in the record. [Laughter.]

Senator BAUCUS. With that, Mr. Congressman, we look forward to your statement.

**STATEMENT OF HON. BILL FRENZEL, A U.S. REPRESENTATIVE
FROM MINNESOTA**

Congressman FRENZEL. Thank you very much, Mr. Chairman, and members of the Subcommittee. I thank you all for your most generous statements. I have served with each of you and learned a lot from each of you. I salute your interest in this particular issue. I thank you for your eulogies.

[Laughter]

Senator SYMMS. It is amazing all the nice things people say about you once you are not running; isn't it?

Congressman FRENZEL. It is true. I have suddenly become a great deal wiser, fairer and more beloved. [Laughter.]

I like it very much. If I had known how wonderful I was I might not have decided to retire. [Laughter.]

Mr. Chairman, I am thankful for the opportunity to appear before you. I ask unanimous consent that my statement may appear in the record and that I might proceed extemporaneously.

Senator BAUCUS. Without objection.

[The prepared statement of Congressman Frenzel appears in the appendix.]

Congressman FRENZEL. A number of us were nervous when this hearing was called for fear that it might be a threat to the system, particularly the Chapter 19 panel system. The chairman's staff assures me that that is not the case; and the chairman's statement indicates the intent of the hearing. That is very reassuring to me.

I cannot help you much on open borders. I do not know very much about that. And I do not know, Senator Riegle, very much about the automobile questions that are on your mind. I do want to speak for a moment on the agreement itself and particularly the panel process.

The United States did not invent the panel process. It came from north of the border. However, we integrated it into the agreement and believed that it was a good process. As I try to review the two Chapter 18 decisions and the 13 other panel processes under Chapter 19, it seems to me that while we will have a few aggrieved parties, the process is going rather well.

As the chairman indicated in his preamble statement, the history of trade relationships between our two countries has been extraordinary in that while we have had monumental conflicts over the years, compared to the volume of trade that has gone on between the two countries, the conflicts are few. Both of the Chapter 18 panel decisions related to fishing disputes and those disputes antedate the creation of both of our countries. They are going to go on long after those of us in the room have passed out of the political arena.

The astounding thing is that despite these difficult disputes, both countries' interests have always been negotiated fairly. That has continued, I think, under the Free Trade Agreement. It was a beneficial agreement for both countries. I believe that the panel system will work well. I also believe that it needs to be challenged from

time to time by hearings like this so that everybody is assured that it is working well.

With respect particularly to the pork situation, the situation is complicated by the fact that there is also the appeal to the GATT panel. As we all know in the negotiating of the Free Trade Agreement between the United States and Canada we delayed consideration of many conflicts. The chairman has spoken of the subsidy matter, but literally all the agricultural matters were deferred to the completion of the Uruguay Round of the GATT. This includes agriculture subsidies.

When the Uruguay Round is completed and implemented, I suspect that we will have eased many of the bilateral problems, and we will be able to focus on those items that are unique to our relationship.

So I hope that we will go forward concurrently in the international GATT forum as well as in our bilateral relationship as the chairman has suggested. However, we should proceed with some caution so that we do not unsettle the overall relationship nor the agreement itself. No agreement should go unchallenged. No agreement is perfect. They can all stand improvement.

But we have to be sure that we have more than a few panel decisions before we begin to consider changes. The committee should be congratulated for collecting the information to determine whether there are changes that need to be made. I am glad that it is not contemplating changes at the moment, but is merely in an information seeking mode. To repeat, I believe we do not have enough information to proceed.

Again, I thank the three members of the panel for their generous statements. I thank the chairman and the full panel for being willing to hold these inquiries. I wish you all great luck in the future with what are sometimes very contentious matters.

Thank you very much.

Senator BAUCUS. Thank you very much, Congressman.

Don't you agree though that sometimes bilateral and, say, trilateral negotiations—I am thinking about the probable inclusion of Mexico in the agreement with the United States and Canada—help give a little nudge to multilateral negotiations, that is the Uruguay Round?

Congressman FRENZEL. No question about it, Senator. I think our experience with the Canadians has been helpful on a number of multilateral fields and it did, I think, give some impetus to the Uruguay Round. I think our negotiations with Mexico, with the Canadians apparently and hopefully sitting in to help us in those negotiations will also be important in maintaining the multilateral agreements and improving them.

I think our Canadian agreement added a good deal of impetus to the integration of the European market. I hope that we will be able to initiate other bilaterals that will give the same kind of stimuli.

Senator BAUCUS. Thank you.

Senator Symms?

Senator SYMMS. Thank you, Mr. Chairman.

Bill, the chairman in his statement said, "I have received more constituent mail against the open border experiment than I have

any previous United States-Canada trade issue." Have you received mail on this?

Congressman FRENZEL. No, I have not.

Senator SYMMS. I have not either. I am surprised to see this.

Congressman FRENZEL. I have to tell the Senator that in my State we have a balance of payments deficit. We like open borders because it produces a lot of oil to heat our homes and a lot of hockey players to help us run the North Stars. [Laughter.]

Senator SYMMS. But I am just curious to your opinion on this. The chairman's statement says meat inspectors on both sides have criticized it and the most serious level of public concern. But I just am curious if you have an opinion on that.

Congressman FRENZEL. I stated in my general statement, Senator, that I could not help the chairman of the committee on that because I really have no knowledge. I can only state that my mail bag is empty on that issue.

Senator SYMMS. I think regionally in Montana and Idaho and eastern Washington we have felt the impact of Canadian livestock on the hoof coming to our packing houses more than in any other part of the country, where the live cattle come across; and in your part of the country you are sending finished meat back across the border. Is that correct?

Congressman FRENZEL. There is a little of both, Senator, depending on prices and conditions and some of the conditions that the chairman referred to as well.

My State was one of those which in a misguided effort declared an embargo on hogs from Canada at one time. That was one of the things that I hope was resolved in the Free Trade Agreement. So we do have some concerns, but they have not been communicated to me recently.

Senator SYMMS. Okay. Thank you very much. Again, I wish you every success in your future and it has been a privilege to know you and work with you in the Congress; and I look forward to continued friendship after you leave the Congress.

Congressman FRENZEL. Thank you very much, Senator.

Senator SYMMS. Thank you.

Senator BAUCUS. Thank you, Senator.

Senator Riegle?

Senator RIEGLE. I have no questions, Mr. Chairman.

Senator BAUCUS. Thank you very much, Bill.

Congressman FRENZEL. Thank you very much, Mr. Chairman.

Senator BAUCUS. Good luck to you.

Next we have a panel that consists of Hon. Charles Roh, Assistant U.S. Trade Representative for Canada and Mexico; Hon. Marjorie Chorlins, Acting Assistant Secretary for Import Administration in the U.S. Department of Commerce; and Hon. Jo Ann Smith, Assistant Secretary for Marketing and Inspection Services for the USDA.

Okay, Mr. Roh, why don't you begin.

**STATEMENT OF HON. CHARLES E. ROH, JR., ASSISTANT U.S.
TRADE REPRESENTATIVE FOR CANADA AND MEXICO**

Mr. ROH. Thank you very much, Mr. Chairman. With your permission I would like to summarize my testimony.

Senator BAUCUS. All statements will be included. I would also like to remind each witness that we have a 5-minute rule which we will apply to everyone. But all statements of all witnesses will automatically be included in the record.

Mr. ROH. Mr. Chairman, I am very pleased to testify. I remember well that this committee was instrumental in the creation of the Free Trade Agreement and we have continued close consultations with the committee in the implementation phase.

I know of your keen personal interest in the FTA, Mr. Chairman, and I enjoyed the opportunity to go out to Great Falls and talk to citizens of Montana about the Free Trade Agreement. I remember meeting some folks there that were taking advantage of the FTA and thinking to myself that folks like the man who was increasing his profits handsomely by his cut flower trade with Canada should be the ones that are testifying and going out there and giving the speeches.

Mr. Chairman, we concur that the implementation of the United States-Canada Free Trade Agreement continues to work well. We are heartened that traders and businessmen are taking advantage of the many opportunities opened by the agreement.

I will not numb you with more statistics. You have already noted that this is over a \$200 billion relationship. A couple that caught my eye were that in 1989 we exported some \$79 billion in goods, an increase of 10 percent over 1988. That is a trend we hope continues. Our exports to Canada far surpass our exports of \$45 billion to Japan in 1989, and almost equal our total exports to all the EC countries.

Much was achieved in the FTA but, of course, as you pointed out there remains some problems. And we do have mechanisms in the agreement for addressing some of these problems. The central oversight body is the United States-Canada Trade Commission. That is chaired on our side by Ambassador Hills, my boss, and on the Canadian side by her counterpart, John Crosby.

They have met three times since the agreement went into force on January 1, 1989. They have established a number of working groups and we have been able to resolve matters, I think, in a very business-like way. I think most observers would say, without diminishing the importance of the disputes that are out there, that in the context of overall United States-Canadian relations, this has been a smooth sailing period for the last year and a half or so.

One group that I would like to note in particular is that we have a tariff working group that has been implementing one of the most popular features of the United States-Canada Free Trade Agreement. The tariff working group is responsible for negotiating accelerated reductions of tariffs. As you know, Mr. Chairman, the agreement provides that duties will be eliminated either over 10 years or in some cases over 5, in some cases immediately.

We have been enabling businessmen and farmers on both sides to petition government to speed the process, for example, by pro-

viding that a product that is scheduled to phase out over 5 years will instead be eliminated immediately.

In the first cycle of such accelerated reductions, implemented the beginning of this year, we were able to accelerate duty reductions on over 400 items covering approximately \$6 billion in bilateral trade. All of that was done, Mr. Chairman, without any objection on either side. I think that is a real testament to the fact that there is a tremendous interest in free trade between the United States and Canada.

We are now in the second cycle of that program. We have had some 200 petitions for accelerated duty reductions on about 1,000 items. Of course, we will not be able to agree on all these. Some of them are controversial. But it is heartening that we still see that interest; and next week, we will be publishing a list of the items that are under consideration. And then there is an extensive possibility for private sector comment and ITC advice as well as consultation with Congress.

Mr. Chairman, on managing trade disputes we have two dispute settlement mechanisms in the agreement. One of them is Chapter 18 which is that which is a lot like GATT. It is for solving disputes that arise under the terms of the agreement. And the other is Chapter 19 which is a provision for bi-national review which replaces judicial review of countervailing duty and anti-dumping decisions.

I think that both are working well. We have had two Chapter 18 panels as Mr. Frenzel noted. Both of them fisheries matter. One on salmon and herring; one on lobsters. We were able to reach a settlement of our salmon and herring dispute and we are working now on reaching a settlement on lobsters. I think it has helped us to solve these problems.

On Chapter 19 I will defer to my colleagues from the Department of Commerce. But I would note that a number of disinterested observers from the private sector have commented very favorably to me on the quality and on the objectivity of the panel reports under Chapter 19.

Let me turn just quickly to the unfinished negotiating agenda which you referred to as well. We did not get all we achieved under in the FTA; in fact, neither did the Canadians. And both sides have items that they would like to pursue. We have both private sector and intergovernmental groups.

Senator BAUCUS. I am going to have to ask you to summarize if you can, Mr. Roh.

Mr. ROH. Sure.

On the plywood standards we are heartened that we have a private sector bi-national group that has been working on developing a common standard. I know this is of interest to you. It has been making progress. In fact, we have seen more progress in the last 6 or 8 months than in 20 years of pursuing this issue previously. We are not there yet. We are holding up the tariff reductions on plywood and certain other wood products until the plywood standards are sufficiently incorporated on both sides.

On autos, which Senator Riegle referred to, we have just had a recommendation for improving the rule of origin that we are taking up with the Canadian side.

Let me just conclude, Mr. Chairman, since I have gone over my time, by saying that we indeed should not diminish the importance of the disputes that exist. But we must also not lose sight of the overall excellence of the world's largest bilateral trading relationship.

Thank you. I would be pleased to answer questions.

[The prepared statement of Mr. Roh appears in the appendix.]

Senator BAUCUS. Next we have Ms. Chorlins.

STATEMENT OF HON. MARJORIE CHORLINS, ACTING ASSISTANT SECRETARY FOR IMPORT ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE, ACCOMPANIED BY ANN HUGHES, DEPUTY ASSISTANT SECRETARY FOR THE WESTERN HEMISPHERE, U.S. DEPARTMENT OF COMMERCE

Ms. CHORLINS. Thank you, Mr. Chairman. I appreciate the opportunity to return to what was once my home away from home and talk on this very important subject. Mr. Roh succeeded in his task of leaving the most difficult issues for me to address and I will attempt to do that in very short order.

Let me begin by saying that the principal objectives of the Commerce Department with respect to the FTA are to educate American business about the opportunities that arise as a result of the agreement, to help solve U.S. exporters' specific problems and to ensure Canadian compliance with the FTA obligations.

Let me talk very briefly about the business outreach side. First and foremost, we want to help American firms think about exporting with Canada as their first target market. Our slogan, "Canada First," suggests that once companies master the technique of exporting to Canada, they will be better prepared to sell to other more difficult foreign markets.

We have developed a "Canada First" seminar series to take the mystery out of exporting. In addition, we also offer business people daily, one-on-one counseling. Our Office of Canada alone responded to more than 20,000 inquiries about the FTA last year.

Mr. Chairman, at this point I would also like to introduce Deputy Assistant Secretary, Ann Hughes, who is responsible for all of the Western Hemisphere at the Department of Commerce, and of particular importance for today's proceedings, the Office of Canada. She will also be in a position to answer questions later on.

Another important component of our business counseling are our publications, and we also assist with individual exporter's problems on a day-to-day basis through regular business counseling activity.

Clearly of particular interest to this committee is the role of the Commerce Department in the implementation and enforcement of the FTA. I would like to talk initially about the subsidies working group, of which Deputy Assistant Secretary Hughes is the chairman for the U.S. side.

As you well know, this subsidy issue was not fully addressed to both sides' satisfaction during the FTA negotiations. It was an issue that was, in fact, left unresolved pending further negotiation over a 5 to 7-year period. You will recall that one of Canada's main goals during the talks was to exempt themselves from application of our countervailing duty laws or otherwise to limit the scope of

our statute. We obviously were unwilling to change the law, particularly without some sort of substantive undertaking by Canada to discipline its use of subsidies in a truly meaningful way.

As a result, we find ourselves with the subsidies working group, and as I mentioned, Deputy Assistant Secretary Hughes is the chair on the U.S. side. It is my understanding that this group has used the initial period of its existence as a time for intensive preparation. In particular, they have focused on collecting data on Canadian subsidy practices and on consulting domestically with interested parties.

We are currently, in fact, circulating a paper that frames the relevant issues and solicits advice. I would ask that a copy of that paper be submitted for the record.

Senator BAUCUS. Without objection.

[The information appears in the appendix.]

Ms. CHORLINS. As Mr. Roh noted, the FTA provides for two types of dispute settlement mechanisms—Chapter 18, dealing with general disputes; and Chapter 19 with the dumping and countervailing disputes. Of particular interest to this committee are the recent Chapter 19 decisions with respect to the ITC's determination on the countervailing duties on Canadian pork and the pending panel decision which is expected today with respect to the Commerce Department's practice.

You will recall that the Department utilized a provision that you were a co-author of from the 1988 Trade Act, whereby we treated subsidies provided to hog farmers as subsidies to pork processors. Following an affirmative finding of threat of injury to the industry by the ITC, we imposed countervailing duties last year.

At this point, as I mentioned, we do have a panel response with respect to the ITC's finding. We are still waiting to hear from the panel with respect to the Department's practice; and as a result I do not have much to share with you today. In fact, we are waiting to hear the outcome of that later today.

As you rightly noted in your opening statement, in addition to these FTA panel decisions, we also have a GATT panel decision on this very same issue. Canada requested the formation of a panel under Article 23 of the GATT and suggested that our application of Section 771 was inconsistent with our obligations under the GATT.

Last month the GATT panel ruled in support of the Canadian position, and we are currently studying that panel report in order to determine how to respond to it.

Let me turn very briefly to the lumber MOU which I know is of particular interest to you. We in Import Administration are responsible for administering the MOU and remain firmly committed to this task. The Canadian lumber industry and some government officials have made public statements that economic conditions warrant at a minimum a change to the MOU if not its scrapping entirely. Frankly, we haven't see any evidence of fundamental structural change that would merit the elimination of the MOU.

With that I would like to conclude my formal testimony and I welcome any questions.

Senator BAUCUS. Thank you very much.

[The prepared statement of Ms. Chorlins appears in the appendix.]

Senator BAUCUS. Secretary Smith?

STATEMENT OF HON. JO ANN SMITH, ASSISTANT SECRETARY FOR MARKETING AND INSPECTION SERVICES, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY DR. LESTER M. CRAWFORD, ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE, U.S. DEPARTMENT OF AGRICULTURE, AND JOHN GOLDEN, ASSOCIATE GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE

Mrs. SMITH. Thank you, Mr. Chairman. Before I begin I would like to ask your understanding and the members of the committee because I am going to have to make a statement and depart for Senator Daschle's home State in order to make a very long-term previous commitment there this evening.

But I have with me Dr. Lester Crawford, who is the Administrator for FSIS; John Golden, who is Associate General Counsel at USDA; and Pat Stolfer, who is the FSIS Deputy Administrator for International Programs. I am sure they can do a more than adequate job of answering questions; and I would be happy to at any time do so on a one-to-one or personal basis.

We at the Department have long recognized the equality between the Canadian and the United States meat and poultry inspection systems. There is a key element of Canada's meat and poultry inspection system that makes Canada unique from other countries and most similar to the United States. Canadians only have one standard of inspection, just as there is only one standard here in the United States. Every other country has more than one standard: they have a standard for export and a standard for the domestic product consumed.

In addition to the one standard of inspection of USDA and Canada, they have an equivalent system of inspection. They also have equivalent systems of registration, sanitation and label requirements, as well as residue testing. The inspection programs in both the United States and Canada are comprehensive and mandatory and have been in existence since the 1900's.

As you know, USDA and Agriculture Canada agreed in February to implement on a 1-year basis an experimental open border agreement with regard to meat and poultry. Pursuant to notice and comment rulemaking Canadian products to be exported to the United States will be inspected by ACanada and certified for export. The same is true for the U.S. products. They will be inspected by USDA and certified for export to Canada.

An evaluation of the experiment will take place by a meat, poultry and egg inspection working group which was established by the Free Trade Agreement. This evaluation will then determine whether or not the open border experiment should be made permanent under the applicable law and the Free Trade Agreement.

It should be noted that even with the open border experiment in operation a large amount of Canadian meat and poultry will still be subject to reinspection in the United States. Approximately 75 to 80 percent of product exported from Canada to the United States is fresh and is processed into other meat and poultry products.

These processed products are all subject to reinspection no matter what the origin of the meat and poultry would be.

The Secretary's authority for the open border agreement lies within the Federal Meat Inspection Act and the Poultry Products Inspection Act—Section 20 of the Meat Inspection Act as amended in 1981 and Section 17 of the Poultry Act, as amended in 1985. They require that all imported meat and poultry products be subject to the inspection, sanitary, quality, species verification and residue standards applied to products produced in the United States.

The Secretary is required to enforce these requirements through random inspection for species verification and residues, and random sampling and testing of internal organs and fat of carcasses for residues at the point of slaughter by the exporting country in accordance with methods approved by the Secretary.

The acts do not require that the Secretary should conduct these random inspections and testing. The Secretary is only required to enforce the import requirements through these means.

Although random sampling and testing of internal organs and fat of carcasses for residues at the point of slaughter must be conducted by the exporting country, the Secretary does have discretion to determine whether the exporting or importing country is to conduct the random inspection for species verification and residues.

The proposed regulation, therefore, provides for inspection and reinspection of imported products from Canada by Canadian inspection personnel, and inspection and reinspection of U.S. product to be exported to Canada by U.S.D.A. inspection personnel.

This inspection procedure would, in effect, open the border between the two countries with respect to importation and exportation of meat and poultry products.

The open border agreement is also consistent with Schedule 10 of the Free Trade Agreement and with Article 708(1)(d) which has a goal "to utilize each other's personnel for testing and inspection of agricultural food, beverage and certain related goods."

Let me state again the open border agreement is only a proposal at this stage. We have received over 2,000 comments. We will analyze each of them very carefully before a final decision is made on the proposed rule. The proposed rule could be modified. Those comments would be weighed very carefully before any final rule would be published.

Mr. Chairman, this concludes my testimony and we would be happy to answer any questions that you might have.

Senator BAUCUS. Okay. Thank you, Ms. Smith.

[The prepared statement of Mrs. Smith appears in the appendix.]

Senator BAUCUS. I am just curious. You are aware of the General Counsel Memorandum which basically states—I can quote from it—but it basically states the opinion of the General Counsel and the USDA that finds very serious legal problems associated with the Department's delegation of meat inspection under the Meat Inspection Act to a foreign government.

I am just curious why you seem to—why the Department seems to have ignored that recommendation and not attempted to find some other solution other than proceeding.

Mrs. SMITH. We feel that we have the authority under the current legislation, under the Meat and Poultry Act. I am aware of the Memorandum that you are speaking of, yes, sir.

Senator BAUCUS. I just want to read the applicable sentence here. Basically, "Although judicial precedence allow agencies broad latitude in interpreting their statutory authorities in this case, we can encounter serious legal obstacles because of the absence of specific statutory language and problems in the legislative history and the contrary statements of certain FSIS officials. Because of the high likelihood of a lawsuit against the Department, you should consider these legal obstacles seriously before the Department goes forward to implement the agreement."

You know, lawyers have looked at this problem and have concluded it is a very serious legal problem. I am just curious, in order to avoid difficulties, in order to enhance trust in the free—and the smooth operations of this why the Department did not seek congressional authorization.

Mrs. SMITH. We feel that we have the authority under the Meat and Poultry Inspection Acts to proceed with this. There was opportunity for people who do not agree to comment on the proposed rule when we published it, and we understood that not everybody would be for it.

Senator BAUCUS. I just want to raise two points. One is the high likelihood of a lawsuit, which slows down—

Mrs. SMITH. I think you must read the entire document. Certainly legal counsel pointed out not only that, but they pointed out the positives also. So I think as you look at it you will realize that good legal counsel would advise on total—

Senator BAUCUS. I am just stating the conclusion of the General Counsel.

Mrs. SMITH. I realize that.

Senator BAUCUS. Which was a high probability of a lawsuit. I am just pointing out, if there is a high probability of a lawsuit that slows down the potential implementation and it causes confusion, delay and so forth, that is one problem. The other is just the relations with the Congress, particularly the committee that worked very hard with the administration in writing the Federal Trade Agreement and implementing the legislation.

So I just frankly urge you to remember that often discretion is a better part of valor here and maybe it is a little wiser to back off and not try to force something through, but rather to work with the Congress to find a more accommodating solution.

I mean is it the Department's intention to delay implementation of the open border experimentation for several months or for a certain period of time?

Mrs. SMITH. We do not have a time table. Under the rules we have to review the comments. We have over 2,000 comments. We will review those and we will certainly move through that process as we do. We do not have a one, two, three, four date on it.

Senator BAUCUS. Now the balance of the comments you have received, would you characterize them as favorable to the administration's open border experiment or unfavorable?

Mrs. SMITH. I have not reviewed the comments personally and I cannot answer that question at this point in time.

Senator BAUCUS. It is my understanding that the vast majority is unfavorable.

Mrs. SMITH. You have information that I do not have. Let me just say that the way that we review comments is to certainly look at the comments and weigh them all very carefully as I stated that we will do.

Senator BAUCUS. I think the bottom line here is just consumer confidence and the health of Americans who want to be sure they are eating safe meat.

Mrs. SMITH. And we certainly agree with that.

Senator BAUCUS. That is what the bottom line is here. I just think that the Department should go the extra mile to be sure that the public is eating safe meat. You know as well as I—I have spoken personally with many meat inspectors in this country who are very concerned with the quality of the meat that they see now coming down from Canada under the Canadian inspection procedures. They are very concerned.

I would think that the Department should go the extra mile to be sure that the meat that is consumed in our country is safe to consume. I very strongly urge the Department to delay implementation—

Mrs. SMITH. You can be assured that we will make sure it is safe.

Senator BAUCUS [continuing]. In fact, not to implement the policy as stated until we clear up some of these problems.

Mrs. SMITH. Thank you.

Senator BAUCUS. Senator Symms?

Senator SYMMS. Thank you, Mr. Chairman; and thank you, Ms. Smith.

I might just ask a question of Mr. Golden. Please have a safe trip. Are you going out there for or against Senator Daschle before we let you go? [Laughter.]

Senator DASCHLE. Before you are excused, I wanted to know that too. [Laughter.]

Mrs. SMITH. I am certainly smart enough not to go out there against Senator Daschle just after I appear for a hearing.

Senator SYMMS. Thank you.

Dr. Crawford and Mr. Golden, now are you both involved in this open border agreement also?

Dr. CRAWFORD. Yes.

Senator SYMMS. I was just rather curious. Have you had an opportunity to look at any of these 2,000 comments that have come in?

Dr. CRAWFORD. No, we have not.

Senator SYMMS. And have you heard from major farm organizations, meat inspection people?

Dr. CRAWFORD. Yes, we have had a number of letters that later we have turned into comments. Yes, we have had a number of letters on the issue.

Senator SYMMS. At this point and juncture, do you believe that this can be made to work? What is your opinion at this time, your first opinion?

Dr. CRAWFORD. Well as you know we published a proposed regulation to implement an experiment to see if this would or would not work. We have not made a final decision on whether or not to

implement the experiment. So at this point no change has been made. We are reserving judgment on whether to proceed with the experiment, and then obviously the experiment would be for the purpose of testing whether or not this worked to everyone's satisfaction.

Senator SYMMS. Thank you very much.

I would like to ask a question, Mr. Chairman, of our Commerce witnesses. I am concerned about some of the subsidies that are coming through environmental laws, particularly in the decision of the Providence of Saskatchewan to permit a fertilizer plant which has very significant financial interest to forego any formal environmental rule.

And furthermore, the way I have understood it from some of my constituents that are in direct competition with the Canadian fertilizer interests that there is a \$435 million plant where about \$305 million is guaranteed by the government so that it gives them a financial advantage as well as some environmental advantage.

Would you please comment on that? What is your plan for it? To what extent do we in the United States, our position, will we allow basic industrial producers like this to create a competitive advantage through the Providence by absorbing these costs of environmental compliance or otherwise manipulating the process so that they are at a competitive advantage over American producers? What is our response going to be?

Ms. CHORLINS. Senator Symms, we are, as you are aware, monitoring the situation involving the Saferco plant to which you refer. And we have met with U.S. industry representatives on several occasions. As you know, you and Senator Daschle requested, along with several of your colleagues, that the Department compile some factual information on this. We have done that and will continue to meet with the industry representatives as necessary to discuss their concerns.

We have also raised this issue with our counterparts in Canada and will continue to pursue it accordingly. In the event that the industry decides that it would like to file a petition, we would gladly discuss that matter with them.

Senator SYMMS. Do you anticipate that a petition will be filed?

Ms. CHORLINS. Well I think that is really up to the industry, Senator. And quite frankly, I am not certain that we have gotten a clear indication from them one way or the other what their final intentions will be. But we do remain open to hear from them at any time.

Senator SYMMS. Do you think there is adequate protection in the law—I mean in the treaty—that if in fact a subsidy is deemed that our producers will be able to have proper protection so that they are playing on a level playing field?

Ms. CHORLINS. Senator, I would like to emphasize that the FTA in no way impaired the ability of any U.S. industry to pursue relief under either the anti-dumping or countervailing duty law. I do believe that the remedy would be available to them in the event that the situation merited it.

Senator SYMMS. Do you believe this administration would have any hesitancy to use that authority?

Ms. CHORLINS. No, Senator. I do not think this administration has show itself at all reluctant, in fact, where the situation merits, where the facts of a case are sound, to pursue an investigation. In fact, we are obligated under the law, in the event that a petition is sufficient, to pursue it.

Senator SYMMS. Okay. Thank you very much.

I would just like to shift gears now to the Memorandum of Understanding on the softwood timber. I guess that I would agree with what the chairman said. This has worked pretty well but a key element in the success of the MOU in adopting was, was Canadian collection of an excise tax. It is my understanding that Quebec is seeking to have the tax reduced from 8 percent to less than 2 percent and are coming back and saying that they are raising the price of stumpage sales to offset that.

Do you have a methodology worked out to do the account on that so we can be sure that our lumber producers do not end up through some careful—some complicated accounting procedures, that our people do not end up on the short end of the lumber so to speak?

Ms. CHORLINS. Yes, sir. You have very accurately described what the Government of Quebec's proposal is with respect to its replacement measure. And, in fact, we have a team from Import Administration in Canada this week involved in lengthy discussions to better understand what the Quebec proposal is.

Obviously, we have expressed some concern, I think, about the propensity of the Government of Quebec to rely on forecasting of future events, rather than relying on the historical data that we have developed so far. But we are engaged in the discussions precisely to be able to determine whether or not their proposal would be viable. Obviously, we will take a careful look at it.

Senator SYMMS. Do you think when this team comes back, do you have confidence that we will be able to have verifiable data? Are you comfortable with that? So that they will be able to analyze and verify the actual cost analysis so that there is not an attempt made to give a competitive advantage back?

Ms. CHORLINS. Yes, sir. I think we will receive sufficient information from these discussions this week. And in the event that we do not to our satisfaction, clearly we will go back to the Government of Quebec for more information in order to make a reasoned analysis.

Senator SYMMS. I think that is critically important that we do that and I would also urge you to be sure that the verification process is accurate and so that there is confidence on both sides of the border that it is fair. I think it is important so that the understanding can continue to operate properly.

Senator SYMMS. Thank you, Mr. Chairman.

Senator BAUCUS. Thank you, Senator.

Senator Daschle?

Senator DASCHLE. Mr. Chairman, I would emphasize some of the comments made by our colleague from Idaho with regard to the nitrogen plant. I think the plant highlights the situation we find ourselves in with a number of industries that may be falling victim to Provincial subsidies. I am concerned because I think that we are going to have to wait until after the fact, until the damage is done;

and once the damage is done, I am not sure we have the ability to respond as appropriately as we must.

In large measure, I think that is a matter of law. But to a large extent, I think it is certainly appropriate that we talk about it in the context of the Canadian Free Trade Agreement. I was hoping we could talk more about that.

But I must say, this may be the last opportunity we have for this session of Congress to talk about the open border agreement. As our colleagues know, the witnesses know, we have taken this up on the Agriculture Committee, and there are profound legal, substantive and procedural questions here.

Senator Baucus did an excellent job in presenting some of them. And I am troubled to decide which of the three areas I would like to explore in the limited time we have. But I think I am going to start with the most immediate and that is the procedural grounds. Comments ceased to be welcome on September 5th as I understand it. I am not sure what happens to comments received after September 5th. You might respond to that.

But, frankly, I am troubled by the comment that we got this morning from Secretary Smith and from you, Mr. Crawford. You claim not to know what is in those comments. I mean the fact is now, what is it, 3 weeks, since the comment period closed, and you don't know what is in the comments. How can you say you don't know what is in the comments and then have Ms. Smith say, well, we are going to carefully consider all of the information in those 2,000 comments. I cannot imagine that at least one of those letters didn't come to your attention and with that bring you at least some understanding of what is in that mail.

I mean how long are you going to wait? Are we going to wait until October, November?

Dr. CRAWFORD. Let me explain how we do that. We extended the comment period in order to receive more comments because as a result of a previous hearing, we believed we would get more comments. So we did extend it, which is, although not an unprecedented step, somewhat unusual. We do want to receive the opinions of all citizens in this regard.

What happens now with the 2,000 plus comments is that we assign a team of individuals to identify the issues raised. Each issue that is raised is analyzed in terms of its relevancy, and in terms of the number of times it comes up in the commentary. And then if the issues are considered to be relevant and supported by fact, which is almost always the case, we respond to each and every issue in each and every comment.

That procedure normally takes 2 to 3 months to complete. Although as Mrs. Smith indicated, the comment period is not necessarily a vote on the amendment, it is taken more or less that way because each comment that is made is weighed and we determine whether or not the balance of comments either invalidate the proposal, call for modification of it or support it. And then a recommendation is made to me as Administrator that generally falls into one of three categories.

First, the rule must be repropose with modifications as evidenced from the comments. Second, the rule should be effected. In this case, as you know, the rule would simply enable us to begin

the experiment to see if these procedures worked. And the third recommendation would be to scrap the proposal based on comments and substantial matters that had been raised during that period.

Senator DASCHLE. You made the comment that each relevant comment would be addressed and each relevant criticism would be taken into account. You have had 2,000 indications of concern. I am not sure they were all in opposition or all in support. Obviously, there is probably a good deal of opposition expressed. That evaluation process has been underway now for a matter of weeks. Is that correct?

Dr. CRAWFORD. We received the last comments and began evaluating them about 2 weeks ago now, yes.

Senator DASCHLE. So the evaluation process has begun?

Dr. CRAWFORD. Yes.

Senator DASCHLE. And you're telling us that 2 weeks after the evaluation process has begun you cannot give us some characterization of the comments you have received?

Dr. CRAWFORD. What kind of characterization? Do you mean how many are for and how many are against, that sort of thing?

Senator DASCHLE. Well you be the judge. Just what can you—you were asked twice to tell us what—

Dr. CRAWFORD. I cannot give you the evaluation of the comments at this point.

Senator DASCHLE. No characterization, nothing?

Dr. CRAWFORD. No, not at this point.

Senator DASCHLE. Well I am obviously not getting very far. So let me just ask you to address a rumor that I heard, just to be sure that it isn't true. I have been told that Secretary Yeutter said, we are going to get this regulation out under a certain time length and it doesn't matter how many letters and how many comments we've got. This thing is getting out sometime in the next few months.

Have you heard anything to that effect within the Department?

Dr. CRAWFORD. He has not expressed that to me.

Senator DASCHLE. That is not what I asked.

Dr. CRAWFORD. You are asking me if I have heard that?

Senator DASCHLE. Yes.

Dr. CRAWFORD. No, I have not heard that.

Senator DASCHLE. Mr. Golden, have you heard anything to that effect?

Mr. GOLDEN. No, sir, I haven't. I have not heard the rumor that you heard.

Senator DASCHLE. If it were to be a true rumor would you—I mean to the extent that that rumor persists, I am giving you an opportunity to say that is not true and we are not going to take that kind of approach. We are going to listen to each one of these comments and we are going to respond appropriately.

Can you tell us that with some assurance this morning?

Dr. CRAWFORD. Yes.

Senator DASCHLE. Thank you.

Thank you, Mr. Chairman.

Senator BAUCUS. Thank you.

To follow up on that last vision, just give us a sense of the degree to which the Department is sensitive and even sympathetic with some of the complaints that it has heard from members of this panel, from other Members of Congress. I am just trying to get a sense of where the Department is on all this.

I understand the Department has not made a final decision yet. But I would like to get a sense and give you the opportunity to share with us the degree to which you see some validity, some merit in some of the points that you have heard on this, as points in opposition to and points of concern about the experiment and the policy.

Dr. CRAWFORD. Yes, Mr. Chairman. The Department has proceeded with consideration of this experimental open border concept in a very deliberate and cautious manner. We did, as I mentioned earlier, reopen the comment period in order that everyone could be heard and that they could make whatever comments—

Senator BAUCUS. I do not want to take an awful lot of time here. If you could be very brief, please.

Dr. CRAWFORD. Okay. The second thing is that we published it as a proposal and we have made no final decision. The third thing is that the comments, as I mentioned earlier, will be evaluated very, very carefully before a decision is made.

Senator BAUCUS. Well you didn't really answer the way I had hoped you would—that is, more thoughtfully.

Don't you think there is some merit in the General Counsel's conclusion?

Dr. CRAWFORD. I would have to ask the General Counsel to speak to that.

Senator BAUCUS. I am asking you. Do you think there is some merit in the general counsel's conclusion, that a lawsuit is highly probable because of very serious questions of delegation of authority?

Dr. CRAWFORD. I just cannot predict whether or not there will be a lawsuit, no.

Senator BAUCUS. That is not—I am not asking you to predict.

Dr. CRAWFORD. Yes.

Senator BAUCUS. I am asking you, do you think there is considerable merit in his conclusion?

Dr. CRAWFORD. I don't know.

Senator BAUCUS. You don't have any opinion at all?

Dr. CRAWFORD. I have no opinion about whether or not there will be a lawsuit; and whether or not if a lawsuit is filed, whether or not we will prevail.

Senator BAUCUS. Do you have any feeling or opinion of whether there is a problem?

Dr. CRAWFORD. A problem legally?

Senator BAUCUS. Yes.

Dr. CRAWFORD. No. We have been assured that we can act under the authority of the Meat and Poultry Inspection Acts to effect this, as I mentioned. A final decision has not been made though.

Senator BAUCUS. Do you read English?

Dr. CRAWFORD. That and other things.

Senator BAUCUS. Doesn't that Memorandum in English say there is a high probability of a lawsuit?

Dr. CRAWFORD. It says there is a probability of a lawsuit.

Senator BAUCUS. Fine. Fine.

Dr. CRAWFORD. I didn't recall the term "high."

Senator BAUCUS. High is there. It says high.

Dr. CRAWFORD. Much of what we do has a high probability of a lawsuit from one side or the other. [Laughter.]

Dr. CRAWFORD. We have been rewarded with that a number of times, even very recently.

Senator BAUCUS. Does that make it right?

Dr. CRAWFORD. Well I think seeking redress in the courts is something that is an inalienable right.

Senator BAUCUS. Is it right to pursue policies that have a high degree of legal problems? Isn't it better to pursue policies that tend to minimize and reduce potential lawsuits?

Dr. CRAWFORD. Well certainly we do not invite lawsuits and we attempt to issue these sorts of proposed regulations in a manner consistent with the law.

Senator BAUCUS. Okay. Well I could take a lot of time here. I just know you get the drift of the concern of this panel of the Department's policy. I, again, urge the Department to pursue a policy of discretion and of compromise and accommodation rather than confrontation. I very much hope and urge the Department to not implement its program as defined.

Dr. CRAWFORD. Thank you.

Senator BAUCUS. I have one question of Secretary Chorlins though. Did I hear you correctly to say that in the Department's judgment there is not sufficient reason to renegotiate the MOU?

Ms. CHORLINS. Yes, sir, that is right. At this time we do not feel that we have seen the sorts of structural changes in the way Canada applies its program to merit a renegotiation of the MOU.

I think generally Canadian compliance with the agreement has been satisfactory. We basically feel that the replacement measures which the Provinces are able to negotiate are a more effective means of dealing with this situation than the MOU itself, principally because they require less monitoring and enforcement than the export tax does; and they also set the stage for the potential elimination of the problem which caused the negotiation of the MOU in the first place.

But at this point we have not seen a change.

Senator BAUCUS. Thank you.

Senator Symms, anymore questions?

Senator SYMMS. No, Mr. Chairman. I do not have any further questions. And I have appreciated all the panel members that have been here this morning. [Laughter.]

Senator BAUCUS. It is being tested. That is true.

Senator Daschle?

Senator DASCHLE. Well I couldn't agree more. [Laughter.]

I'm not sure always loyalty is the best character trait, but I think certainly they are loyal.

We have not had the opportunity in this committee to explore the basis for this legal interpretation. I do not want to belabor it because I know we have a lot of witnesses. But as briefly as you can, Mr. Golden, if you would just for the committee and for the record cite what you perceive to be your legal authority for the

open border inspection agreement, I think that would be appropriate.

Mr. GOLDEN. Certainly, sir.

First of all, the Department does not rely on any provision in the United States-Canada Free Trade Agreement or the legislation related to it as the source of its authority to carry out this program. We agree that any program of the kind suggested in this proposal must find its statutory authority in the Meat and Poultry Inspection Acts. That is what we turn to.

Since those two Acts are generally similar in their provisions, I will refer specifically to the meat act, which provides in Section 620(F) that, "The Secretary shall enforce this provision," meaning "assuring equivalence between the foreign system and the U.S. system," through first, the imposition of random inspections for species verification and for residues; and second, random inspection and testing of internal organs and fat of the carcasses for residues at the point of slaughter by the exporting country in accordance with methods approved by the Secretary."

We read that second section—the random sampling and testing of internal organs and fat of carcasses at the point of slaughter by the exporting country specifically to require that that inspection be done by the foreign country, although the methods used must be approved by the Secretary.

With regard to the other statutory provision for verification of equivalence, that is, "The Secretary shall enforce this provision through the imposition of random inspections for species verification and for residues."

We have concluded that it is possible to contend that first of all the term "Secretary" as defined in the statutory authorities—and these are alternative arguments—that the term "Secretary" as provided in another provision is defined as "the Secretary or his delegate" and that the Secretary could be construed to have authority to delegate this particular function to the inspectors of the importing country—the country importing into the United States—since there is no specification in that provision that it should be done by the importing country or by the exporting country.

And secondly, that the provision does not require the Secretary to inspect but it requires him to impose random inspections. And that that could be done through the instrumentality of an equivalent foreign system of an exporting country.

Senator DASCHLE. Thank you, Mr. Golden. I am going to say every time I hear it my blood curdles. I apologize. I know that this hearing is not only on the open border agreement, but that is an unbelievable interpretation of the authority that you provided.

I must tell you, for us to delegate that kind of responsibility in any other realm of government policy would be absolutely atrocious. Can you imagine the Department of Defense doing that? Can you imagine any other Agency of Government saying, we are going to delegate that kind of responsibility to a foreign agent?

I just cannot understand the rationale there. I know that in the interest of free trade and the kind of relationship we want to maintain with Canada blind trust may be all the justification necessary, but this is blind trust that I think goes way too far.

I hope that at some point—I am anxious to see the regulation. But I must tell you, whether it is through a lawsuit or whether it is through legislation, I doubt that we have seen the last word. But I thank you.

And I thank you, Mr. Chairman.

Senator BAUCUS. Thank you.

Thank you all very much, panelists. Thank you for your participation.

Okay, the next panel includes Mr. Kip Howlett, Jr., the chairman of the Coalition for Fair Lumber Imports; and Mr. Robert Anderson, the forest industry consultant, testifying on behalf of the American Plywood Association.

May we please have order too in the hearing room so that our witnesses can proceed.

Mr. Howlett, why don't you begin?

STATEMENT OF C.T. "KIP" HOWLETT, JR., CHAIRMAN, COALITION FOR FAIR LUMBER IMPORTS AND VICE PRESIDENT, GEORGIA-PACIFIC CORP., WASHINGTON, DC, ACCOMPANIED BY JOHN RAGOSTA, COUNSEL, COALITION FOR FAIR LUMBER IMPORTS, WASHINGTON, DC

Mr. HOWLETT. Thank you, Mr. Chairman and members of the committee. My name is Kip Howlett. I am chairman of the Coalition for Fair Lumber Imports. I am accompanied by John Ragosta, Counsel to the Coalition.

Let me begin by thanking you for the opportunity today to discuss the need for strict adherence to the United States-Canada Softwood Lumber Memorandum of Understanding. Officials from the highest level of Canadian Government have renewed their calls for elimination of the MOU, but they seem to forget that the MOU is a necessary response to Canadian timber subsidies that were devastating the U.S. lumber industry.

Absent the MOU the United States would have to offset the Canadian subsidies through imposition of duties. I am also particularly concerned that the Uruguay Round negotiations could result in the sacrifice of the U.S. ability to enforce agreement such as the MOU through the use of Section 301. It has been suggested that Section 301 enforcement authority must be compromised. If this occurred, how would the United States ensure compliance with this and other important bilateral agreements? Sacrifice of Section 301 would be a breach of faith with the U.S. industry.

As a matter of background I think that it is appropriate to review the circumstances that resulted in the adoption of the MOU. For years subsidized Canadian lumber severely injured the U.S. lumber industry. Between 1977 and 1985 Canadian production increased by 30 percent while U.S. production dropped. This occurred because Canadian firms were subsidized.

In 1986 facing disaster despite record demand, and having failed in efforts to negotiate an end to Canadian subsidies, the Coalition for Lumber Imports, supported by a broad spectrum of U.S. industry, filed a countervailing duty case. In October 1986 the preliminary countervailing duty of 15 percent was imposed to offset Canadian subsidies. Canada sought to settle the case by imposing a 15

percent export tax on Canadian lumber and the U.S. industry agreed to that settlement.

President Reagan made a formal determination that any breach of the MOU would be a violation of Section 301 of the Trade Act of 1974. The President committed that if such a breach occurred he would take action, including the imposition of an increase in tariff of softwood lumber imported from Canada, to offset any breach. This commitment was necessary for the U.S. industry to withdraw its countervailing duty case.

The MOU has been a great success for U.S. trade policy. It has been instrumental in reducing Canada's penetration of the U.S. lumber market. As a result, U.S. production and employment have increased. There are charts attached to my testimony that demonstrate this. This success, however, can only be maintained as long as the MOU is strictly enforced.

Canada is now seeking to avoid its MOU obligations. Several Canadian Ministers have vowed to eliminate the MOU within a year. Canada may claim that as British Columbia, which produces two-thirds of Canadian lumber, has increased timber fees to offset the export tax, the MOU is no longer needed. Nothing is further from the truth.

The primary Canadian lumber-producing provinces, including British Columbia, continue to sell timber at noncompetitive, subsidized prices. Canadian companies still pay much less than U.S. firms for comparable timber and the disparity is growing with price increases resulting from supply concerns, particularly in the Pacific Northwest.

More importantly, if the MOU were eliminated, Canadian Provinces could be expected to return to their timber subsidies and Canadian penetration of the U.S. market would grow again. This is why the coalition is here today. Strict observance of the MOU must be maintained. The excellent enforcement work of the staff of the Commerce Department must be permitted to continue.

In addition, care must be taken or the Uruguay Round negotiations could undermine the MOU. Many countries, including Canada, are seeking elimination or serious limitation in Section 301 in the Round. If this occurs, the United States will lose its most effective tool to ensure enforcement of trade agreements. Other nations could breach agreements with impunity, counting on the GATT dispute settlement process to delay any U.S. action or find U.S. action inappropriate for some technical reason.

Every nation has a sovereign right to defend its economic interests and ensure that its bilateral agreements are enforced. Section 301 is the key U.S. tool to do so. Regardless of the outcome of the Uruguay Round, other nations will continue to subsidize, breach agreements with the United States, close their markets, maintain nontransparent means of taking unilateral action that the United States cannot or will not copy. Thus, there will be occasions where effective Section 301 enforcement is absolutely necessary.

For the Coalition, if the administration permits Section 301 to be impaired, it would be a breach of faith. The cornerstone of the MOU was the promise of prompt, effective administration enforcement through the use of Section 301. At this time nothing else would be effective.

Without 301 Canada would be permitted to return to its old subsidies and the U.S. industry would be left with the expensive and time consuming process of filing a new countervailing duty case with resulting disruption to trade and further unnecessary trade friction between Canada and the United States.

Were the Uruguay Round agreements to impair the use of 301 in enforcing the MOU, serious opposition would be raised to the implementation of the Round's agreements. Any suggestion that Section 301 enforcement would not be promptly and firmly utilized should be put to rest.

Finally, the Coalition is concerned with the current negotiations concerning the tax on Quebec lumber. In 1988 the tax on Quebec lumber was reduced to 8 percent based upon timber fee increases. It was agreed that the tax level would be reviewed in 1990 based upon actual experience with stumpage collections. In fact, timber fee collections have not risen to expected levels. Still Quebec is now asking to reduce the tax to below 2 percent based on unsubstantiated projections.

In summary, the United States must continue to enforce the MOU strictly. It should be made clear to Canada that the MOU is an important international agreement necessitated by Canadian subsidies, which were seriously injuring the U.S. industry and the United States fully expects Canada to abide by it. If this message is made clear, a potentially serious international trade conflict can be avoided.

Thank you.

Senator BAUCUS. Thank you, Mr. Howlett.

[The prepared statement of Mr. Howlett appears in the appendix.]

Senator BAUCUS. Mr. Anderson?

STATEMENT OF ROBERT G. ANDERSON, FOREST INDUSTRY CONSULTANT, TESTIFYING ON BEHALF OF THE AMERICAN PLYWOOD ASSOCIATION, TACOMA, WA

Mr. ANDERSON. My name is Bob Anderson. I am a consultant to the forest products industry, recently retired from the American Plywood Association, who I am representing here today.

Thank you very much for inviting us to testify regarding the status of the Canadian Free Trade Agreement. As we have testified in the past, the U.S. Structural Panel Industry has long supported free trade, but it must be equal and fair to both sides. And we had hoped that the CFTA would see to that equality and fairness.

The Canadian Free Trade Agreement appears to us to be a great opportunity for establishing a good basis for free trade in structural panels. It provides the mechanism to produce product performance standards for structural panels in North America and the world. Prior to the CFTA Canada had successfully used a prescriptive product standard to exclude over 80 percent of the U.S. industry's products from Canadian construction.

At the same time, it created unnecessary problems from marketing U.S. plywood in other countries of the world. I am sure you remember the knot-hole size problem. Well it still must be resolved. Many tests have been run and all panels meet the performance re-

quirements, whether produced under present Canadian standard or under the U.S. standard with its larger knot-hole sizes. That is as far as we have gotten so far.

The initial tests are complete, but delays continue. As Mr. Roh said in his comments today, we are started and we have made some grand strides, but we are not there yet.

What I would really like to talk about today is a problem that may need your help. This is the problem that U.S. testing and certification organizations are facing as they try to gain approval to act as accredited certification agencies.

The Canadian Free Trade Agreement, finalized almost 3 years ago, specifically provides in Article 605 that each party will recognize the certification agency's of the other. The American Plywood Association, after more than 3 years of concentrated efforts, still cannot gain recognition in Canada. I must say at this point that we have had excellent and continue to have excellent cooperation and support from Assistant Secretary Ann Hughes and her staff.

Whatever we and Commerce have done so far seems not to budge the Canadians on the accreditation issue. The Canadian standard which will accommodate U.S.-produced plywood is a performance standard that requires that a product must be certified as meeting the standard by a third-party certification agency before it can be used in Canadian construction.

The only agencies accepted as competent are those accredited by the Standard Council of Canada. APA first made application to the SCC in 1987 and the response at that time was that APA would not be accepted since it was not a Canadian company. When the CFTA passed, both sides became obligated to accredit certification agencies outside their national boundaries. Following this agreement four U.S. agencies, including the APA and the Underwriters Laboratory, applied for accreditation. There has been no action beyond the publication of our request.

From what we are able to learn there were no objections but neither was there any action for approval. Until the U.S. organizations, such as the APA and the Underwriters Laboratory, have been approved as accredited certification agencies a substantial non-tariff barrier will continue regardless of agreement on the standards.

We hope that any kind of a government reminder about the CFTA commitments will encourage fast and responsive action on the part of the Standards Council of Canada. We are aware that there will be still be problems and additional time required before the product standards are agreed upon and then the subsequent reduction of the tariffs.

Various building code bodies must review and accept the new standards before the tariffs are lowered; and that is in the agreement. The public review process is time consuming. And, because some changes in the present U.S. structural panel performance standards will need to be made in response to the Canadians' request, the time consuming procedures must be followed.

The point is that unnecessary delays are occurring. Had the Canadians moved to the U.S. standards at the outset a lot of time would have been saved. And we continue with our concern that some of the plywood producers in Canada are fearful of entering

direct competition with the U.S. producers so they are influencing their government to delay the agreement on product standards and accreditation of certification agencies.

We feel that it would be to our joint benefit for the performance standards to be put in place quickly and for the U.S. certification agencies to be accredited. This would benefit the U.S. consumer, who will soon be facing the consequence of timber withdrawals in the United States. It will also help the Canadian mills who could then enter the large U.S. market. And it would help the U.S. industry which would then be able to expand its total markets in North America and the rest of the world with greater efficiency.

Movement on the standards issue is progressing, although slowly. But we continue to be concerned by the lack of accreditation applications. Even if we had an agreement on the standard a formidable non-tariff barrier would continue unless the U.S. certification agencies could act for U.S. producers.

We hope that more government-to-government prods will help remove the problem.

Thank you very much.

Senator BAUCUS. Thank you, Mr. Anderson.

[The prepared statement of Mr. Anderson appears in the appendix.]

Senator BAUCUS. I am just curious whether the industry is satisfied with the administration's investigation of allegations that certain Canadian lumber brokers circumvented the export tax. Are you satisfied with the administration's efforts so far?

Mr. HOWLETT. We have been very pleased, I think, with the level of cooperation and effort by the folks in the Commerce Department.

Senator BAUCUS. And you are satisfied that the Canadians have not in any significant way circumvented that export tax?

Mr. HOWLETT. Well I think that there are allegations of undercollection and certainly they have to be investigated. I think that we need to continue to police that agreement very carefully. There have been, I think, occasions where it may not have been applied to the letter and I think that the Commerce Department has been very vigilant in trying to enforce the agreement.

Senator BAUCUS. Thank you.

Senator Symms?

Senator SYMMS. Thank you very much, gentlemen, for your testimony. I guess my question basically follows on exactly the same as the chairman's. With respect to this Quebec problem, do you feel like there will be a proper verification process, Mr. Howlett?

Mr. HOWLETT. Yes, Senator. As Commerce Department witnesses testified, they have been up in Canada this week. We plan to meet with them. We have filed a letter with an initial review of the Quebec Provincial petition and would be pleased to make a copy of our letter available to you to be included in the record.

Senator SYMMS. That would be good. I thank you for that.

Mr. HOWLETT. We have also a group of forest economists looking at some of the key parts of that petition and will make that information available to the Commerce Department and feel very comfortable with Commerce's efforts.

Mr. RAGOSTA. Senator, if I might add. My name is John Ragosta. I am counsel with the Coalition. I think our concern with the Quebec situation is that the agreement calls for a resolution of that problem by the end of October. Now Quebec has delayed repeatedly in providing the U.S. Government with the data necessary to evaluate their new stumpage system. And as always happens in negotiations between governments as we approach that date, we are concerned about the growing pressure to reach a resolution.

The Commerce Department has done an excellent job, but we hope they will not allow that impending deadline to cause a problem. Because we do not believe that a reduction of the tax to 2 percent is at all justified by the data.

Senator SYMMS. Thank you.

Mr. Anderson, do you have any other things that you would like to add for the good of the order here this morning?

Mr. ANDERSON. Senator, I think in my comments that my major concern at this point is that we would like to solicit your help and the help of anybody that we can get in order to try to prod the Canadian Government to put pressure on the Standards Council of Canada and to take some action.

We feel that we are progressing well in the standards harmonization between the two countries. We feel that this is going to benefit both countries ultimately. However, nothing can happen until the standards accreditation system is also in place. And working for 2, 2½ years in trying to get something done and not having even a response to letters or telephone calls is disconcerting to say the least.

We feel that there is something beyond the actual working between the two countries. We feel that perhaps some government pressure might help.

Senator SYMMS. Well we hope that maybe as a result of this hearing that you will get the cooperation you need.

Mr. ANDERSON. Yes.

Senator SYMMS. This committee I know, on both sides of the aisle, will be very interested in it because this Memorandum of Understanding and the Canadian Free Trade Agreement in general are something I think this committee is very interested in. We want to see the commitments that were made to us at that time be followed through with. I think it is important that our friends north of the border realize this as well as our administration.

I am happy that they are working on it. But you will have my interest on this and we will follow through it.

Thank you very much.

Mr. ANDERSON. Thank you very much, Senator.

Senator BAUCUS. Thank you, gentlemen, very much for your cooperation, your testimony and your helpful explanations. Thank you.

The next panel is Mr. Mortensen from Montana. He is the bureau chief of the Meat Inspection Bureau in the State of Montana. Mr. Mike Wehler, president of the National Pork Producers Council. And Mr. Cecil Watson with the U.S. Wheat Associates from North Dakota.

Mr. Mortensen, welcome to Washington, D.C.

Mr. MORTENSEN. Thank you, Mr. Chairman.

Senator BAUCUS. Chip, why don't you go ahead.

STATEMENT OF E.E. MORTENSEN, BUREAU CHIEF, MEAT INSPECTION BUREAU, STATE OF MONTANA DEPARTMENT OF LIVESTOCK, HELENA, MT

Mr. MORTENSEN. Mr. Chairman, for the record, I would request that you enter my full statement into the record. I will merely summarize.

Senator BAUCUS. It will be included.

[The prepared statement of Mr. Mortensen appears in the appendix.]

Mr. MORTENSEN. Mr. Chairman, for the record I am E.E. Mortensen, chief, Meat Inspection Bureau, Montana Department of Livestock, Helena, MT. I speak today for the Montana Board of Livestock, Capital Station, Helena, MT; and the Montana Stock Growers Association, 420 North California Street in Helena, MT, also.

On July 6th and 7th, 1990 this department conducted a review of the meat reinspection procedures of Canadian meat products entering the United States at Sweet Grass, MT. It is our view that the present inspectors that we have had contact with are doing a fair and competent job of reinspecting meat products coming from Canada. We feel that import inspection is an additional tool available to industry and inspection personnel to evaluate and identify problems within the system at the plant level.

The level of defects and refused entry from Canada that have been detected since January 1, 1989 to the present time suggests to us that it certainly is not in the best interests of consumers to further reduce the level of inspection.

The report of the Secretary of Agriculture to the U.S. Congress on meat and poultry inspection tells us that Canada is the leading exporter of meat product into the United States for calendar year 1989. It will be noted that the refused entry rate for Canada was two to four times greater than that of the next three leading countries that export meat product into the United States.

The Government Accounting Office report dated July 1990 states that FSIS does not have adequate documentation to conclude that the Canadian inspection system is equivalent to U.S. inspection. It appears that the proposed rules which will suspend import reinspection for Canadian product are in conflict with the Federal Meat Inspection Act. They also may be in conflict with the Canadian Free Trade Agreement.

We believe that Canadian plants that export meat product to the United States should be reviewed by FSIS personnel. There has been recent disagreement between U.S. officials, meat inspection officials, and Agricultural Canada meat inspection officials on a sampling program for listeria. We need to be sure that ready-to-eat product is free of listeria, an organism that can cause serious illness, even death.

There has been a great deal of opposition to the proposed rule for the 1-year open border no inspection proposal on Canadian meat product coming into the United States. We believe that all meat products should be imported into the United States through a sta-

tistically-based inspection system, but reinspection should certainly not be eliminated on Canadian product.

USDA should maintain strict product testing, refusal, recall, and delisting criteria for dangerous organisms such as listeria and salmonella as well as drug, hormone and pesticide residues. We believe that the facilities constructed and used at U.S. ports of entry for Canadian meat products should be continued to be used for their recommended and intended purpose.

The purpose of the Federal Meat Inspecting Act is to protect the health and welfare of consumers by assuring that meat and meat food products are wholesome, not adulterated, and properly marked, labeled and packaged, and with regard to imported meat food products capable of human consumption offered for importation into the United States, shall be subject to inspection, sanitary quality, species verification and residue standards applied to products produced in the United States.

We request that if further official testimony is taken concerning Canadian meat imports that USDA import inspectors from the locations with the high refused entry rates be subpoenaed or officially sworn, written statements taken from them concerning refused entry product at their respective assigned facilities during 1989.

It is our opinion that should there ever be a serious consumer health problem attributed to unwholesome meat product it would damage not only the health of the individual or individuals involved, but could also be damaging to the economics and livestock of the meat industry. In other words, a loss of consumer confidence in our meat product.

Thank you, Mr. Chairman.

Senator BAUCUS. Thank you, Mr. Mortensen. That was a very thoughtful statement.

Mr. Wehler, you are next.

STATEMENT OF MIKE WEHLER, PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL, PLAIN, WI

Mr. WEHLER. Thank you, Mr. Chairman, for the opportunity to testify before you today on behalf of the nation's pork producers. I will summarize my statement in the interest of time.

Philosophically speaking, the United States-Canadian Free Trade Agreement is viewed favorably by U.S. pork producers. However, we are experiencing some difficulty achieving fair trade through it. The topics of most concern to U.S. pork producers include the U.S. countervailing duty, the open border agreement for meat inspection and Canadian quarantine for U.S. hogs.

Obviously, of primary concern are the recent actions regarding the U.S. countervailing duties. Canadian pork producers received direct subsidies that have been in excess of \$20-\$30 per hog in recent times. Meanwhile, our producers received no such government payments.

The Canadian subsidies have helped them target the United States with their excess pork production. These surplus pork exports have depressed prices of U.S. hogs and pork products. To urge more fairer trade the U.S. pork industry was successful in obtaining a countervailing duty on Canadian live hogs.

However, countervailing duties on live hogs did not stop the flow of Canadian pork products into the United States. Canadian producers simply slaughtered the hogs in Canada and shipped the product here. To help balance this situation the U.S. pork industry filed for a countervailing duty on fresh, chilled and frozen Canadian pork products. That duty was granted on August 28th of last year, after extensive review by the International Trade Commission and the U.S. Department of Commerce.

Yet, Canada has tried to tear down these decisions by using a new review mechanism established in the Free Trade Agreement. It allowed Canada to appeal the countervailing duty decision on pork products to two bi-national panels. The ITC found that it had used an incorrect figure in determining the increase in Canadian production of hogs between 1986 and 1988. Therefore, a bi-national panel has now required the ITC to further investigate and review how the lower production increase will affect ITC's earlier determination.

The duty is still being collected for now. However, should ITC overturn its original decision all duties collected would be refunded by the Federal Treasury. This action has no effect on the duty collected for live hogs from Canada coming into the United States. The Canadian marketing boards have the flexibility to control the mix between live hogs and pork coming into the United States and we believe they are using this to their advantage.

A second bi-national panel is reviewing the Commerce Department's decision in the pork product countervailing duty case. The second bi-national panel is expected to announce today whether the Department of Commerce needs to reconsider its 1989 opinion on the pork product countervailing duty.

Canada also filed for a GATT review of the U.S. pork product countervailing duty. In August the GATT panel assigned to review the case gave its opinion that the countervailing duty is not allowable under Section 771B of the U.S. Tariff Act of 1930.

We are concerned a full GATT council decision may overturn the countervailing duty. The full GATT council is scheduled to meet on November 7, 1990. This is the earliest time it can consider whether or not to accept the GATT panel recommendation. The provisions of 771B are necessary to help domestic producers respond to subsidized imports. Without it, a significant amount of agriculture trade would be left unprotected from subsidized imports.

The current GATT talks should be used to amend the GATT Subsidies Code, to allow all countries to impose countervailing duties on processed agriculture commodities where appropriate. This provision is too important to be surrendered by the United States.

Pork producers are also interested in the proposed open border for trade in meat and poultry between the United States and Canada. NPPC is willing to experiment with a 1-year trial period without border inspection of meat products as long as there are adequate measures to ensure consistency in inspection systems in both countries. NPPC is also concerned that Canada permits the use of two drugs on swine that are not approved in the United States. Because of the questions associated with these drugs, NPPC believes that Canada should discontinue the use of these drugs.

In the interim, Canada needs to assure the United States that their pork meets the same standards that U.S. pork meets regarding residues.

U.S. pork producers are also frustrated that Canada imposed a 30-day quarantine on our hogs while they are free to send hogs to the United States without any trade restrictive health regulations. It would be easy to satisfy Canadian health concerns through alternative methods such as shipping hogs under seal directly to packing plants in Canada. The Free Trade Agreement should require the elimination of unnecessary Canadian restrictions on U.S. swine shipments to Canada.

In conclusion, Mr. Chairman, even though U.S. pork producers are experiencing difficulty with some parts of the FTA, we believe it can be a positive example for other trade agreements. Our primary objective in conjunction with free trade is that the principles of fair trade be honored as well.

We appreciate your consideration of our concerns and offer our assistance of the United States-Canada Free Trade Agreement.

Senator BAUCUS. Thank you, Mr. Wehler.

[The prepared statement of Mr. Wehler appears in the appendix.]

Senator BAUCUS. Mr. Watson?

**STATEMENT OF CECIL WATSON, SECRETARY-TREASURER, U.S.
WHEAT ASSOCIATES, CAVALIER, ND**

Mr. WATSON. Thank you, Chairman Baucus, Mr. Symms. I represent the U.S. Wheat Associates; and, therefore, I am representing all the wheat producers in the United States.

The United States-Canada Free Trade Agreement has been in place for nearly 2 years now. Frankly, the U.S. wheat producer feels that the agreement is flawed in favor of the Canadian wheat farmer. We enjoy the longest unguarded border between the two nations of the world. We brag about that. But frankly, it is guarded by the Canadian Wheat Board.

The Canadians have opportunities to ship wheat into the United States but we have no opportunity whatsoever to ship wheat into Canada. Now I know that the producer subsidy equivalents are a factor in this but the Canadian wheat farmer is highly subsidized as well. My farm is 10 miles south of the Canadian border in North Dakota. In order for me to ship wheat to the East Coast it costs me 56 cents a bushel.

The Canadian wheat farmer can ship his wheat to the East Coast for 19 cents; ship it into the United States, and pay 18 cents a bushel in duty, and still do it cheaper than I can. So we are at a distinct disadvantage to the Canadian wheat farmer, even in our own domestic markets. Frankly, we are being clobbered by the Canadian Wheat Board in markets around the world.

I ask you to enter all of my written remarks in the record and there are several instances in these remarks citing cases where the international grain companies would submit bids to a country that is tendering for wheat, such as Venezuela, the Philippines, Japan, and then after we submit our bids the Canadian Wheat Board comes in and says we can do it for \$2 a ton less. We feel that they

are highly subsidizing that Canadian wheat farmer by being his commission firm.

In the domestic market most of the wheat that is coming into the United States is going directly into mills. We do not know where the rest of it is going. With all of our programs, our storage programs, our export enhancement programs, it is a possibility that some of this wheat may end up in some of those programs. We are concerned about that.

I was interested in your remarks, Mr. Chairman, when you said that bi-lateral trade agreements nudge GATT. When this agreement was made with Canada the wheat growers were concerned about the Canadian Wheat Board because their prices are not visible to us. Ours are posted in Minneapolis, Chicago, and Kansas City. They know what we are selling wheat for. When they sell wheat, we have no idea what they are selling it for at the time.

They give us some averages, but averages—you are well aware that averages do not tell the entire story. For example, in the Philippines they sold wheat well below their normal price while charging Japan higher prices for wheat. So in doing this type of thing they could easily beat us in some of these markets.

The USTR and Clayton Yeutter and the GATT agreements have said that Wheat Boards have their red light. We cannot live with those things. And as you said, when these bi-lateral trade agreements nudge GATT we are afraid, the wheat growers are afraid, that at the last minute maybe we will be traded off again.

Frankly, we feel like we have sold part of the farm in the FTA and we do not want to sell the rest in GATT. I will be happy to answer any questions that you have about wheat and the FTA.

Senator BAUCUS. Thank you.

[The prepared statement of Mr. Watson appears in the appendix.]

Senator BAUCUS. It is not really a subject of the hearing but, Mr. Watson, are you basically saying that we should in the multi-lateral GATT Rounds, the Uruguay Round, in the agricultural subsidy negotiations, that we Americans should try to negotiate away the Canadian Wheat Board so that Canada does not have a Wheat Board, so that the Canada system is more similar to ours? Or are you saying we Americans need a Wheat Board?

Mr. WATSON. No, I am saying, I don't think we need a Wheat Board. Frankly, I like our system. However, when you are dealing with a government such as Canada or Australia and the Wheat Board is the sole carrier of the order book—he can take orders, he can name the price—it makes it very difficult for us to compete. And, yes, we would like to negotiate away the Canadian Wheat Board.

Senator BAUCUS. Essentially you are saying that if we are successful then Canada, the European community, Argentina and Australia will be subsidizing their producers much less than they do now. We may be subsidizing ours less, but at least it will be a more level playing field because their cutback will be even greater than our cutback. That is basically what we are hoping for. Is that right?

Mr. WATSON. That is what I am saying. How are we in our private system of grain companies going to deal with the Canadian

Wheat Board. If you would submit a bid to a country for wheat at so many dollars per ton and then you have a friend who lives north of you who says, I'll do it for less. We do not need friends like that.

Senator BAUCUS. Mr. Mortensen, I wondered if you could give me a sense of American livestock producers reactions to the open border program. What are you picking up? What do they think?

Mr. MORTENSEN. The American livestock producers?

Senator BAUCUS. Yes.

Mr. MORTENSEN. Well the National Cattlemens Association submitted a resolution proposing the open border experiment.

Senator BAUCUS. Is the NCA still in favor of it or are they opposed?

Mr. MORTENSEN. No, they opposed it.

Senator BAUCUS. Opposed.

Mr. MORTENSEN. They submitted a resolution opposing the proposed rule for the experimental 1-year.

Senator BAUCUS. I wonder if you could expand a little bit upon the rate of rejection. That is—

Senator SYMMS. Excuse me, Mr. Mortensen and Mr. Chairman. Was that before it started or since it has been going on?

Mr. MORTENSEN. That was during. You see the proposal was first published, I believe, in I believe in June; and then it was extended until September 5. So it was during, while the proposal was still open for comments, sir.

Senator BAUCUS. Could you give me just a little more sense of the rejection rate? That is, how frequently are meat shipments from Canada rejected. You mentioned earlier in your testimony that it is maybe two or three times that of the next highest country.

Mr. MORTENSEN. All right. Yes, sir.

The total pounds passed for entry for all meat products from Canada was 703 million pounds; and the refused entry rate was 7 million pounds. So approximately 1 percent.

Senator BAUCUS. In pounds.

Mr. MORTENSEN. Or Australia, which was second, 658 million pounds; and the refused entry rate 2 million pounds. Or approximately 0.35 percent.

Senator BAUCUS. Okay.

So that is the basis on which apparently Canada's meat, at least the rejection rate, is about three times that of sales traffic.

Mr. MORTENSEN. Well it appears so. And you want to consider for calendar year 1989 that Canada was—the imports from Canada were being monitored or being inspected under the streamlined inspection system.

Senator BAUCUS. Now you have heard the Department's defense of its program. What is your reaction to their defense? What do you think?

Mr. MORTENSEN. Our reaction is that certainly inspection should not be at any lower level than it is presently. And perhaps it might be advisable to go back to pre-1989. It seems to us that the streamlined inspection system which was initiated on January 1, 1989 has really brought this thing into focus.

Senator BAUCUS. Now I wonder if you have had a chance to consult with your counterparts. You represent the State of Montana. What about other, say, border States discussion?

Mr. MORTENSEN. I have had the opportunity to visit with a North Dakota inspector stationed at Pembana, ND. Now I visited personally and over the phone a number of times with the inspector at Sweet Grass, Montana and only by phone with the inspector at Pembana, ND. But the GAO report reflects that the refused entry rate was nearly equally as high at Pembana and Sweet Grass, Montana also.

Senator BAUCUS. Okay. Thank you very much. I very much hope, and frankly it is my expectation based upon this hearing and also a hearing held by Senator Daschle of South Dakota at an earlier date, that the Department reconsiders its position and does not implement the program. At least that is my hope and we will do all we can to make sure that happens.

Because I just frankly believe that because of the high rejection rate and because of the potential undermining of consumer confidence it just makes sense to back off, let's regroup and see where we are, and to come up with an inspection system that not only satisfies the harmonization goals of the Free Trade Agreement, but more importantly the health and safety considerations that are fundamentally even more important to I think most Americans.

I have to leave at this moment. I am turning the hearing over to Senator Symms. But I want to thank you very much for your testimony.

Mr. MORTENSEN. Thank you.

Senator SYMMS. Thank you all very much.

Thank you, Mr. Chairman.

Now we will hear from our last panel which is Christopher Bates, director of the international trade and policy analysis, Motor and Equipment Manufacturers; Mr. Robert C. Liuzzi, president of CF Industries, Inc.; and Mr. Emil Romagnoli, director of government affairs.

Gentlemen, welcome to the committee. We look forward to hearing what you have to say.

Mr. Bates, would you like to lead off, please?

STATEMENT OF CHRISTOPHER M. BATES, DIRECTOR, INTERNATIONAL TRADE AND POLICY ANALYSIS, MOTOR AND EQUIPMENT MANUFACTURERS ASSOCIATION, WASHINGTON, DC

Mr. BATES. Yes. Thank you, Mr. Chairman and members of the committee. The Motor and Equipment Manufacturers Association welcomes the opportunity today to share its views with you regarding implementation of the automotive provisions of the United States-Canada Free Trade Agreement. The Senate Finance Committee played a very key role in developing two related provisions of the FTA implementing legislation package which MEMA recommended back in 1988 on behalf of the U.S. automotive supplier industry.

These two provisions are first, a clear U.S. Government mandate to establish a bi-national auto panel with Canada to recommend initiatives to enhance the competitiveness of the North American

auto industry, including an increase in the Free Trade Agreement's rule of origin for automotive products from 50 to 60 percent. Second, in a related provision, a requirement that the President seek to conclude negotiations with the Canadians to increase that rule for automotive products drawing upon specific recommendations from the bi-national auto panel.

My objective today is to provide the Subcommittee with a status report on how these provisions are being implemented. We also seek the active support of the committee and other members of Congress for the administration's current efforts to convince the Canadian government to jointly implement the bi-national auto panel's recommendation on the rule of origin issue.

As Mr. Roh mentioned earlier in our hearing today, on August 1st a substantial majority of both the United States and Canadian members of the auto panel agreed that an increase from 50 to 60 percent in the origin requirements for automotive products would benefit the North American auto industry and economy. I would like to insert for the purposes of the record a press release which was issued by the co-chairman of that auto panel on August 2.

Senator SYMMS. Without objection, it is so ordered.

[The press release appears in the appendix.]

Mr. BATES. At the August meeting the auto panel ~~also~~ agreed to proceed with a broader study of government measures and industry initiatives to promote the longer term competitiveness of the North American motor vehicle industry. The panel tentatively plans to complete this work by the end of 1991.

During the FTA negotiations MEMA proposed a stronger North American origin rule of at least 60 percent to give all United States and Canadian vehicle manufacturers a strong incentive to maximize their use of parts made in the United States and Canada. Following a year long analysis of the rule of origin question the auto panel formed under the Free Trade Agreement agreed that there would be substantial benefits from a change of this nature.

They found a number of benefits. Including, first, an additional \$1 billion in annual purchases of United States and Canadian parts by Japanese affiliated vehicle assemblers in both countries within a 3 to 5-year period.

Second, stronger economic incentives for all vehicle manufacturers operating in the United States and Canada to maintain high levels of parts procurement and associated design and engineering capability in North America, particularly as international competitive pressures intensify in this decade.

Third, increased United States and Canadian employment of up to 15,000 workers by the mid-1990's.

And finally, a broader range of future parts and material sourcing opportunities in North America as Japanese vehicle manufacturers and component manufacturers seek to comply with the rule of origin. This would affect, in particular, areas such as engine and transmission components, suspension and steering, electronics and other high-value-added components, where purchases to date have not been particularly noteworthy.

In view of these major benefits, recognized as I said by Canadian as well as U.S. Representatives on the auto panel, it is very diffi-

cult for us to understand how the Canadian government can continue to resist an improvement of this nature.

Their argument that adoption of a 60 percent rule could conceivably harm Canadian interests does not withstand careful scrutiny. It is based in part on the view that United States and Canadian auto industries are locked in a zero sum gain. This logic is inconsistent with the basic philosophy of the Free Trade Agreement and with the continuing success of Canadian suppliers and vehicle manufacturers in the U.S. market.

The Canadian government also has raised concerns that adoption of a 60 percent origin rule could discourage future automotive investment in Canada. This argument, however, is flawed because it ignores the fact that major investment decisions in the automotive industry are based on a very wide range of cost and qualitative judgments, of which tariffs levels in our bi-lateral Free Trade Agreement are but one factor.

A final concern expressed by Canadian officials is that adoption of a 60 percent rule could impose a short-term adjustment burden on certain producers in Canada. In our view this argument fails to account for the much-discussed option of providing a reasonable transition period during which a 60-percent rule of origin would be phased in.

I think there also are some implications regarding our Free Trade Agreement talks with Mexico. There is a compelling argument for increasing the United States-Canadian rule of origin for automotive products in light of our expectation of a Free Trade Agreement with Mexico next year. United States and Canadian automotive suppliers and workers are concerned about Mexico's role as an automotive manufacturing and export base. With a United States-Mexican or broader North American Free Trade Agreement in place, a stronger United States-Canadian Free Trade Agreement rule or even a tri-lateral rule involving Canada, the United States and Mexico would likely improve the balance of costs and benefits for all parties involved.

Given Canada's stated wish to participate in our talks with Mexico it would be advantageous, we feel, for the United States and Canada to get together on this origin issue now.

In conclusion, I would like to ask the support of this committee and members of Congress for accelerating the efforts in our talks with the Canadians to achieve a 60 percent origin rule. We feel that strong congressional backing is the only way that this thing will move forward expeditiously.

Thank you. I would be happy to answer any questions you have.

[The prepared statement of Mr. Bates appears in the appendix.]

Senator SYMMS. Thank you very much, Mr. Bates.

Senator SYMMS. Mr. Liuzzi?

Mr. LIUZZI. Yes, Senator.

**STATEMENT OF ROBERT C. LIUZZI, PRESIDENT, CF INDUSTRIES,
INC., LONG GROVE, IL**

Mr. LIUZZI. My name is Robert Liuzzi and I am president of CF Industries and also chairman of the ad hoc committee of Domestic

Nitrogen Producers, which is a Coalition of major U.S. producers of nitrogen fertilizer.

Nitrogen is essential to the efficient growth of most crops. Two of the most important nitrogen fertilizers are anhydrous ammonia and urea. Both of these commodity products are efficiently produced in the United States by members of our group.

I appreciate the opportunity to discuss with the committee an alarming situation for the U.S. nitrogen industry. A joint venture between Cargill Limited and the government of Saskatchewan plans to construct a large nitrogen complex in Belle Plaine, Saskatchewan. When completed in late 1992 this plant will have annual production capacity of 560,000 tons of anhydrous ammonia and 750,000 tons of urea. The project is called Saferco.

Our nitrogen industry is highly competitive and we do not object to fair competition. Some of our toughest competitors are a number of Canadian producers who supply roughly 10 percent of all nitrogen consumed in the United States. However, none of them operates with government subsidies. Saferco, however, represents a very different situation.

The government of Saskatchewan will supply 85 percent of the project's \$435 million capital cost directly and through loan guarantees. For the Province's investment, it will receive a 49 percent ownership interest. In contrast, however, Cargill will receive exclusive marketing rights and a 50 percent or majority interest in the project while providing only 15 percent of the required capital and no loan guarantee.

The plant is being built, even though existing efficient capacity in North America meets current and forecasted demand. We estimate that the exports from Saferco into the United States will result in a 4 to 6 percent decline in domestic shipments. And, as in the case of any commodity market when supply outstrips demand, prices will drop. The flood of Saferco product into the United States market is expected to depress U.S. prices by approximately 12 to 17 percent.

Clearly, no commercial investor would construct this facility given the realities of this market. Simply put, Saferco would not be built without the financial support and the loan guarantee of the Province of Saskatchewan.

The U.S. nitrogen industry will make use of the United States unfair trade laws if necessary. However, we believe that the Saferco situation in addition presents pressing questions of U.S. trade policy and United States-Canada relations.

First of all, we believe that the United States should aggressively oppose market distorting activities such as those being employed in the Saferco project before they disrupt U.S. markets. The threat of eventual countervailing duties has not been enough to deter a provincial government which is facing an imminent election and a very weak economy. The United States we feel must make it clear now, before investments are made and before nitrogen begins to flood the Midwest at distressed prices, that we will not permit our markets to be disrupted.

Secondly, Mr. Senator, as a matter of trade policy, we believe that the United States should deal strongly with ongoing and new Canadian subsidies which threaten both U.S. industries and our

new borderless market. Despite ongoing negotiations under the FTA, Canadian provinces continue to create and utilize subsidies which seriously distort our markets.

Thirdly, we feel the United States must insist that countervailing duty laws be applied to commercially unreasonable loan guarantees. The United States must ensure that these loan guarantees are viewed as unfavorably as direct financial grants. Our position on these practices must be spelled out in the GATT as well as in the United States-Canada bi-lateral subsidies agreement.

The U.S. nitrogen industry will not sit idly by when our markets are threatened by unfair trade practices. We have used unfair trade laws before and, if necessary, we will do so again. We believe, however, that there is no need to wait until a commercially unjustifiable plant is built and its product is being sold for any obtainable price.

We think the United States should act now under existing trade laws, including Section 301, if necessary and in the context of ongoing negotiations to address what we feel is a very difficult problem. The problem threatens an efficient U.S. industry as well as free and fair trade I think was envisioned under the FTA.

Thank you, Mr. Senator.

Senator SYMMS. Thank you very much.

[The prepared statement of Mr. Liuzzi appears in the appendix.]

Senator SYMMS. Mr. Romagnoli?

STATEMENT OF EMIL ROMAGNOLI, DIRECTOR OF GOVERNMENT AFFAIRS, ASARCO INCORPORATED, TESTIFYING ON BEHALF OF THE NON-FERROUS METALS PRODUCERS COMMITTEE, WASHINGTON, DC

Mr. ROMAGNOLI. For the record, my name is Emil Romagnoli and I am director of government affairs for ASARCO Incorporated. My statement this morning is on behalf of the Non-Ferrous Metals Producers Committee, which is a trade association of domestic producers of primary copper, lead and zinc. Member companies of the NFMPC have operations in a number of States, including Montana, Missouri, Arizona, Texas, Idaho, Nebraska, and Tennessee.

Let me begin by expressing the appreciation of our industry to Chairman Baucus and to you, Senator Symms, as well as to Senator Danforth and other members of the subcommittee, for the leadership this subcommittee has provided since very early in the FTA negotiations in an effort to achieve some form of relieve for the producers of non-ferrous metals and minerals from the competitive effects of Canadian domestic subsidy practices.

Domestic subsidies provided by foreign governments have an especially important impact on the U.S. copper, lead and zinc mining and processing industry. Both because of the importance of relative costs and our overall competition position in the world and because we have no control over metal prices which are established on international markets.

Direct or indirect government assistance distorts competition and provides a potentially crucial cost advantage to the subsidized producer. When the metal price cycle turns down a subsidized producer benefiting from this cost advantage survives and continues in

production while U.S. facilities which much operate in a subsidy-free environment may be forced to close down operations.

As you know, when the FTA negotiators were unable to reach substantive agreement on the issue of subsidies discipline the Congress incorporated Section 409(B), otherwise known as the Baucus/Danforth Amendment, into the FTA Implementation Act to address the unique impact of subsidies practices upon industries like ours.

Section 409(B) was intended to be a supplement to the subsidies working group that was established in the FTA to negotiate an agreement on subsidies disciplines during the next 5 to 7 years. Section 409(B) both provided for the gathering of information about subsidy practices affecting the industry and presented an avenue for relief utilizing U.S. trade law if there was the likelihood of injury to the U.S. industry resulting from those practices.

The Non-Ferrous Metal Producers Committee, in cooperation with some of the non-member companies of the Association, has been working with the executive branch to gather information about Canadian practices that we believe will be useful to the U.S. negotiators in the working group. We saw it and were granted the necessary eligibility by USTR under Section 409(B), and began working with USTR to gather the needed information.

That process is continuing and we have appreciated the cooperation that we have received from USTR. We also appreciate the sensitivity with which USTR has handled the issue of acceleration of tariff reductions under the FTA. USTR has consulted very closely with our industry on petitions for speeding up duty phase downs.

The working group has not been vigorously pursuing subsidy negotiations to say the least, pending the completion of GATT subsidy talks in the Uruguay Round. We hope that when the Round is completed the working group will be able to turn to FTA negotiations in earnest, particularly since two of the original 5 years allowed for this effort will have already elapsed.

I would like to make a brief comment concerning the current Uruguay Round subsidy negotiations since the FTA's subsidies working group will probably begin its negotiations where any GATT subsidy agreement leaves off. Our industry has undergone a very difficult restructuring since the mid-1980's that has reduced our production costs significantly.

Today the U.S. non-ferrous mining and metal industry is cost competitive with most other producers in the world. However, it is clear to us that government subsidization can give foreign producers an important advantage against which it is very difficult for a free market firm to compete. We have urged the executive branch to ensure that the GATT subsidy negotiations result in strengthened discipline on subsidies not less discipline.

In particular, we have urged that the so-called green light exemptions be made for pollution control and regional development assistance that no so-called green light exemptions be made for pollution control and regional development subsidies since such assistance can confer competitive benefits that are especially important to mining and metals industries.

This is especially important to the U.S. industry since in this country environmental control costs are borne by producers on the basis of the polluter pays principle.

Let me conclude, Mr. Chairman, by pointing out that while members of the of the NFMPC are satisfied with the support we have received from USTR in implementing the Baucus/Danforth Amendment, it is important to note that the existence of subsidies in Canada remains an important difference between the United States and Canadian systems.

I would like to point out to the committee that Mr. Gordon Ritchie, a trade consultant who is Canada's Deputy Chief Negotiator in the FTA talks was quoted just this week as questioning direct Canadian participation in the United States-Mexican bilateral free trade talks, arguing that the price for Canada may be unacceptably high given the modest economic benefits to be gained.

Mr. Ritchie also notes that the United States may be seeking objectives in the talks with Mexico that it was unable to achieve in the United States-Canada talks, such as guarantees against subsidized trade. We certainly hope that the end result of both the GATT and the FTA working group negotiations will be to work toward a well trading system that is far more free than the wasteful and distorting effects of government subsidization.

I thank the Subcommittee, both for the opportunity to provide testimony on the implementation of the FTA and for continued oversight of the effects of the agreement on our industry.

Senator SYMMS. Thank you very much for your statement.

[The prepared statement of Mr. Romagnoli appears in the appendix.]

Senator SYMMS. Emil, you are generally saying that generally you are satisfied but you are nervous. Is that correct?

Mr. ROMAGNOLI. Yes, sir. That is exactly right.

Senator SYMMS. Mr. Liuzzi, you are not satisfied. Is that correct?

Mr. LIUZZI. That is correct, Senator.

Senator SYMMS. You are advocating that we immediately—when you say countervailing duty that a policy statement be made by the U.S. Government that if this plant is built under the current financial arrangements, then that product from that plant will be countervailed, so that the investors know it up front.

Mr. LIUZZI. In essence, that is right. It has seemed that neither Regina, nor Ottawa, have paid much attention to the existing countervailing duty laws. Certainly they have not had a deterrent effect on the plant. We have had excellent cooperation from various agencies in the administration.

I guess my frustration as being a businessman, is that I would like to see an answer, but I am not being critical of the administration. It is important our position be advanced in the GATT negotiations and the bi-lateral subsidies negotiations. Our position is that noncommercial government guarantees and projects that make zero economic sense are countervailable under U.S. trade law. They are as distorting a subsidy as a direct financial grant.

Senator SYMMS. Is there any way that that product would ever be financially economic? It would not be, would it, to be exported anywhere else, other than to be used in Canada or to the United States?

Mr. LIUZZI. No, unfortunately, given the location of the plant in Belle Plaine, under current world market conditions the product cannot be economically produced, transported, and exported from Vancouver, nor can it be economically produced, transported and shipped to the East Coast for export out of Canada.

The primary market is the various provinces in Canada, but more importantly the upper Midwest and the U.S. corn belt. Saskatchewan officials have said this is an attempt to make Saskatchewan farmers self-sufficient with Saskatchewan fertilizer. The amount being produced is far in excess of what Saskatchewan or even all of the prairie provinces will need for the foreseeable future.

Senator SYMMS. Mr. Bates, what is your view? Are you getting the cooperation you want from the U.S. Government—Commerce Department, USTR or not?

Mr. BATES. We have received the cooperation that we need so far. I have sensed though from my discussions with the administration that they are not receiving a receptive audience in Canada and I think we have reached a point where the discussions need to be elevated.

I understand that Ambassador Hills will be meeting with Canadian Trade Minister Crosby later on in about 2 weeks—I think October 11th. That would certainly be an opportunity for the issue to be engaged at a senior level and I hope that will be done aggressively.

Senator SYMMS. As you know we do not produce any automobiles in my State. Is what your position is, you want to get the parts—that 60 percent of the parts are either made in Canada or the United States? Is that what I understand?

Mr. BATES. The intent is to maximize the benefits of the Free Trade Agreement for producers in North America. Right now we have a rule of origin requirement which is weaker in fact than what the Canadians have historically required of their own vehicle manufacturers in terms of purchases of just Canadian parts.

It is considerably below the levels of local purchasing that are being expected of the Japanese in Europe as they increase their investments there. And we feel very strongly that now is the time to develop a very strong economic incentive in the form of tariff savings to promote increased use, particularly of higher value added U.S. components where there has been a reluctance on the part of the Japanese to make greater commitments to United States-based and Canadian-based suppliers in recent years.

So we see a lot of critical issues coming together and a real opportunity here to advance our supplier industry interests throughout North America, but also in a way which would not be commercially destructive in terms of the competitiveness of vehicles manufacturers.

Senator SYMMS. Thank you.

Mr. Liuzzi, do U.S. nitrogen fertilizer producers receive any protection from Canadian or other imports now in the form of tariffs or any other form?

Mr. LIUZZI. No, Senator.

Senator SYMMS. None whatsoever?

Mr. LIUZZI. Fertilizer from any country in the world can come into the U.S. duty and tariff free.

Senator SYMMS. Duty and tariff free.

So in other words you are competing with—well is it true though that with respect to nitrogen fertilizer particularly that it is normally not economic to transport it long distances or is that untrue?

Mr. LIUZZI. It could depend on the form.

Senator SYMMS. The concentration, I guess?

Mr. LIUZZI. Yes. It could depend on the form. Nonetheless, pricing is on a world market basis at the present time. It is a true commodity, Senator. The corn plant does not know the difference between my urea or anybody else's.

Senator SYMMS. Right.

Mr. LIUZZI. So that in terms of market penetration there is only one way to do it, and that is cut the price.

Senator SYMMS. Price.

Mr. LIUZZI. That's right.

Senator SYMMS. You may have felt that you have adequately covered this, but I think I would like to ask it again, just for the record. If you could summarize it.

What does the U.S. industry plan to do about this project? Do you plan to file cases or—

Mr. LIUZZI. Of course, Senator, the lawyers tell me the right answer is "we are evaluating all our options." But I think I can go further than that. This same committee faced a similar problem in the mid-1980's where large amounts of urea from East-block countries and the Soviet Union were being dumped in the U.S. Gulf.

We won an anti-dumping case before the ITC. In addition to evaluating our options, we are going to take action, whether it be a countervailing duty action, an anti-dumping action, or of a Section 301 petition. Our goal ever since we started dealing with the administration is to avoid unpleasant litigation and what I would perceive to be unpleasant matters of trade policy.

This plant should not be built, Senator. There is no need for its production. It is politically motivated. It is not commercially justifiable.

Senator SYMMS. Let me ask one other question. I am not aware of what fertilizer prices are right now. But I have been told that there have been some increases in the price of nitrogen fertilizer recently; and that some shortages have been predicted. Does that in anyway change your view of what you just said, that this plant is not needed and it is being built by political motivation because Saskatchewan wants to have their own plant, buy their own fertilizer and so forth?

Mr. LIUZZI. That really does not change our view. These are long, long-term investments. To be absolutely candid, there has been a run up in nitrogen prices primarily over the last 30 to 45 days. There have been a couple of reasons for that. It is a commodity and prices react very quickly both up and downward for short-term and long-term reasons.

As it turns out, we have had a number of unscheduled turnarounds at major nitrogen facilities worldwide in Trinidad, Venezuela, Mexico, and the Soviet Union. So on a temporary basis there has been a somewhat tightening of supply. In addition, events in the Persian Gulf have contributed to this. Urea from Kuwait is not being exported so we have seen a reduction there.

We view this as temporary factors which will cause a temporary price rise. But, as I said earlier, these plants have a life of their own. They go on and on and on and kind of live forever. They are long-term investments. So the recent run up in price, although it is beneficial to a producer, does not change the underlying fundamental economics of this project.

Senator SYMMS. Just a repeat again. Are you saying that you think the U.S. Government should make a formal statement? What do you think the U.S. Government should do? If you were the USTR and the Secretary of Commerce or say President of the United States, what would you direct those two officers of our government to do?

Mr. LIUZZI. I would take a phrase from my colleague here. I think it has to be escalated. Now this is somewhat of a—maybe a non-inside the beltway comment. We have had good support. You, yourself, have written to Ambassador Hills along with about 25 other U.S. Senators. She has said that she will raise these matters with her Canadian counterparts.

I think they are serious. I would love to see Ambassador Hills raise it at her level. This whole issue of provincial subsidies, it is one thing to have an agreement with Ottawa, and everything works fine. It is quite another to have 10 Canadian provinces off doing whatever they want to do and Ottawa says "my hands are clean."

So I think it has to be at Mrs. Hills level, in the areas that we talked about. The other issues that were brought before the subcommittee today, though I wasn't familiar with, I enjoyed listening to. They seemed to me very serious. And I think you face long-term policy issues.

Senator SYMMS. I might just say to you that I did discuss this with Ambassador Hills yesterday and she has pledged to get to the bottom of where they are and what the progress is and get a report back to me. So I will look forward to that also.

Mr. LIUZZI. I am pleased to hear that, Senator.

Senator SYMMS. Emil, do you have any other last thoughts that has occurred to you since you heard this other colloquy here?

Mr. ROMAGNOLI. Well I think this issue of regional development assistance is an important one for the mining industry as well. It is a very hot issue right now in the subsidies negotiations in the GATT, in which so far our government has held firm on opposing that kind of assistance. But the European community and Canada and almost all of our other trading partners are supporting the idea of green lighting or exempting from subsidies discipline regional development assistance.

I think just as my colleague expressed, I think it is an issue that is critical to the mining industry also.

Senator SYMMS. Thank you all very much. I appreciate your attendance. I know that my colleagues will all be interested in all the comments, although this is a difficult day to have them all here. But thank you very much.

Mr. LIUZZI. Thank you, Senator.

Mr. ROMAGNOLI. Thank you, Senator.

Senator SYMMS. The meeting is adjourned.

[Whereupon, the hearing was adjourned at 12:37 p.m.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF ROBERT G. ANDERSON

I am Robert G. Anderson, a consultant to the forest products industry. I recently retired from the American Plywood Association, and am representing them and the U.S. plywood industry at this hearing. Thank you for inviting us to testify regarding the status of the Canadian Free Trade Agreement.

As we have testified in the past, the U.S. structural panel industry has long supported free trade. It need only be equal and fair to both sides. We hoped that the CFTA would see to this equality and fairness.

The Canadian Free Trade agreement appears to us to be a great opportunity for establishing a good common ground for free trade in structural panels. It provides the mechanism to introduce product performance standards for structural panels to the world.

Prior to the FTA, Canada had successfully used a prescriptive product standard to exclude over 80% of the U.S. industry's products from Canadian construction, and, at the same time, created unnecessary problems for marketing U.S. plywood in other countries of the world.

I'm sure you remember the knot hole size problem. Well, it still must be resolved. Many tests have been run, and all panels meet the performance requirements, whether produced under the Canadian standard or the U.S. standard.

That's as far as we have gotten so far. The initial tests are complete, but details continue to be sources for delay. Currently, there is the disagreement on whether a probe test designed to evaluate the glue bond around a large size knot hole should be a product evaluation test, or a continuing test. This will most likely be resolved without further problems, but it is indicative of the road blocks regularly being placed where smooth driving should be expected.

What I'd really like to talk about today is a problem that may need your help. This is the problem that U.S. testing and certification organizations are facing to gain approval to act as accredited certification agencies for assuring that U.S. made products meet Canadian standards.

The agreement took effect almost three years ago. It specifically provides in Article 605 that each party will recognize the certification agencies of the other. APA, after three years of concentrated efforts, still cannot gain recognition in Canada.

The Canadian standard which will accommodate U.S. produced plywood is a performance standard that requires that products meeting the standard must be certified as meeting the standard by a third party certification agency before that product can be used in construction. The only certification agencies accepted as competent are those accredited by the Standards Council of Canada (SCC).

APA first made application to SCC in 1987. The response at that time was that APA would not be accepted since it is not a Canadian company. When the initial application was made, there was no published nationality requirement.

When the CFTA was passed, both sides became obligated to accredit certification agencies outside their national boundaries. After this agreement, four U.S. agencies including APA and the Underwriters Laboratory applied. There has been no action beyond the publication of our request for accreditation and a call by the SCC for comments.

From what we were able to learn, there were no objections, but neither was there any action for approval.

Until U.S. organizations such as the APA and UL have been approved as accredited certification agencies, a substantial non-tariff barrier will continue, regardless of

agreement on the standards. We hope that a government reminder of the CFTA commitments will encourage fast, and responsive action on the part of the SCC.

We are aware that there will be additional time required after the product standards are agreed upon, before tariffs come down. The various building code bodies must review and accept the new standards before the tariffs are lowered. That is the agreement.

The public review process is time consuming, and because some changes in the present U.S. structural panel performance standards will need to be made, the time consuming procedures must be followed.

The point is that unnecessary delays are occurring. Had the Canadians moved to the U.S. standards at the outset, a lot of time could have been saved. We continue with our concern that some plywood producers in Canada are fearful of entering direct competition with U.S. producers so are influencing the government to delay the agreement on product standards as long as possible.

We feel it would be to our joint benefit for new performance standards to be put into place quickly and U.S. certification agencies accredited. This would benefit the U.S. consumer, who will soon be facing the consequence of timber withdrawals in the U.S.; the Canadian mill, who could then enter the large U.S. market; and the U.S. industry, which will be able to more efficiently expand its total markets in North America and the rest of the world.

Movement on the standards issue is progressing, albeit slowly. The major hurdles are behind us. However, we continue to be concerned by the lack of action on the accreditation applications. Even if we had agreement on the standard, a formidable non-tariff barrier would continue unless U.S. certification agencies could act for U.S. producers. We hope that a government to government prod. will help remove the problem.

I will be happy to try to answer any questions on the issue. Thank you very much for the opportunity to express our concerns.

PREPARED STATEMENT OF CHRISTOPHER M. BATES

The Motor and Equipment Manufacturers Association (MEMA) welcomes the opportunity to share its views with the International Trade Subcommittee regarding implementation of the automotive provisions of the U.S.-Canada Free Trade Agreement (FTA).

The Subcommittee and the full Senate Finance Committee played a central role in developing two provisions of the FTA implementing legislation package which MEMA recommended on behalf of the U.S. automotive supplier industry. These are:

(1) A clear U.S. Government mandate to establish a binational auto panel with Canada to recommend private sector and government initiatives to enhance the competitiveness of the North American automotive industry, including an increase in the FTA rule of origin from 50 to at least 60 percent; and

(2) A requirement that the President seek to conclude negotiations with the Canadian Government on a higher FTA origin rule for automotive products, drawing upon the recommendations of the binational panel. This panel includes prominent executives from all segments of the U.S. and Canadian motor vehicle industries, industry experts, and other interested parties.

FTA implementing legislation also gives the President explicit authority to implement a higher rule of origin for automotive products upon obtaining the agreement of the Canadian Government.

Our objective today is to provide the Subcommittee with a status report on how these provisions are being implemented. We also seek the active support of this Subcommittee and other members of Congress for the Administration's renewed efforts to convince the Canadian Government to agree to a stronger FTA rule of origin for automotive products trade.

As background, MEMA, founded in 1904, is the oldest association representing the motor vehicle parts industry. It is the only association which is devoted exclusively to serving the needs of U.S. manufacturers of motor vehicle parts, equipment, and allied products. MEMA members supply both original equipment components and systems to vehicle manufacturers and replacement parts and specialty tools, equipment, and chemicals to the aftermarket.

MEMA played an active advisory role during the FTA negotiations and the subsequent debate over FTA implementing legislation. The Association has monitored implementation of the agreement through surveys of its members and is represented by its President, William Rastery on the U.S.-Canada Auto Panel.

On August 1, a substantial majority of the Auto Panel agreed that an increase from 50 to 60 percent in the origin requirement would benefit the North American auto industry and economy. We now urge the U.S. and Canadian Governments to implement this recommendation expeditiously.

At that time, the Auto Panel also agreed to proceed with a broader study of government measures and industry initiatives to promote the long-term competitiveness of the North American motor vehicle industry. The Panel tentatively plans to complete this review and make recommendations to the U.S. and Canadian Governments by the end of 1991.

OVERVIEW OF U.S.-CANADA AUTOMOTIVE PARTS TRADE

The United States and Canada are one others' largest export markets for motor vehicle parts and equipment. Based on official Commerce Department statistics, two-way automotive parts trade totaled \$20 billion in 1989.

During the 1980s, the United States consistently generated surpluses in its automotive parts trade with Canada, ranging from \$3-4 billion annually according to reconciled U.S.-Canadian trade statistics. Since the adoption of the 1965 U.S.-Canadian Auto Pact, which eliminated most bilateral tariffs on vehicles and original equipment parts trade, Canada largely has been a net exporter of assembled vehicles to the United States and a net importer of parts.

The U.S. and Canadian motor vehicle industries are closely linked economically and the relationship has benefited both countries despite the great difference in market size.

For example, Canadian suppliers, although operating in a market roughly one-tenth the size of the U.S. market, now export nearly \$10 billion annually to the United States. Canadian vehicle producers export \$15-20 billion annually to the United States. This volume is likely to grow as Canadian subsidiaries of Japanese and Korean vehicle manufacturers expand production during the next few years. General Motors, Ford, and Chrysler also remain firmly committed to the assembly of vehicles in and their export from Canada.

FTA PROVISIONS AFFECTING U.S. AUTOMOTIVE SUPPLIERS

The FTA modifies U.S. origin rules established in the 1965 U.S.-Canadian Auto Pact regarding duty-free Canadian exports of assembled vehicles and original equipment parts. It also phases out duties on automotive replacement parts and equipment.

In addition, the FTA requires Canada to eliminate by January 1998 all remaining duty remission programs, which were designed to encourage European and Asian vehicle producers and their Canadian subsidiaries to increase their purchases of Canadian-made parts. The phase-out of these programs is being monitored by the U.S. Government under a congressional mandate, and also by MEMA and others in the U.S. auto industry.

Automotive products become eligible for reduced tariffs under the FTA by meeting specific rules of origin. In most cases this means exported products must undergo processing in the United States or Canada which results in a change in customs classification, and also must contain at least 50 percent U.S. or Canadian value-added (defined as material and direct processing costs).

During the FTA negotiations, MEMA proposed a North American origin requirement of at least 60 percent to give all U.S. and Canadian vehicle manufacturers a strong incentive to maximize their use of North American-produced components. As reflected in the binational Auto Panel's recent recommendation, this proposal has the support of a "substantial majority" of both U.S. and Canadian members of the binational Auto Panel.

Following a year-long analysis of the rule of origin question, a substantial majority of Canadian and U.S. members of the Panel concluded that a 60 percent rule would provide significant long-term benefits to the North American auto industry and economy. These benefits would likely include:

- An additional \$1 billion in annual purchases of U.S. and Canadian parts by Japanese-affiliated vehicle assemblers in both countries within three-to-five years;
- Stronger economic incentives for all vehicle producers operating in the United States and Canada to maintain high levels of parts procurement, and associated vehicle design and engineering capability, in North America as international competitive pressures intensify;
- Increased U.S. and Canadian employment of up to 15,000 workers by the mid-1990s; and

—A broader range of future parts and material sourcing in North America by Japanese-affiliated vehicle and component manufacturers, particularly from U.S. and Canadian suppliers of engine, drivetrain, suspension and steering, electronic and other high-value-added parts and systems.

In view of these major benefits—recognized by Canadian as well as U.S. representatives of the parts supply industry, vehicle makers, and workers on the binational Auto Panel—it is difficult to understand the Canadian Government's continued resistance to a stronger FTA origin rule for automotive products trade. Clearly, a 60 percent rule represents a "win-win" situation for U.S. and Canadian automotive producers, workers and both countries' economies.

The argument that adoption of a 60 percent rule might "harm" Canadian interests does not withstand careful scrutiny. This view is based in part on the view that U.S. and Canadian suppliers are locked in a zero-sum game, so that gains by one party must result in a net loss for the other even if the size of the overall "pie" is expanding. This logic is inconsistent with the basic philosophy of the FTA and with the continuing success of competitive Canadian suppliers in the U.S. market.

The Canadian Government also has raised concerns that adoption of a 60 percent origin rule could discourage future automotive investment in Canada. This argument is flawed because major investment decisions in the automotive industry are based on a wide range of cost and qualitative judgments, of which tariff levels are but one factor.

Another concern expressed by Canadian officials is that adoption of a 60 percent rule would impose a short-term adjustment burden on certain producers. This argument fails to account for the much-discussed option of providing a reasonable transition period during which a 60 percent rule would be phased in. Such an approach would ease the adjustment process significantly by allowing adequate time for additional competitive sources of parts and materials to be identified within North America.

Finally, the Canadian Government has suggested that adoption of a higher FTA rule of origin for automotive products might encourage the European Community to adopt origin rules which could harm U.S. and Canadian exports to that market. In fact, the EC has stated it will not modify its current origin rules for automobiles, but will consider Japanese-design cars built in Europe as "Japanese vehicles" for the purposes of its negotiations with Japan to restrain future Japanese penetration of the EC market.

In response to EC political pressures, Nissan, Honda, and Toyota have all committed to achieving a minimum of 80 percent European content within the next few years. This content level exceeds the announced targets of most Japanese-affiliated vehicle producers in North America. Thus, the United States and Canada may be in a better position to ensure future access for their vehicle exports to the EC by encouraging higher levels of local value-added in all vehicles built in North America. Adoption of a 60 percent FTA origin rule would help accomplish this goal.

IMPLICATIONS FOR FTA TALKS WITH MEXICO

There also is a compelling argument for increasing the U.S.-Canadian origin rule for automotive products in light of expected free trade discussions with Mexico next year. In testimony delivered before the House Ways and Means Committee in June, MEMA emphasized the importance of establishing origin rules with Mexico which are at least as strong as and consistent with those in the Canadian FTA.

U.S. and Canadian automotive suppliers and workers are concerned about Mexico's increasing role as an automotive manufacturing and export base. With a U.S.-Mexican or broader North American FTA in place, a stronger U.S.-Canada FTA rule or trilateral U.S.-Canada-Mexico origin rule would likely improve the balance of costs and benefits for Canadian as well as U.S. producers and workers. Given Canada's stated wish to participate in U.S.-Mexico FTA talks, it would be advantageous for the United States and Canada to reach an early consensus on a 60 percent or greater origin rule for North America.

CONCLUSION

MEMA commends the International Trade Subcommittee for its timely oversight hearings on implementation of the U.S.-Canada FTA and invitation to testify on the automotive provisions of the agreement.

There is a pressing need for the Administration to meet with the Canadian Government to discuss a timetable and strategy for implementation of the binational Auto Panel's recommendation for a 60 percent origin rule. Strong congressional backing for this next step is now required to help encourage more productive talks on this issue between the U.S. and Canadian Governments.

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**U.S.-CANADA AUTOMOTIVE SELECT PANEL LAUNCHES
COMPETITIVENESS EFFORT
AND RECOMMENDS 60% RULE OF ORIGIN REQUIREMENT**

AUGUST 2, 1990 - TORONTO AND NEW YORK. Following a meeting yesterday in Toronto, Canada, W. Darcy McKeough and Peter G. Peterson, Canadian and American Co Chairmen, respectively, of the government sponsored U.S.-Canada Automotive Select Panel announced the launch of an intensive, high-level effort to improve the competitiveness of the North American automotive industry along with a recommendation by the Panel that the rule of origin under the U.S.-Canada Free Trade Agreement should be increased from 50% to 60%.

The Competitiveness Initiative

Panel Vice Chairmen Joseph Gorman, Chairman, President and Chief Executive Officer of TRW, and Roy Bennett, President of Benetton, will spearhead the competitiveness project which Panel members consider to be the most important contribution of the binational body. Panel members agreed that the automotive industry was becoming both increasingly global and increasingly competitive; thus, the Panel's work will recommend measures to improve the performance of the North American industry and to increase its access to world markets. Messrs. Gorman and Bennett stressed that, within 18 months, the Panel's work would result in an action-oriented set of recommendations on a range of Canadian and American government policies, including measures on trade and other negotiations, as well as suggested steps for the private sector to improve its competitiveness.

The working group that will address these competitiveness questions will do so in a comprehensive framework, evaluating the North American industry in a global context, taking into account major influential trends. For example, beyond globalization and a tougher world marketplace are the effects of major trading blocs, such as the European Community after 1992 and the discussions now underway between the United States and Mexico on trade issues. In reaching the recommendations, Panel members will build on a variety of competitiveness analyses presented to them at earlier meetings, including studies by the Massachusetts Institute of Technology, the University of Michigan, and Bernard Jones, Executive Director of the Canadian side of the Panel.

An Increased Rule of Origin Requirement

In addition to the competitiveness effort, Panel members at the Toronto meeting discussed the rule of origin requirements for duty-free automotive trade between Canada and the United States under the Free Trade Agreement. The Panel reviewed different studies of the effects of raising the rule of origin requirement from 50% to 60%. While various pros and cons of the move were discussed, a substantial majority of the Canadian and American members agreed that an increase from 50% to 60% in the rule of origin

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requirement would likely be a benefit to the North American economy. Accordingly, the Panel will recommend to the governments of the United States and Canada an increase in the rule of origin requirement. The Panel believes that such a step would encourage non-complying firms to meet this new higher level by sourcing more materials in North America, and produce net economic benefits to both the United States and Canada in the long run.

The U.S.-Canada Automotive Select Panel was created last year pursuant to the Free Trade Agreement to make recommendations to the U.S. and Canadian governments. The binational body has alternately met in Toronto and New York. Canadian Trade Minister John Crosbie appointed the Canadian panel members; the American panel members were appointed jointly by U.S. Secretary of Commerce Robert Mosbacher and Special Trade Representative Carla Hills. Canadian Panel members include W. Darcy McKeough, Co-Chairman, Automotive Select Panel - Canada and Chairman of Canada Development Investment Corporation; Robert T. Beamish, Chairman, Woodbridge Group; Roy F. Bennett, President, Beacon Ltd.; Harry Bowler, President, Budd Canada Inc.; Paul Calvi, President, Waterville TG Inc.; Maurice J. Clost, Retired President & CEO, Chrysler Canada; Kenneth P. Graydon, E.V.P., Federation of Auto Dealers Associations of Canada; Sally Hall, Ex-President, Canadian Consumers Association; Kenneth Harrigan, President and CEO, Ford Motor Company of Canada; Koji Kadowaki, President; Honda Canada Inc.; Maureen V. Kempston-Darkes, General Director of Public Affairs; General Motors of Canada Inc.; Andre Normand, President, Prevost Car Inc.; Phillip C. Upshall, Senior Partner, Upshall, MacKenzie & Kelday; Robert White, President, CAW Canada; Dean H. Wilson, President, Automotive Industries Association of Canada. U.S. members include Peter G. Peterson, Co-Chairman, Automotive Select Panel - U.S. and Chairman of The Blackstone Group; Owen Bieber, President, International Union, UAW; David E. Coie, Ph.D., University of Michigan; Joseph T. Gorman, Chairman, President and CEO, TRW, Inc., Elliot Lehman, Co-Chairman, Fel-Pro Inc.; R. S. Miller, Jr., Vice Chairman, Chrysler Corporation; Harold A. Poling, Chairman of the Board and CEO, Ford Motor Company; J. David Power, III, President, J.D. Power & Associates; Heinz Prechter, Chairman and Chief Executive Officer, ASC Inc.; William Raftery, President, Motor Equipment Manufacturers Assoc.; J.P. Reilly, President and CEO, Tenneco Automotive; Thomas F. Russell, Retired Chairman, Federal-Mogul Corporation; Paul G. Schloemer, President and CEO, Parker-Hannifin Corporation; Roger B. Smith, Chairman, General Motors Company; Neil A. Springer, President and COO, Navistar International Corporation.

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PREPARED STATEMENT OF MAX BAUCUS

Canada is the United States' most important trading partner.

The U.S. and Canada trade about \$200 billion worth of goods and services each year. The U.S. and Canada trade more goods and services than any other two nations.

Two years ago, the U.S. and Canada concluded the U.S.-Canada Free Trade Agreement (FTA).

The FTA phases out tariffs, sets trading rules in most sectors, and establishes dispute settlement mechanisms.

The FTA institutionalizes the most important trading relationship in the world.

The agreement is truly a historic and ground breaking achievement. I consider the implementing legislation for the FTA to be one of the most important pieces of trade legislation I have worked on during my time in the Senate.

I have been pleased at the relative ease with which the FTA has been implemented.

Thus far, the dispute settlement panels seem to be working.

Much of the political controversy surrounding the FTA—particularly in Canada—seems to have subsided.

But when two nations exchange \$200 billion in goods and services, disputes can be expected. This is no exception.

There are a number of very serious trade disputes between the U.S. and Canada that deserve immediate attention at the highest levels of government.

Today, I plan to address four issues in particular:

- first, the U.S. Department of Agriculture's proposed "Open Border Experiment;"
- second, the 1986 Softwood Lumber Memorandum of Understanding between the U.S. and Canada;
- third, a recent GATT panel decision effecting a countervailing duty on hog and pork imports from Canada; and
- fourth, the ongoing bilateral discussions on disciplining subsidies.

THE OPEN BORDER EXPERIMENT

The FTA includes a commitment by both sides to work toward improving and streamlining health and safety inspections on agricultural goods traded between the U.S. and Canada.

But the FTA does not have force of law. And no provision relating to this commitment was included in the FTA implementing legislation.

Nonetheless, USDA—after consultation with its Canadian counterpart—has implemented a number of changes in inspection procedures.

Last February, USDA took the further step of announcing the "Open Border Experiment" with Canada.

The experiment involves suspending all border inspections on meat traded between the U.S. and Canada and relying exclusively upon the inspection procedures of the exporting country.

After careful examination of this issue, I believe that USDA's attempt to implement the "Open Border Experiment" is a grave error.

I have received more constituent mail against the "Open Border Experiment" than I have on any previous U.S.-Canada trade issue.

Farm groups in my state unanimously oppose the experiment.

Numerous stories critical of the experiment have appeared in the national and regional press.

Meat inspectors on both sides of the border have criticized the experiment.

Most seriously, the level of public concern over this proposal has risen to a boil.

Implementing the experiment now could greatly undermine public confidence in the safety and wholesomeness of meat.

This, in turn, could cause a sharp decline in demand for meat generally, not just Canadian meat imports.

Further, I am extremely frustrated by the way in which USDA has pursued this experiment.

The Federal Meat Inspection Act requires the Secretary of Agriculture to appoint inspectors to ensure the safety of all meat.

The Act does not allow the Secretary to delegate this responsibility to a foreign government.

Legal opinions authored by the General Accounting Office, the Congressional Research Service, and USDA's own General Counsel all confirm that USDA is exceed-

ing its legal authority by implementing the experiment without congressional approval.

I have twice written USDA to raise this issue and am yet to get more than the most cursory response.

This is outrageous.

The Members of this Committee worked closely with the Administration to devise procedures for gaining congressional approval of trade agreements.

For USDA to ignore those procedures in favor of unilateral action undermines the working relationship between Congress and the Administration.

I have worked closely with Clayton Yeutter and I am familiar with Assistant Secretary Smith's long background in the meat industry. I do not believe either is intentionally attempting to spark a "meat scare" or a confrontation with Congress.

Nonetheless, that is the result of their efforts.

USDA has gone too far. It has overstepped its authority. Its actions are undermining public confidence in the wholesomeness of meat and the working relationship between Congress and the Administration.

I urge USDA to immediately halt its attempt to implement the "Open Border Experiment" and send it to Congress for consideration.

If USDA chooses to ignore this advice, it will spark a serious confrontation with Congress.

THE LUMBER MOU

On another front, I am anxious to review the 1986 Softwood Lumber Memorandum of Understanding—better known as the MOU—with the Administration.

I worked closely with the Administration and other Members of this Committee on the MOU.

The MOU has been a very successful agreement.

It has protected the U.S. industry from the effect of Canadian lumber subsidies. Since the MOU, the decline of the U.S. softwood lumber industry has been stopped and 60,000 new jobs have been created.

Further, the MOU has had the positive environmental effect of discouraging cutting of marginal Canadian timber.

Unfortunately, some in Canada remain critical of the MOU. There are frequent calls from Canada for renegotiation of the MOU on one pretext or another.

Frankly, I can see absolutely no rationale for renegotiation of the MOU. The fundamental purpose of the MOU was to offset Canadian provincial subsidies. In several provinces, those subsidies remain in place.

As long as the Canadian subsidies remain in place, the MOU should remain in place.

Further, the MOU sets up a consultation procedure to review the application of the export tax and other issues that may arise.

Certainly, at a time when the lumber industry in the U.S. is under pressure because of environmental concerns, it would be senseless to also expose the industry to unfair competition.

I trust the Administration continues to share this view.

THE PORK COUNTERVAILING DUTY

Another issue that has long strained U.S.-Canada trade relations has recently flared anew: the countervailing duty on hog and pork imports from Canada.

The issue arose in the early 1980s when subsidized hog production in Canada resulted in a sharp increase in U.S. imports of Canadian hogs and pork.

In 1985, U.S. producers filed a countervailing duty case to stem the flow of subsidized imports. But the ITC—in a strange decision—decided to impose the countervailing duty only on live hogs and not on pork.

As you might expect, Canadian producers switched from exporting live hogs to exporting pork to avoid the duty. U.S. producers gained no protection and the U.S. also lost the value added from processing the hogs into pork.

With a number of other Senators, I sought to address this problem with two amendments to the 1988 Trade Act that had the effect of extending the duty from hogs to pork.

Last year, the U.S. extended the countervailing duty on live hogs to pork. But Canada challenged the decision before a GATT panel and two FTA panels.

The FTA panels have an extremely limited mandate—merely ensuring that U.S. law is properly applied by the ITC and the Commerce Department.

Though an FTA panel did remand the case to the ITC to correct some numerical errors, the narrow mandate of the panels should limit their impact.

The GATT panel is quite a different matter.

A few weeks ago a GATT dispute settlement panel issued a preliminary decision in this case that could severely limited the ability of the U.S. to impose duties on agricultural products.

I will not go through the details of this decision, but suffice it to say that the GATT dispute settlement panel's decision—if accepted—could deprive most agricultural producers of the protection of countervailing duty law.

Subsidizing nations could avoid countervailing duties by simply doing minor processing of the product before export.

Particularly since Canada applies its own countervailing duty law in much the same way as the U.S., I strongly urge the Administration to block acceptance of this decision.

The decision should be blocked at least until suitable changes can be negotiated in the GATT Subsidies Code.

SUBSIDIES

Finally, it is critical that the governments of the U.S. and Canada begin serious work on limiting subsidies.

Subsidies are just as much of a barrier to free trade as tariffs or quotas.

According to the OECD, Canadian subsidies are on average three times higher than U.S. subsidies.

Canada extends particularly generous subsidies to its forest products, mining, smelting, agricultural, and other natural resource-based industries.

As many of the witnesses at this hearing will attest, these Canadian subsidies created an extremely serious trade problem.

The subsidy problem was recognized in the FTA. Both sides agreed as part of the FTA to begin negotiations aimed at disciplining subsidies.

Yet, the Canadian government dragged its feet for months before appointing its subsidy negotiating team.

Now there are complaints that the subsidy talks should not proceed until the current GATT Round is concluded.

This is nothing more than stalling.

True free trade between Canada and the U.S. will be impossible unless subsidies are controlled. Canadian subsidies distort trade and will inevitably force the U.S. to impose more and more countervailing duties.

Any true supporter of free trade should recognize the necessity of limiting subsidies.

CONCLUSION

All of the disputes raised today should be kept in context.

In general, the trade relations between the U.S. and Canada are going quite well. But that does not lessen the seriousness of the trouble spots.

The problems must be addressed if the trading relationship is to continue to grow and prosper.

If ignored these disputes could fester and become much more serious problems.

I hope today's hearing will provide a good airing of the issues

And I trust the Administration will be responsive.

PREPARED STATEMENT OF MARJORIE A. CHORLINS

Mr. Chairman: Thank you for the opportunity to testify before the Subcommittee on recent developments in trade between the United States and Canada. Joining me at the witness table is Ann Hughes, Deputy Assistant Secretary for the Western Hemisphere. The Office of Canada comes under her jurisdiction, and she and her staff contributed significantly to this statement.

The U.S.-Canada Free Trade Agreement, or FTA, has been in effect now for nearly two years, and businesses in both countries are responding to the many new trade and investment opportunities that it has encouraged. The FTA created the world's largest free trade area, encompassing two economies that together produce more than \$5.8 trillion in goods and services. To put that figure into proper perspective, it is larger than the \$4.2 trillion annual production of the twelve-nation European Community.

FTA implementation is proceeding smoothly, especially when one considers the complex and comprehensive nature of our economic relations with Canada. Although the FTA will not be fully implemented until 1998, businesses are already

adjusting to the new commercial environment and positioning themselves to increase sales in Canada, our largest export market. It seems clear that both countries are benefiting from the expansion in trade promoted by the FTA.

U.S.-CANADA TRADE

There is more trade between the United States and Canada than any other two countries in the world. Two-way trade in goods and services between the United States and Canada amounted to \$204 billion in 1989.

Canada remains the most important trading partner of the United States, taking \$79 billion of U.S. merchandise exports last year and accounting for nearly 22 percent of global U.S. exports. Our exports to Japan, at \$45 billion, pale in comparison. Indeed, exports to Canada nearly matched the level of our exports to the entire European Community, a vastly larger market in terms of population.

Our goods and services exports to Canada rose 8 percent in 1989, while our merchandise trade deficit shrank 7 percent, to less than \$10 billion. In fact, our current account balance with Canada has moved from a negative balance in 1986 to a positive balance in 1989 of more than \$5 billion.

The most recent figures, for the first six months of 1990, show this trend continuing. U.S. exports to Canada during the first half of the year amounted to \$44 billion, an increase of 5 percent over the same period in 1989.

The Commerce Department has undertaken an ambitious outreach program to help businesses improve these trade numbers even further.

BUSINESS OUTREACH

Our principal objectives are to educate American business about the opportunities provided through the FTA, to help solve U.S. exporters' problems, and to ensure Canadian compliance with its FTA obligations. Mr. Chairman, you know better than most that the United States will not benefit fully from the FTA unless our business community vigorously pursues the new commercial opportunities resulting from the removal of barriers in the Canadian market.

First and foremost, we inform U.S. business people of FTA-related opportunities. We want to help American firms think about exporting, with Canada as their initial export market. Our slogan, "Canada First!" suggests that once companies master the technique of exporting to Canada, they will be better prepared to sell to other more difficult foreign markets.

Canada is the ideal first foreign market to try, because of geographic proximity, a common language, and similar business practices. The removal of trade barriers under the FTA makes Canada an even more attractive market.

We have developed the Canada First! Seminar Series to take the mystery out of exporting. Seminar participants receive basic information on how to export, visit a Canadian city for in-depth presentations on selling in Canada, and tour Canada Customs for a hands-on briefing about border crossing procedures. Our goal is to conduct regular Canada First! Seminars, organized around a single industry or state. We are talking to officials from State trade promotion agencies, trade associations, chambers of commerce and others to develop seminars in 1991.

In addition to the Canada First! Seminars, Commerce is participating in seminars on marketing in Canada sponsored by local trade groups. We are always pleased to work with local groups—people on the ground who best know the needs of the local business community.

Commerce offers business people daily, one-on-one counseling. We tackle all kinds of inquiries, ranging from tariff rate requests and technical standards requirements to trade show information and trade data. Our Office of Canada alone responded to more than 20,000 inquiries about the FTA last year. That does not include the thousands of calls handled by our US&FCS offices in the United States and Canada.

An important component of our business counselling is our publications, which are distributed widely in the business community. For example, we recently prepared a special publication entitled *Guide to Exporting Procedures* to assist exporters in understanding the FTA rules of origin and documentation requirements for filling out the Exporters Certificate of Origin. Additional titles include: *Government Procurement Opportunities in Canada*, *Border Crossing Procedures under the U.S.-Canada Free Trade Agreement*, and *Summary of the Free Trade Agreement*. We also publish marketing guides, industry profiles and state profiles at regular intervals.

We help solve individual exporters' problems every day as part of our regular business counseling activity. Our knowledge of and contact with Canadian Government agencies often enable us to cut through red tape and find the answers. Our experience with the business community helps us to translate the needs of exporters

for other government agencies with the responsibility for addressing specific problems. Where there is no immediate solution, we are able to put items on the agenda for future negotiation.

OTHER FTA IMPLEMENTATION ACTIVITY

Besides the Outreach Program, the Department is involved in other aspects of FTA implementation. Virtually every chapter of the Agreement involves the Commerce Department in one way or another. FTA implementation has been extraordinarily successful, and smoother than might have been expected for such a complex accord.

Tariff Acceleration

For further testimony to the FTA's success, we need look no further than to the tariff acceleration agreement that was reached in 1989. With the support of U.S. and Canadian industry, we were able to reduce tariffs at an accelerated pace on more than 400 products, worth an estimated \$6 billion in two-way trade.

A second round of talks with the Canadian Government is underway to consider accelerating tariff reduction on another large group of items, generated by requests from the private sector.

U.S.-Canada Subsidy Talks

During the course of FTA negotiations it simply was not possible to address every issue to the satisfaction of both sides. When the Agreement was signed, we acknowledged that certain subjects would require further negotiations. Subsidies is a prime example of a highly complex issue that was unresolved in the FTA document.

One of Canada's main goals during the FTA talks was to be exempted from U.S. countervailing duty (CVD) law, or at least to limit the scope of the statute. We were unwilling to change the CVD law without a substantive undertaking by Canada to discipline its use of subsidies in a meaningful way.

Chapter 19 of the FTA provides for ongoing negotiations toward a substitute regime to deal with subsidies and antidumping issues in the bilateral relationship. A bilateral working group has been established to continue negotiations in these areas. Deputy Assistant Secretary Ann Hughes has been designated as U.S. Chairman of the Chapter 19 Working Group. We will ensure that U.S. business is consulted at every step of the negotiating process.

Given that the outcome of Uruguay Round subsidies negotiations will affect our bilateral interests, the Working Group has decided to make the initial period a time of intensive preparation. This effort will put both sides in a much better position to negotiate a bilateral agreement on subsidies once the direction of multilateral developments becomes clear.

Our preparatory work program consists of two tracks: collecting data on Canadian subsidy practices, and consulting domestically with interested parties. The first component is straightforward. Our researchers are working to identify and analyze those Canadian Federal and provincial subsidy practices that affect U.S. industries.

The second effort is focused on gathering advice from all interested parties—private business, Congress, state and local officials, to name a few. We are circulating a paper that frames the relevant issues and solicits advice. A copy of that paper is attached to this statement. Additional copies are available from the Department's Office of Canada. As we develop a cogent negotiating position and strategy, it is vital that interested parties apprise us of their concerns.

Because we are still in the preparatory phase of the negotiations, it is too early to predict what issues will emerge as the most important for each side. The key thing is that the subsidies negotiations with Canada provide an opportunity to manage troublesome issues in a constructive way and ultimately to resolve them in a way that is satisfactory to both countries.

FTA Dispute Settlement Mechanism

The FTA created an effective regime for resolving bilateral disputes, beginning with consultations under the auspices of the Trade Commission. The consultative mechanism is the first step in bilateral conflict resolution, and disputes are often resolved at this stage. Commerce Department analysts provide their expertise to USTR when use of the dispute settlement mechanism is necessary.

Some disputes cannot be resolved by consultation. Chapter 18 of the FTA provides for binational dispute settlement procedures, which have been invoked by Canada and the United States in a number of instances. Issues pursued under these procedures have included: Canadian alcoholic beverages barriers, Canadian landing re-

quirements for Pacific Coast salmon and herring, Canadian lack of compensation for cable retransmissions, and U.S. conservation measures affecting lobsters.

It is interesting to note that many of the disputes listed above pre-date the FTA. However, as the recently resolved salmon and herring case illustrates, the existence of the FTA dispute settlement mechanism makes disputes more amenable to solution and, we hope, will deter new trade disputes.

Chapter 19 provides for binational panel review of antidumping and countervailing duty (AD/CVD) final determinations. This is a unique feature of the FTA, replacing judicial review of final determinations with review by panels comprised of U.S. and Canadian experts. Independent binational panels apply the same standard of review as would be applied by domestic courts to decide whether the final determinations are consistent with the law of the country that made the determination. This process permits rapid resolution of AD/CVD issues, avoiding unnecessary friction in our bilateral trade relationship.

To date, thirteen cases have been filed under Chapter 19, all but two of which have been decided. We are confident that the FTA Chapter 19 panel process provides an efficient, transparent and fair mechanism to resolve disputes arising from AD/CVD final determinations.

Pursuant to the U.S. Canada Free Trade Implementation Act of 1988, the President directed the Commerce Department to create and implement the U.S. Section of the FTA Binational Secretariat. Commerce provides funding, office space, equipment and personnel for the Secretariat and pays for the operations of binational panels reviewing general disputes under Chapter 18. USTR provides payment of all expenses of binational panels reviewing Chapter 19 disputes.

The Secretariat has met all legal, regulatory, procedural, budgetary and administrative requirements imposed upon it, and has effectively administered all binational panel reviews referred to it. Both the U.S. and Canadian Governments are pleased with the operation of the FTA dispute settlement procedures.

U.S. Countervailing Duties on Canadian Pork

In January 1989, U.S. pork producers filed a countervailing duty petition on fresh, chilled and frozen pork from Canada. After considering the petitioners' allegations as well as information provided by Canadian producers and the Canadian Government, the Department determined that the subsidy methodology provided for in section 771B of the countervailing duty law should be applied in this case.

Section 771B was enacted as part of the Omnibus Trade and Competitiveness Act of 1988. This legislation provides that, in cases involving processed agricultural products in which (1) the demand for the raw agricultural product is substantially dependent on the demand for the processed product, and (2) the processing operation adds only limited value, subsidies found to be provided to either producers or processors of the product shall be considered as subsidies provided to the processed product. This legislation essentially codified an approach which the Department had applied in other agricultural product cases, but which had been overturned by the Court of International Trade.

In the pork investigation, the Department determined that the two criteria of section 771B were satisfied, and therefore treated subsidies provided to hog farmers as subsidies to pork processors, adjusting only for the yield in processing the pork from swine. Following an affirmative finding of threat of injury to the U.S. industry by the U.S. International Trade Commission, countervailing duties were imposed in September 1989.

The Canadian companies and the Canadian Federal and provincial Governments challenged both the Department's and the ITC's determinations before U.S.-Canada FTA Chapter 19 panels. The panel that heard the case concerning the ITC decision remanded to the Commission the final determination of threat of injury because it found that the statistical data on which the ITC relied appeared erroneous. The panel decision on the Department's case is due today, September 28, 1990. The issue is whether the Department properly applied U.S. law when it found that the two criteria in section 771B had been met.

In addition, Canada requested the formation of a panel under Article XXIII of the GATT following what it considered to be unsatisfactory consultations with U.S. authorities. The thrust of the Canadian GATT complaint was that section 771B and its application by the Department were inconsistent with U.S. obligations under GATT Article VI:3, which states that "[n]o countervailing duty shall be levied on any product . . . in excess of an amount equal to the estimated . . . subsidy determined to have been granted, directly or indirectly, on the . . . production . . . of such product."

In brief, Canada argued that the two statutory tests of dependent demand and limited value added were insufficient to "determine" the amount of subsidy actually bestowed upon the product subject to investigation (i. e., pork). Canada argued that the United States' assumption that all the subsidies granted to hogs are passed through to the pork product is not consistent with Article VI:3 and the United States must measure the amount of subsidy actually passed through to pork. The United States contends that the GATT does not tell us how to measure subsidies and in fact, permits us to countervail the full effects on trade caused by a subsidy.

On August 2, 1990, the GATT panel issued a ruling in support of the Canadian position, concluding that the references to trade effects in Article XVI of the GATT do not mean that the United States can assume that the full amount of subsidies to live swine are passed through to the pork product.

Given that there were separate industries for swine and pork production in Canada operating at arm's length, the panel found that it was necessary to determine whether the subsidy bestowed on swine production had a price effect which benefited the pork producers. In the panel's view, a finding of dependent demand and limited value added could not justify a conclusion that the swine subsidies had a price effect.

Because the panel's mandate was limited to the application of section 771B in this case only, it declined to recommend the withdrawal of this section, *per se*. It instead recommended that we be given the option of either refunding the duties attributable to swine subsidies, or making a subsidy determination which meets the requirements of Article VI:3.

Given the importance and complexity of this issue, the Department has been carefully studying the panel report and its implications for administration of the CVD law and achievement of U.S. policy objectives in the area of subsidy disciplines. While we have not yet completed our analysis, we are obviously very disappointed with the outcome of the panel proceeding. Section 771B reflects longstanding Departmental practice in cases involving processed agricultural products. We continue to believe that there are valid economic and policy reasons for treating subsidies benefiting processed agricultural products in the manner prescribed by this legislation.

Because of these concerns and considerations, we would not want any action the United States may take with respect to the panel finding to detract from our ongoing efforts in the Uruguay Round to obtain agreement on the basic premise underlying section 771B. If anything, the panel decision underscores the importance of seeking international consensus on the approach set forth in the U.S. subsidies proposal—and clarifying that that approach is consistent with U.S. GATT obligations.

We have been working closely with officials from the Office of the United States Trade Representative and other interested agencies to develop an Administration-wide position on the panel decision that will further U.S. interests in improving GATT subsidy disciplines without undermining the credibility of the dispute settlement process. In developing our views, we have benefited greatly from the input provided by the National Pork Producers' Council. Assistant Secretary of Commerce Eric Garfinkel is now in Geneva where, in the course of the Uruguay Round negotiations, he is exploring potential solutions with interested trading partners. We are determined to find a solution that will ensure U.S. agricultural producers equal protection under the countervailing duty law.

Lumber MOU

Import Administration is responsible for administering the 1986 United States and Canada Memorandum of Understanding (MOU) regarding softwood lumber trade. Under it, a 15 percent export tax is collected by the Government of Canada on certain softwood lumber products exported to the United States. The export tax was designed to counteract unfair Canadian timber pricing and the resulting competitive advantage these subsidies gave to Canadian lumber exporters.

Since 1986, when the agreement went into effect, the U.S. lumber market has boomed, and import penetration of Canadian lumber has decreased from a high of 33 percent of U.S. consumption in 1985 to 27 percent today. The agreement has been amended twice to eliminate the export tax on lumber shipments from British Columbia and to reduce the tax on Quebec shipments following forest policy changes by these provinces which increased the cost of cutting timber. We are currently renegotiating the amount of the Quebec tax with the Government of Canada.

We are firmly committed to the MOU. The Canadian lumber industry and some Canadian government officials have made public statements that economic conditions warrant, at a minimum, some change to the agreement, if not its termination. We have not seen any evidence of fundamental structural changes in Canada that

eliminate the need for the MOU. We have recommended to our Canadian colleagues full implementation of a purely market oriented system, such as the auctioning of timber. Absent that, strict implementation of the MOU is essential.

Plywood

The subject of technical standards may seem mundane. However, the elimination of all tariffs brings with it the temptation to use non-tariff measures such as technical standards as barriers to trade, while also increasing their relative importance. We must be vigilant to prevent this from happening.

Commerce has been an active participant in resolving issues relating to plywood standards. This is a good example of ways we seek creative solutions to seemingly intractable problems. Working with the Canadian Government, we have established a bilateral private sector committee comprised of representatives of all the players involved in plywood standards, including builders, producers, standards-writers, building code regulators and the like.

This committee is developing the information needed for a common plywood performance standard. It has forwarded recommendations to a joint standards drafting body, which will soon complete the preparation of a common draft standard. We are hopeful that the committee's work will shortly put this longstanding trade irritant to rest.

CONCLUSION

As in any trading relationship, frictions between the United States and Canada crop up from time to time. Considering the breadth and depth of trade flowing between our two countries, it is surprising that we do not encounter more problems. When contentious issues do arise, we monitor and manage them to ensure that full FTA benefits continue to be available to business. And, because of the FTA, most problems are now resolved more easily.

Implementation of the U.S.-Canada FTA thus far has been successful. The U.S.-Canada Free Trade Agreement can serve as an example for future trade-liberalizing agreements and a precursor of positive commercial developments in Latin America. As you know, Mr. Chairman, we are now beginning the process of negotiating a free trade agreement with Mexico, and the President has announced his Enterprise for the Americas initiative, a broad package encompassing trade, investment and debt relief measures. It is clear that we are in the midst of fundamental changes in the Western Hemisphere. The U.S.-Canada FTA has started us moving in the right direction.

That concludes the Department's formal testimony, Mr. Chairman. If you or the Subcommittee members have any questions, Ann and I will be happy to answer them.

Attachments.

U.S. DEPARTMENT OF COMMERCE,
Washington, DC.

U.S.-CANADA FREE TRADE AGREEMENT

CHAPTER 19 BILATERAL WORKING GROUP

REQUEST FOR ADVICE ON SUBSIDIES ISSUES

Issue

The Governments of the United States and Canada, pursuant to the Free Trade Agreement (FTA), have established a bilateral working group responsible for developing a system of rules to govern unfair trade practices between the United States and Canada. The group will begin its work in the near future. This paper discusses the issue of non-agricultural financial assistance and aids to business in the United States and Canada, describes information needed by U.S. negotiators, and provides an opportunity for public comment. Later papers are planned to discuss agricultural subsidies, dumping and other issues.

Background

Certain injurious, trade-distorting subsidies are regarded as unfair trading practices under U.S., Canadian and international law. When an investigation conducted by Federal authorities shows that subsidized imports cause or threaten to cause ma-

terial injury¹ to a U.S. industry, they may be "countervailed" by the imposition of an additional duty equal to the amount of the subsidy. Canada and other countries have similar laws and procedures. For example, if the subsidies that a foreign firm receives are found to benefit the product by four percent, then the countervailing duty (CVD) will be four percent. The imposition of a countervailing duty thereby neutralizes the unfair subsidy.

In the recently concluded U.S.-Canada Free Trade Agreement negotiations, Canada wanted to be exempted from U.S. countervailing duty laws, or at least to have them changed to limit their scope. The United States was prepared to consider changes in the CVD laws only if Canada undertook meaningful subsidies discipline to remove the kinds of practices which give rise to CVD complaints.

In the end, the issues were too complex and difficult to resolve in the time available. It was agreed finally that each country would continue to apply unilaterally its existing CVD law with one notable change: binational panels would replace court review of CVD final determination orders.² Panel findings are binding and final. This system became effective on January 1, 1989.

Binational panel review was envisioned as an interim solution only. Under Chapter 19 of the FTA, both countries agreed to establish the bilateral Working Group to continue negotiating over the next 5-7 years to seek a more permanent solution to the problems of government subsidization and of unfair pricing practices (dumping), and the trade frictions caused by such activities.

The U.S.-Canada FTA Implementation Act established negotiating objectives for the U.S. delegation to the Working Group which include the "achievement of increased discipline on government production and export subsidies that have a significant impact on bilateral trade . . ." The Act states that special emphasis should be given to negotiating an agreement which obtains discipline over Canadian subsidy programs that adversely affect U.S. industries directly competing with subsidized imports.

Definition of Subsidy

A particularly difficult aspect of this issue is that there is no internationally accepted definition of what constitutes a subsidy. For years, the member countries of the General Agreement on Tariffs and Trade (GATT) have tried unsuccessfully to agree on a definition. The process has proven to be just as difficult when only two countries have attempted to define the term. Under U.S. law, a subsidy is generally defined as a bounty or grant provided, directly or indirectly, to the manufacture, production, or exportation of merchandise.

Every country has financial assistance and other aid programs for various public policy purposes. Charges of unfair trading practices arise when such programs serve to make exports more competitive abroad, have an import substituting effect at home, or otherwise distort trade and investment patterns. Therefore, it is not the purpose of an assistance program that is relevant in the trade context, but its effect.

For example, types of programs which might be examined in these negotiations include the following:

- government grants to a specific industry;
- government assumption of corporate operating losses and debts;
- government loans to firms at preferential rates of interest;
- government equity infusions to firms under circumstances that do not reflect commercially reasonable investment practice;
- preferential tax concessions; and
- preferential provision of infrastructure, or other goods and services (e.g., roads, utilities, railheads, etc.).

Agreeing on a precise definition of a subsidy may be less important and productive than agreeing on what kinds of programs adversely affect each other's trading interests. Accordingly, the best way to understand the issues in bilateral trade may be to review the Canadian programs that the United States has countervailed and the U.S. programs about which Canada has raised concerns.

U.S. and Canadian Assistance Programs

Many in the United States believe that Canada substantially subsidizes its industries and exports and that the United States does not. Obviously, the United States

¹ An injury test is not required under U.S. law for certain merchandise from certain countries; such a test is required for imports from Canada.

² Court review continues to be available if the private parties and both governments decline panel review.

also maintains assistance programs. Without attempting to resolve this issue here, it is fair to say subsidy programs are much more visible in Canada than in the United States. One reason for their visibility is that the Canadian system is characterized by Federal transfer payments to regions and provinces, and sometimes to industries and firms, often in cooperation with provincial governments, with attendant publicity.

Overall, U.S. assistance is less extensive than that of most of its trading partners because of differing attitudes toward the role of government in the private sector. Federal assistance to business appears to be provided primarily through the tax code, such as investment tax credits and accelerated depreciation of business assets. This type of assistance inherently has a low profile because the benefits are not included in the Federal budget.

States, regions and municipalities appear to be more involved than the Federal Government in providing assistance to business and industry. For example, states and other sub-national jurisdictions maintain economic development programs which use financial assistance and other aids as investment recruiting tools.

Canadian Assistance Programs

As of October 20, 1989, 17 CVD investigations involving imports from Canada have either been initiated or reviewed since 1980. The U.S. Department of Commerce found above-de minimis subsidy levels in 13 of them. Most of these subsidy findings have been below four and one half percent (4.5%). Six CVD orders were issued as a result of these investigations. In instances where no order was issued, the cases were either withdrawn or no injury was found. (See Attachment for a list of cases, subsidy findings and disposition.)

Given the magnitude of the U.S.-Canada trade relationship—\$160 billion in 1988, the amount of goods covered by CVD orders has been relatively small. Canadian exports to the United States totalled \$68.6 billion in 1986; of this, only \$165 million, or 0.24%, were covered by CVD orders. If Canadian exports which are not subject to CVD orders but which are covered under bilateral agreements are included (lumber and raspberries), these figures rise to \$3.18 billion in trade coverage or 4.6% of total Canadian exports to the United States.

Some of the major Canadian programs which the United States has countervailed include:

- *The Regional Development Incentive Program* provides incentives targeted at specific areas, industries and/or manufacturers to create stable employment opportunities in areas of Canada where employment is chronically low.
- *Interest-free loans and outright grants* to targeted industries by provinces and the Federal Government.
- Assistance provided to *targeted industries* for the purpose of upgrading machinery, ships and other capital goods.
- *Investment tax credits* to encourage capital investment in certain regions of the country.
- *Governmental investment* ("equity infusions") in failing industries.
- *Export marketing assistance programs.*
- *Pricing of timber (stumpage) on Crown lands* was found to be a subsidy in a preliminary decision. The softwood lumber case was terminated before a final decision was made.

U.S. Assistance Programs

In March 1987, the Canadian Government imposed a 67 percent CVD on imports of U.S. corn. The U.S. programs countervailed were provided for under the Farm Bills of 1981 and 1985.

During the FTA negotiations, Canada raised a number of U.S. programs, alleging that they provide subsidies which adversely affect Canadian firms and industries. These include:

- *Department of Defense R&D grants* and discriminatory government procurement practices.
- *Economic Development Administration grants* for public works and development facilities to alleviate conditions of substantial unemployment in economically depressed areas.
- *Federal tax deferrals* on the profits earned from export sales.
- *Fisheries Loan Fund* which provides loans to vessel operators for purchasing, construction, equipping and repairing commercial fishing vessels.
- *U.S. Forest Service timber pricing policies.*

• The Federal Government, through its *Regional Power Marketing Administrations*, provides taxpayer subsidized electricity to consumers and industries in specific regions of the U.S.

• Various *state incentives for the automobile industry* including: wage subsidies, grants and loans, and tax abatements.

• *State Economic Development Programs*, including Development Credit Corporations, Industrial Finance Authorities, and Economic Development Agencies, provide financial assistance, tax relief, and/or other aids as investment recruiting tools.

• *Tennessee Valley Authority* resource development for the advancement of economic growth in the Tennessee Valley region.

• *State of Oklahoma tax exemptions* for oil/gas machinery and equipment.

• *States of Montana and Michigan loans to reopen mines.*

• *State of Washington loans to reopen smelters.*

• *State of Alaska funding for infrastructure* such as roads and bridges.

• *Manufacturing Technology Program* funds to defense contractors to increase capital investment and modernize facilities.

• *Very High Speed Integrated Circuit Program* assistance to firms performing R&D necessary for continued participation in the semiconductor market.

Opportunity for Comment

Public advice is needed to help the Administration assess the nature and extent of the problems and to identify and assess possible solutions. Advice is sought from Members of Congress, state authorities, public interest groups, the private sector, academia, and other interested parties:

• Please identify those Canadian financial assistance and other aid programs which you believe distort trade and/or investment patterns. Please explain your reasoning.

• For those subsidy practices which you consider so serious as to warrant international discipline, please describe the kinds of limitations on Federal, state and provincial economic development programs and strategies you feel are necessary.

• Please provide any other information you feel would be helpful to the negotiators in assessing the nature, extent, and size of the problems and possible solutions.

Interested parties may address their comments and suggestions to: William H. Cavitt, Director, Office of Canada, U.S. Department of Commerce (Room 3033), Washington, D.C. 20230.

CASES INVOLVING CANADIAN IMPORTS ACTIVE SINCE 1980

Product(s) and year initiated	Level of net subsidy (percent)	Final disposition
Radial Steel Bead Tires 1972	1.18	Revoked, 1982
Glass Beads 1976	0.9-0.53	Revoked, 1981 de minimis finding ¹
Optic Liquid Level Sensing Systems 1979	9.1	Revoked
Certain Fish 1980	0.38-1.17	No injury determined in 1980
Smoked Herring 1981		Investigation terminated ITC prelim. neg. determination
Softwood Products 1982:		
shakes and shingles	0.260	Final neg. determin.
fence	0.304	De minimis subsidy levels found
lumber	0.349	Petition withdrawn
Subway Cars 1982	\$110,565/car	Order issued, 1985
Live Swine 1984	2 cents/lb	Order issued, 1986
Groundfish 1985	5.82	Investigation suspended
Red Raspberries 1985	0.99	Order issued, 1986
Oil Country Tubular Goods 1985	0.72	Order issued, 1987
Carnations 1986	1.47	Petition Withdrawn
Softwood Products 1986	15.0 (prelim.)	Investigation terminated no subsidies found
Thermostats 1988		Order issued, 1989
New Steel Rail 1988	0.24-112.0	Order issued, 1989
Pork 1989	3.6 cents/lb (4.4% ad val)	Prelim. neg. determin. final determin. due Jan. 1990
Limousines 1989		

¹ De minimis: Subsidy is below the level at which a CVD order is issued.

RESPONSES OF THE DEPARTMENT OF COMMERCE TO QUESTIONS SUBMITTED BY SENATOR BREAUX

Question No. 1a. Has the Department of Commerce considered the impact that the Saskatchewan Saferco project will have on U.S. nitrogen fertilizer producers in Louisiana and elsewhere?

Answer. The Saferco production capacity will help to alleviate the world-wide shortage of nitrogen fertilizer. In a state of excess demand, U.S. production should not be wanting for business. In fact, the United States has been a net importer of nitrogen fertilizer for four of the last five years.

Question No. 1b. Has the seriousness of this situation been made known to your Canadian counterparts in the bilateral subsidies negotiations?

Answer. Various U.S. Government officials have expressed concern to their Canadian counterparts that the Saferco project may be going forward only because of Canadian government financial support, that subsidies may be involved, that the likely market for such production is the United States, and that the U.S. industry might, therefore, be threatened with serious injury as a result of subsidized imports. In response, the Canadian Government has unequivocally stated that Federal funds are not committed to this project and the Government of Saskatchewan asserts that the financing which it is providing is on strictly commercial terms.

Attached is a copy of a letter from the Minister-Counsellor of Trade Policy and Trade Relations at the Canadian Embassy detailing the commercial nature of the transaction.

Attachments.

CANADIAN EMBASSY,
Washington, DC, December 7, 1989.

Ms. ANN H. HUGHES, *Deputy Assistant Secretary*
for the Western Hemisphere,
International Trade Administration,
U.S. Department of Commerce,
Washington, DC.

Dear Ann: This in response to your October 16, 1989 letter seeking information on the proposed nitrogen fertilizer plant at Belle Plaine, Saskatchewan.

The Federal Government is not involved in this project. The Saskatchewan government has provided us with the following information with regard to their participation in the project.

The Province has indicated that its fifty percent participation in the joint venture with Cargill Ltd. is based strictly on commercial terms. More specifically, the Province is not providing any tax incentives or infrastructure support to the project. With regard to investment and loan guarantees the debt portion of the equity structure of the SAFERCO plant will be guaranteed by the Province. However, the Crown Management Board of Saskatchewan will ensure that the loan guarantees are comparable to those provided to other companies in similar situations. The details on financing the project have yet to be determined but will be consistent with commercial terms.

Yours sincerely,

W.A. DYMOND, *Minister-Counsellor*
Trade, Policy & Trade Relations.

Question 2a. Information indicates that Canada currently produces significantly more nitrogen fertilizer than it consumes and that more than half of its production is exported, almost all to the United States.

Answer. The Saferco plant may result in increased U.S. imports of Canadian fertilizer, but growing world demand for fertilizer may also increase U.S. exports. What U.S. producers lose at home they will gain abroad. Attached is a chart showing the fertilizer nitrogen trade balance from 1985-1990.

Canada enjoys lower natural gas costs due to proximity to natural gas sources and limited pipeline capacity in the United States. Those lower costs give Canada a comparative advantage over U.S. producers. However, U.S. producers have a comparative advantage over some other world producers. That explains why the United States is both an importer and exporter of nitrogen fertilizer.

FERTILIZER NITROGEN TRADE BALANCES, CROP YEARS JULY/JUNE, 1,000 SHORT TONS

	1985/1986	1986/1987	1987/1988	1988/1989	1989/1990
Production:					
Ammonia.....	12,822	12,408	13,483	13,828	13,584
Imports—Total.....	4,030	3,707	3,655	2,961	2,274
Ammonia.....	2,308	2,008	2,443	1,597	1,084
Urea.....	1,428	1,389	962	1,031	889
DAP.....	5	5	5	2	3
Solutions.....	85	155	171	190	147
Am. Nitrate.....	204	150	74	141	151
Supply.....	16,852	16,115	17,183	16,789	15,858
Exports—Total.....	1,822	2,424	2,740	2,342	2,617
Ammonia.....	622	871	781	305	236
Urea.....	330	363	521	472	575
DAP.....	772	1,065	1,155	1,429	1,626
Solutions.....	34	37	242	114	129
Am. Nitrate.....	64	88	41	22	51
Net Trade.....	-2,208	-1,203	-915	-619	+343
Apparent Consumption.....	15,030	13,691	14,338	14,447	13,241

Caution must be exercised in calculating total supply and consumption. Since all nitrogenous fertilizer products are made from ammonia, including urea, the only production which contributes to supply is ammonia. Hence, urea has been excluded from production figures. (Frank P. Maxey, Office of Chemicals, 377-0128, 12 March 1991)

Question No. 2b. How do we address the situation in Saskatchewan, where a Province is financing the construction of massive, additional excess capacity that will be sent largely into the U.S. market?

Answer. If a U.S. firm or industry believes that it is being injured or threatened with injury by subsidized imports, the Congress has provided for relief under the U.S. countervailing duty law. No action could be taken under U.S. countervailing duty law unless and until it can be shown that: (1) the plant is selling or has a firm contract to sell its products in the United States; (2) there is evidence of subsidization; and (3) material injury or threat of material injury by reason of imports is demonstrated.

To the best of our knowledge, the Saferco plant meets none of these conditions: (1) There are no known sales or contracts to sell nitrogen fertilizer in the United States, so the injury requirement mentioned in (3) above cannot be met; and (2) The Canadian Federal government asserts that they have not committed funds to this project and the Government of Saskatchewan states that their support is provided on strictly commercial terms.

If the U.S. industry has contrary information, or if it wishes additional information about the countervailing duty law, they may wish to contact Eric I. Garfinkel, Assistant Secretary for Import Administration at (202) 377-1780, whose organization is responsible for administering the U.S. CVD law.

Question No. 3. In your view, should we take an aggressive stand on this matter or must we wait to address the situation until our businesses have been injured?

Answer. U.S. industry already has taken an aggressive stand in bringing the Saferco project to the attention of U.S. elected officials and trade policy makers. In turn, the issue has been raised repeatedly, including by Ambassador Carla Hills in a meeting with Canadian Trade Minister Crosbie, and has been raised by me at several bilateral Chapter 19 Working Group meetings. In each instance, the Canadian reply has been unequivocal: the Canadian Federal Government has no funds in the project; and the Government of Saskatchewan asserts that the financing which they are providing is on strictly commercial terms.

PREPARED STATEMENT OF REPRESENTATIVE BILL FRENZEL

Mr. Chairman, I appreciate this opportunity to offer my views on the implementation of the US-Canada FTA. I must admit that I was concerned after reading a newspaper editorial that the intent of this hearing was to pave the way for possible modifications in the Chapter 19 panel review process. However, I was relieved to hear that this Subcommittee states that it has no Plans to pursue such changes.

It is interesting to note that all of the private sector witnesses would appear to have concerns about the implementation of the agreement, but I believe the Chairman should be congratulated for offering the opportunity for these individuals to testify. Hopefully, the Administration testimony will add some balance to the hearing.

Since some of the testimony today will criticize the Chapter 19 panel review process, I do want to make a few brief comments here. All of us will remember well how we initially rejected the dispute settlement proposal of the Canadians. After we accepted it as an essential part of a positive overall agreement, we spent hours in conference on the implementing legislation working out our differences with respect to how the panels would operate and who would serve on them. In the end most of us believed that the panels would provide an unbiased appeal process for those groups which believed, for any reason, that the administration of US or Canadian trade laws on a particular antidumping or countervailing duty case treated them unfairly or unreasonably.

I have often questioned the methodology used for determining certain cases on both sides of the border. Also, the Commerce process, and certainly the Canadian administration of their laws, have not always been perfectly transparent. An unbiased review of the process has been very helpful and will continue to be very helpful.

It is always tempting to question the panel review process when we lose one. But that is the way the system will always work—we'll win some and we'll lose some. In my review of the Chapter 19 decisions which have made, the US comes out pretty well overall.

I would therefore, urge this Subcommittee to listen carefully to the concerns of those who have problems with all aspects of the administration of the FTA. However, we do need a review over a much longer period of time than is the case today to determine whether there is a need for any changes in the agreement.

Overall, I believe the agreement has been an excellent one, and I would urge my Senate colleagues to continue to support it.

PREPARED STATEMENT OF C.T. "KIP" HOWLETT, JR.

Mr. Chairman and members of the Committee, my name is Kip Howlett. I am Chairman of the Coalition for Fair Lumber Imports. Let me begin by thanking you for the opportunity to appear today to discuss the need for strict adherence to the U.S./Canada Softwood Lumber Memorandum of Understanding.

Officials from the highest-level of the Canadian Government have renewed their calls for elimination of the MOU, but they seem to forget that the MOU was a necessary response to Canadian timber subsidies that were devastating the U.S. lumber industry. Absent the MOU, the United States would have to offset the Canadian subsidies through imposition of duties.

I am also particularly concerned that the Uruguay Round negotiations could result in the sacrifice of the U.S. ability to enforce agreements such as the MOU through the use of Section 301. If, as has been suggested, Section 301 enforcement authority was compromised, how would the United States ensure compliance with this and other important bilateral agreements? Sacrifice of Section 301 would be a breach of faith with the U.S. industry.

As a matter of background, I think that it is appropriate to review the circumstances that resulted in adoption of the MOU.

For years, subsidized Canadian lumber severely injured the U.S. lumber industry. The U.S. lumber industry is one of the most efficient in the world. Nonetheless, from 1977 to the mid-1980s, hundreds of U.S. lumber mills closed; tens of thousands of workers lost their jobs; hundreds of mill communities were devastated. It was universally agreed that the problem was overproduction. The source of that overproduction was Canada.

Between 1977 and 1985, Canadian production increased by 30% while U.S. production dropped. Canadian lumber took an ever-increasing share of the U.S. market, reaching one-third in 1985 (up from just over 20 from 1970 through 1976).

This occurred because Canadian firms were subsidized. While U.S. mills buy timber competitively, Canadian mills were given government timber at below market prices that were a fraction of the cost of similar timber just across the border. Chart 1. Diverse Canadian sources, from British Columbia's Prime Minister to an Ontario Royal Commission, concluded that Canadian mills did not pay fair timber prices.

In 1986, facing disaster despite record demand and having failed in efforts to negotiate an end to Canadian subsidies, the Coalition for Fair Lumber Imports—supported by a broad-spectrum of the U.S. industry—filed a countervailing duty case.

In October of 1986, a preliminary countervailing duty of 15% was imposed to offset the Canadian subsidies. Rather than allowing the United States to collect the subsidy offset, Canada sought to settle the case by imposing a 15% export tax on Canadian lumber. The U.S. industry agreed to this settlement, dismissing its countervailing duty case, on the basis of commitments for strict enforcement of the Memorandum of Understanding (MOU).

Recognizing the importance of the MOU to the U.S. industry and the people and communities that depend upon it, and recognizing that Canadian subsidies fully justified a countervailing duty, President Reagan made a formal determination that any breach of the MOU would be a violation of §301 of the Trade Act of 1974. The President committed that if such a breach occurred, he would "take action (including the imposition of an increase in the tariff on softwood lumber imported from Canada) to offset" any breach. This commitment was necessary for the U.S. industry to withdraw its countervailing duty case.

The MOU has been a great success for U.S. trade policy. It has been instrumental in reducing Canada's penetration of the U.S. lumber market. Chart 2. As a result, U.S. production and employment have increased. Chart 3. This success, however, can only be maintained as long as the MOU is strictly enforced.

Canada is now seeking to avoid its MOU obligations. Several Canadian Ministers have vowed to eliminate the MOU within a year. International Trade Minister Crosbie, External Affairs Minister Clark and Forests Minister Oberle have called for "renegotiation" of the MOU leading to its elimination.

Canada may claim that, as British Columbia (which produces two-thirds of Canadian lumber) has increased timber fees to offset the export tax, the MOU is no longer needed. Nothing is further from the truth. Canadian provinces, including British Columbia, continue to sell timber at non-competitive, subsidized prices. Canadian companies still pay much less than U.S. firms for comparable timber, and the disparity is growing with the price increases resulting from supply concerns in the Northwest. More importantly, if the MOU were eliminated, Canadian provinces could be expected to return to their timber subsidies and Canadian penetration of the U.S. market would again grow.

This is why the Coalition is here today. Strict observance of the MOU must be maintained to ensure that the U.S. industry is not again faced with a flood of subsidized Canadian lumber and resulting mill closures. The excellent enforcement work of the staff at the Commerce Department must be permitted to continue.

For example, care must be taken or *Uruguay Round negotiations could undermine the MOU.* Many countries, including Canada, are seeking elimination of or serious limitation on Section 301 in the Round. If this occurs, the United States will lose its most effective tool to ensure enforcement of trade agreements. Other nations could breach agreements with impunity, counting on the GATT dispute settlement process to delay any U.S. action or find U.S. action inappropriate for some technical reason.

Every nation has a sovereign right to defend its economic interests and ensure that its bilateral agreements are enforced. Section 301 is the key U.S. tool to do so. Regardless of the outcome of the Uruguay Round, other nations will continue to subsidize, breach agreements with the United States, close their markets and maintain nontransparent means of taking unilateral action that the United States cannot or will not copy. Thus, there will be occasions when effective Section 301 enforcement is still necessary.

For the Coalition, if the Administration permits Section 301 to be impaired, it would be a breach of faith. The cornerstone of the MOU was the promise of prompt, effective Administration enforcement through the use of Section 301. At this time, nothing else would be effective. Without 301, Canada would be permitted to return to its old subsidies, and the U.S. industry would be left to the expensive and time-consuming process of filing a new countervailing duty case with resulting disruption to trade and further unnecessary trade friction between Canada and the United States. Moreover, the U.S. industry might face that choice under a countervailing duty regime that, if some of our trading partners have their way in the Uruguay Round, provides less effective responses to government subsidies.

Were the Uruguay Round agreements to impair the use of Section 301 to enforce the MOU, serious opposition would be raised to implementation of the Round's agreements.

Finally, the Coalition is concerned with the current negotiations concerning the tax on Quebec lumber. In 1988, the tax on Quebec lumber was reduced to 8% based upon prospective timber fee increases. It was agreed that the tax level would be reviewed in 1990 based upon actual experience with stumpage collections. In fact, timber fee collections have not risen to expected levels. Still, the Quebec Government is now asking to reduce the tax to below 2% based upon unsubstantiated projections of future collections. The Administration should insist that actual data be used in setting the appropriate level of timber fees in Quebec.

Senators, the United States must continue to enforce the MOU strictly. It should be made clear to Canada that:

- the MOU is an important international agreement,
- necessitated by Canadian subsidies,
- which were seriously injuring the U.S. industry, and
- the United States fully expects Canada to abide by it.

If this message is made clear, a potentially serious international trade conflict can be avoided.

If Canada breaches the MOU or seeks its elimination, the Administration, based upon President Reagan's commitment, must respond promptly and strictly. The MOU was necessary and fair when adopted. It is necessary and fair now.

Congress can work to ensure the maintenance of the MOU by expressing its concern for its continued enforcement and maintenance of Section 301 as an effective enforcement tool.

Attachments.

THE U.S./CANADA SOFTWOOD LUMBER MEMORANDUM OF UNDERSTANDING MUST BE STRICTLY ENFORCED

For years, subsidized Canadian lumber severely injured the U.S. leer industry. Despite world-class efficiency, the U.S. industry lost hundreds of mills and tens of thousands of workers from the mid-1970s through the mid-1980s. A primary cause of this devastating injury was subsidized Canadian softwood lumber imports. U.S. mills, which must buy timber competitively, could not compete with subsidized Canadian timber.

In 1986 the U.S. industry successfully filed a countervailing duty case against the Canadian subsidies, and agreed to dismiss the case only when Canada entered into the Softwood Lumber Memorandum of Understanding—an agreement to impose a 15% export tax on lumber to offset in part the subsidies.

Canadian efforts to eliminate the MOU should be unsuccessful. High-level Canadian officials have recently vowed to eliminate the MOU. Subsidized portions of the Canadian industry continue to lobby heavily against the MOU.

The MOU was necessary and appropriate when adopted and is necessary and appropriate now. It should not be impaired.

The Administration should not permit enforcement of the MOU to be compromised in an Uruguay Round agreement. If, as has been intimated, the Administration allowed Section 301 authority to be impaired in the Uruguay Round, it could undermine enforcement of the MOU. This would be a breach of faith with the U.S. industry.

Without strong commitments to strict enforcement from the Administration and Congress, the lumber industry, facing serious injury, would not have agreed to dismiss its countervailing duty case. For example, President Reagan found that violation of the MOU would be an unreasonable action under Section 301 of the 1974 Trade Act, and the United States would offset any such breach.

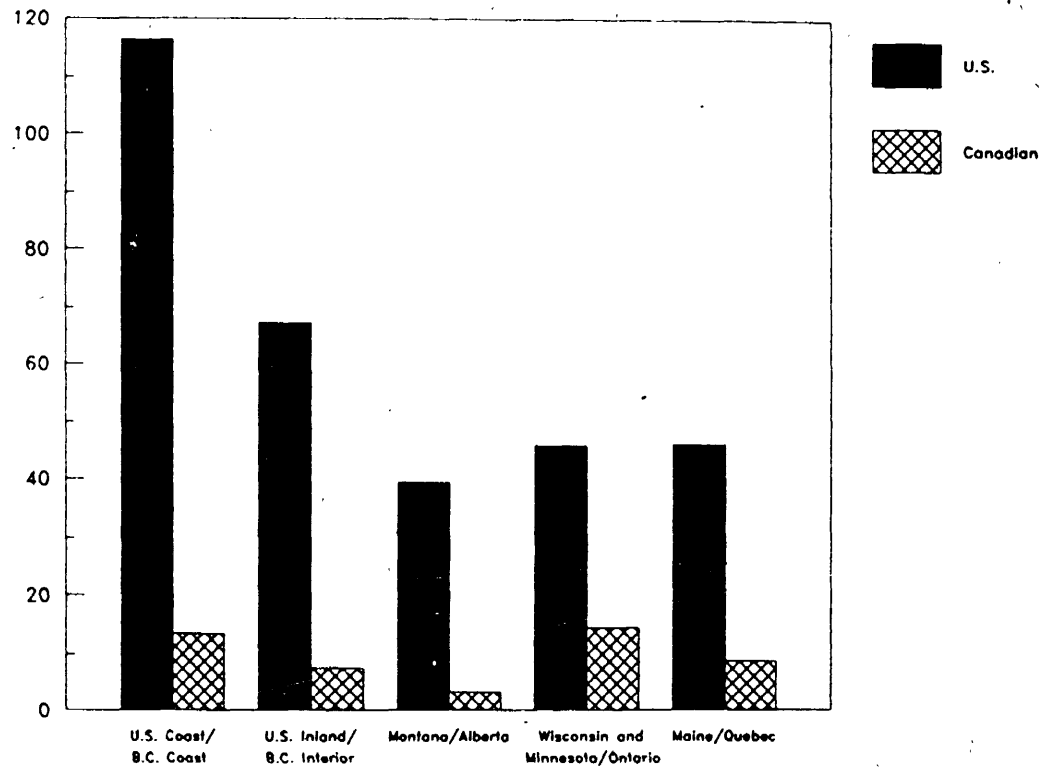
The MOU works. The MOU has been a great trade success. The U.S. industry has increased production and employment. Canada's share of the U.S. market has returned to more reasonable levels. Without the MOU, we would see a return to the rising tide of heavily subsidized imports that closed otherwise competitive U.S. mills.

Finally, in ongoing negotiations with Quebec concerning the appropriate level of tax on Quebec lumber, the Administration should focus on actual experience in Quebec and not permit unsubstantiated forecasts of increased timber fees to impair the value of the MOU in Quebec.

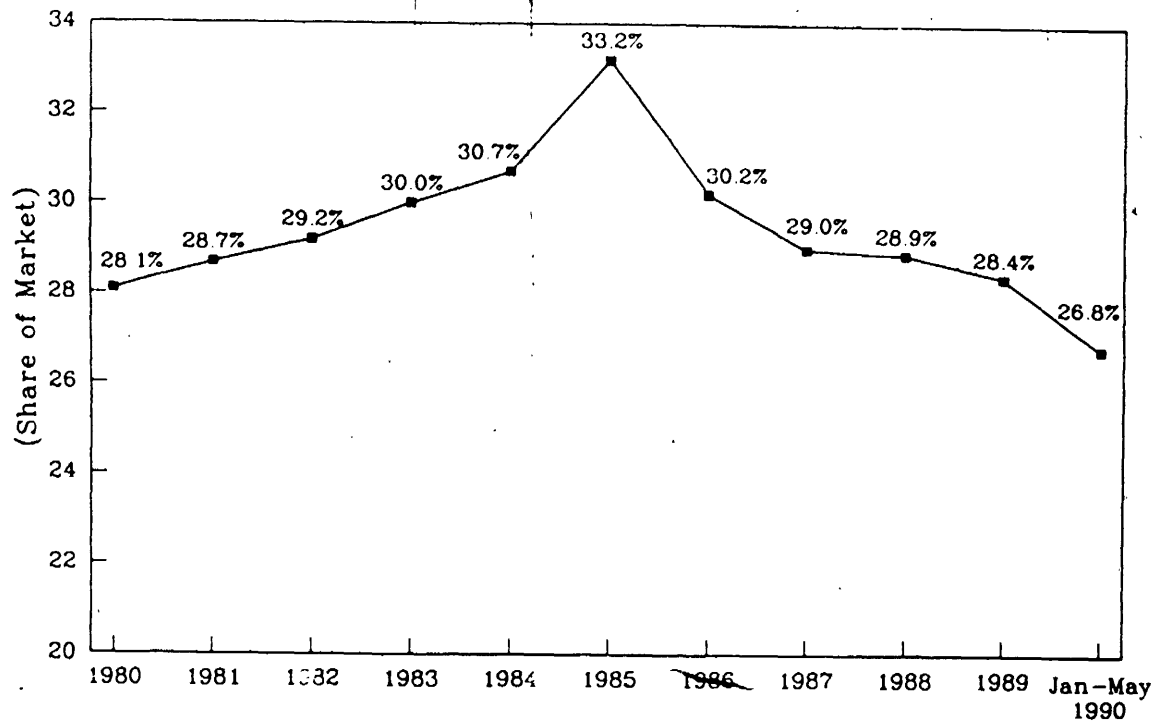
Congress should remind the Administration and the Canadian Government of the importance of strict enforcement of the MOU, and urge the Administration to maintain an effective Section 301 enforcement mechanism.

U.S./Canadian Fees on Comparable Timber, 1985

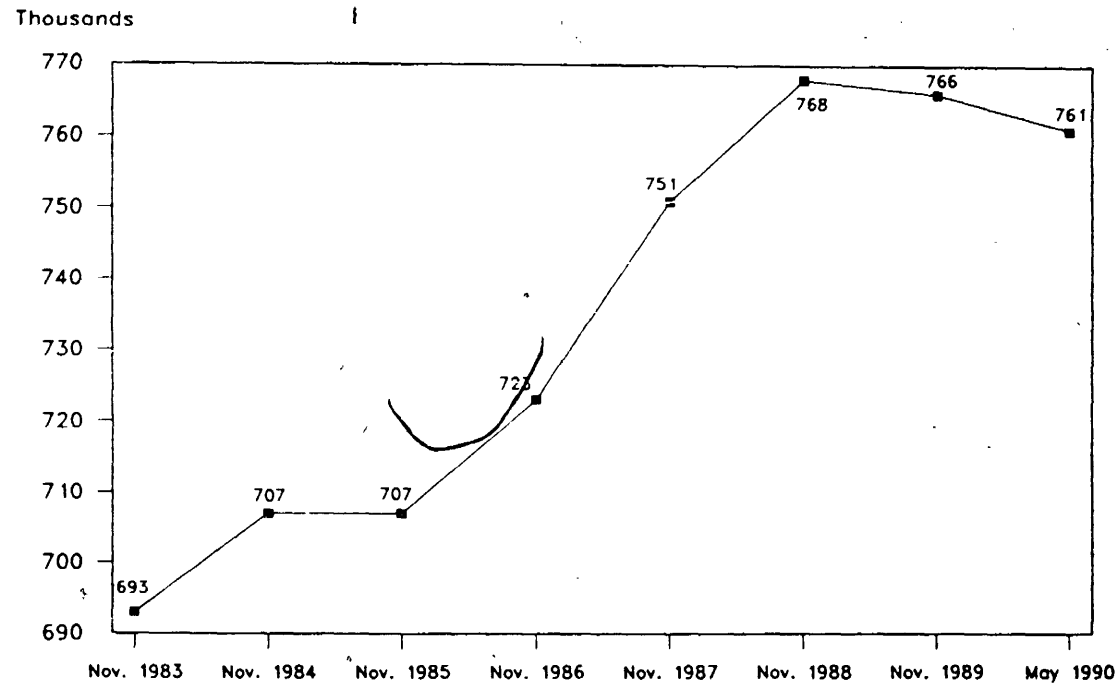
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CANADIAN PENETRATION OF U.S. SOFTWOOD LUMBER MARKET



NUMBER OF EMPLOYEES LUMBER AND WOOD PRODUCTS INDUSTRIES



PREPARED STATEMENT OF ROBERT C. LIUZZI

The Ad Hoc Committee of Domestic Nitrogen Producers is a coalition of U.S. producers of basic nitrogen fertilizers, including ammonia, urea and nitrogen solutions.¹ The Ad Hoc Committee has been involved in various trade relief actions over the years, as necessary, to address problems arising from unfairly traded urea and ammonia. None of these cases has ever involved nitrogen fertilizers imported from Canada. Although Canadian ammonia and urea play a very important role in the U.S. market, Canadian nitrogen producers have always operated on a commercial basis, without benefit of subsidies, and have traded fairly in the U.S. market. However, a project announced this year by the Province of Saskatchewan threatens to disrupt U.S. markets and cause serious injury to U.S. producers of nitrogen fertilizers. The project, known as Saferco, is moving forward only as a result of provincial subsidies to the venture, which, if evaluated on a commercial basis, would not exist. As a result, the situation presented to U.S. producers can only be described as alarming.

The purpose of my statement today is to discuss the Saferco project, the counter-available subsidies to be provided to Saferco by the Province, and the impact that the project is expected to have on the U.S. industry. The Ad Hoc Committee seeks the assistance of the Subcommittee in encouraging our trade representatives and trade negotiators to promptly address this new and injurious Canadian subsidy which violates the spirit of the Free Trade Agreement and the letter and intent of the GATT.

THE SAFERCO PROJECT

On February 7, 1990, Saferco Products, Inc., a joint venture of the Province of Saskatchewan and Cargill Limited, announced final approval of its planned nitrogen fertilizer plant to be built near Belle Plaine, Saskatchewan. The project, which will cost \$435 million, is a world-scale nitrogen complex. It is planned to have production capacity of 560,000 short tons of anhydrous ammonia and 750,000 short tons of urea.² Of the \$435 million required for the project, \$65 million will be provided by Cargill, \$64 million by Saskatchewan and \$1 million by an unnamed third party. The remaining \$305 million will be commercial debt financing, guaranteed in full by the Province of Saskatchewan. To our knowledge, financing has not yet been secured.³ Cargill will provide no debt guarantees and will receive exclusive distribution rights in exchange for its investment.

The Saferco plant will, according to Saferco, supply nitrogen fertilizers to Saskatchewan as well as to other areas in Western Canada and the midwestern United States. However, the area that Saferco will be positioned to supply is currently fully served by existing Canadian and U.S. production. Existing production in the U.S. and Canada is sufficient, and industry experts do not perceive a need for additional supply in the foreseeable future.

As a result, various U.S. producers who have been offered in recent years the opportunity to participate in a Saskatchewan nitrogen project have declined the invitation, believing such an increment in supply to be entirely counter to current and projected market conditions. The Province has, however, decided to go forward with the project for what are obviously political reasons. As the Saferco press release indicates, the plant is viewed as part of the promises made by elected Provincial officials to achieve "economic diversification." The plant is touted as a project whose construction and operation will create jobs, generate revenue, use Saskatchewan natural gas, and replace non-Saskatchewan (principally Alberta-produced) fertilizer with Saskatchewan's own production. These political goals, however, do not change the fact that no commercially motivated entity would build or provide financing for such a project. Indeed, as a testament to its political nature, the plant is extremely controversial, even within Saskatchewan. Provided as Attachment B hereto are several articles from the Canadian press describing local opposition to the project. The opposition has resulted not only from the unsound commercial nature of the venture, but has also flowed from the Province's refusal to make public many important aspects of provincial involvement in the project and the relative positions of

¹ The members of the Ad Hoc Committee are Agrico Chemical Company; Agricultural Minerals Corporation; Arcadian Corporation; CF Industries, Inc.; First Mississippi Corporation; Mississippi Chemical Company; J.R. Simplot Company; and Terra International, Inc.

² To put these capacity figures in perspective, it is useful to recognize that Saferco's planned urea capacity is equivalent to approximately eight to nine percent of total U.S. annual consumption of urea for all uses, and fourteen percent of U.S. annual consumption of dry urea for fertilizer uses.

³ A copy of Saferco's February 7 press release is provided as Attachment A.

the Province and Cargill in the joint venture. Additionally, there has been significant opposition, including litigation, arising from the failure of the Province to require a full environmental impact assessment for this huge chemical plant. Provided at Attachment C are transcripts of debates in the Saskatchewan Parliament which also make clear the extremely political and controversial nature of the plant, even within the Province. Attachment D provides the transcript of a recent documentary on the Saferco project by the Canadian Broadcasting Corporation for its "Venture" program. The documentary was aired on July 29, 1990. A videotape of the broadcast has also been submitted to the Committee.

PROVINCIAL SUBSIDIES

The Ad Hoc Committee believes that Saskatchewan's participation in the Saferco venture represents the most recent example of Canadian provincial subsidies which are seriously distortive of North American trade. Although Saskatchewan has endeavored to structure the ownership and financing of the plant to create the appearance of a commercial venture, a more than cursory examination of the project reveals that countervailable subsidies are certainly involved.

Under U.S. law, government-provided loan guarantees and equity investment may constitute countervailable subsidies if provided on terms inconsistent with commercial considerations.⁴ To determine whether loan guarantees and government equity investment are countervailable subsidies, the Commerce Department will compare the terms of the guarantee or investment with those which apply in wholly commercial transactions. Where there is no market "benchmark" for the value of the equity, the Department will "determine the commercial soundness of government equity purchases by assessing the prospects of the company at the time those purchases were made."⁵ With respect to loan guarantees, the Department will undertake the same "reasonable investor" analysis to determine whether provision of the guarantee constituted a countervailable benefit.⁶

As Commerce Department officials explained in a 1984 publication:

With respect to uncreditworthy companies, government loan guarantees are automatically subsidies . . . [if provided to a specific enterprise or industry or group thereof]. . . . The theory is that if a company is uncreditworthy, no commercial guarantor would guarantee a loan and, absent a government guarantee, no commercial lender would make funds available.⁷

This approach was also explained clearly in the Department's final affirmative countervailing duty determination last year in *New Steel Rail, Except Light Rail, From Canada*, 54 Fed. Reg. 31991 (1989). In that case, Commerce explained.

When analyzing loan guarantees to companies that may not be reasonable commercial investments, we believe it is appropriate to use the same reasonable investor analysis as we would for an equity infusion. Just as a reasonable investor would not purchase stock in an unequityworthy firm, it would not guarantee a loan to a company in such poor financial straits that the guarantor would be bound to lose money.⁸

⁴ 19 U.S.C. §677(5)(A)(ii)(I).

⁵ Commerce Department "Subsidies Appendix," 49 Fed. Reg. 18016, 18020 (1984); (See also, Notice of Proposed Rulemaking; 54 Fed. Reg. 23366, 23371 (1989)).

⁶ Subsidies Appendix at 18019; *New Steel Rail, Except Light Rail, From Canada* (Final) 54 Fed. Reg. 31991, 31992 (1989). See *Certain Carbon Steel Products from Brazil* (Final), 49 Fed. Reg. 17,988, 17,990 (1984); *Cold-Rolled Carbon Steel Flat-Rolled Products from Argentina*, 49 Fed. Reg. 18,006, 18,008 (1984).

⁷ A. Holmer, S. Haggerty & W. Hunter, "Identifying and Measuring Subsidies Under the Countervailing Duty Law: An Attempt at Synthesis," *The Commerce Department Speaks on Import Administration and Export Administration 1984*, 301, 396 (1984).

⁸ 54 Fed. Reg. 31991, 31992 (1989). The Commerce Department's determination in that case to countervail loan guarantees provided by the Province of Nova Scotia to its wholly-owned steel company, Sydney Steel Corporation ("Sysco") was subsequently remanded to the Department after review by a CFTA Binational Panel. The Panel held that the Department could not countervail the provincial loan guarantee to Sysco, a company which was undisputedly uncreditworthy and unequityworthy, absent a finding that parent firms in Canada would regard a loan guarantee provided to a wholly-owned, uncreditworthy subsidiary as inconsistent with commercial considerations. In its remand determination, the Department did not countervail the loan guarantee because the record lacked evidence of the normal commercial practice in Canada with respect to loan guarantees to uncreditworthy subsidiaries. In the case of Saferco, the absence of any loan guarantees from the majority shareholder—Cargill—indicates clearly the commercially inconsistent nature of the sizable Provincial loan guarantee.

In the case of Saferco, it is clear that Saskatchewan's provision of equity as well as its loan guarantee provide countervailable benefits to the project. The equity investment may be found countervailable on two counts. First, it appears that the Province has paid more (or received less) for its equity contribution than Cargill. Cargill, in return for its equity contribution, will receive, in addition to majority control, exclusive marketing rights that will enable it to receive middleman "mark-ups" regardless of whether the plant's production is sold at prices that will yield a commercially viable return on investment.

Second, industry analysis makes clear that investment made by the Province would not be undertaken by a commercial entity. The Saferco plant will add approximately 750,000 short tons per year of nitrogen fertilizer to markets which are already saturated, and at a time when the industry has entered a low growth period. Provided in Attachment E is a graph prepared by Canadian producers demonstrating the current and projected surplus capacity in Western Canada. Western Canada has traditionally had a supply surplus, however, as much of its nitrogen production is supplied to the U.S. market. As the Canadian industry chart also included in Attachment E indicates, in 1987-88 67.3 percent of Canadian ammonia and 45 percent of its urea production was shipped to the United States.

Even if the Saferco plant could capture a significant share of the Canadian market, which is unlikely due to the well-developed distribution systems and long-standing customer-buyer relationships that exist there, a very large portion of Saferco's production, along with displaced Canadian production from other sources, will be sent to the United States. As is shown in the third chart in Attachment E, Saferco production will be excess supply even when viewed in terms of the North American market as a whole. Indeed, according to a recent report by independent fertilizer industry analysts, Blue, Johnson & Associates, the North American market simply does not "need" the Saferco plant.⁹

Saferco is not only a commercially unnecessary addition to North American supply, it represents an extremely unsound investment. A study by Blue, Johnson & Associates, commissioned by the Ad Hoc Committee earlier this year, confirms that conclusion. Blue, Johnson & Associates, recognized industry experts who have advised both Cargill and the Province of Saskatchewan on other matters, concluded that projected cash flows for the plant, using a range of reasonable assumptions, will be insufficient to recover the original investment in the plant and, as a result, debt-ownership arrangements will have to be restructured and write-downs will have to be taken.

The facts are quite clear concerning the commercially unreasonable nature of the Province's investment. With respect to the loan guarantee, it is unclear whether the fee which Saferco has said it will pay for the guarantee will be equivalent to commercial guarantee fees, or even whether such fees are even normally paid in Canada.¹⁰ However, it is obvious that, given the unreasonable investment represented by the plant, the extraordinary debt financing required for this project would not be obtained absent the Provincial loan guarantee. No commercial entity would incur the risk of such a guarantee. In fact, the only commercial participant has limited its role to providing a mere 15% of the total capital required, in exchange for which it will receive a controlling interest in the company as well as an exclusive marketing arrangement which will serve to protect its limited investment.¹¹ Cargill will assume none of the risk for the very heavy debt required to capitalize the project.

In addition, Saferco has announced that the plant will receive its gas from the provincially-owned Saskatchewan Energy Corporation. Natural gas is the principal raw material used in the manufacture of nitrogen fertilizers and typically accounts for more than 70 percent of the total production cost. It is not known at what prices Saferco will receive Saskatchewan gas, although it has been rumored that preferential rates will apply. Equally significant, however, is that Saskatchewan gas currently supplied to other users may be diverted from these commercial enterprises to the Saferco project. This aspect of the plant's operations, like many others, has not been

⁹ Blue, Johnson & Associates, NPKS Markets Report, January, 1990, at REG-3. This conclusion was part of a regular market assessment published by Blue, Johnson for its subscribers and was not part of a study or analysis commissioned by the Ad Hoc Committee.

¹⁰ See *Final Affirmative Countervailing Duty Determination, New Steel Rail, Except Light Rail, From Canada*, 54 Fed. Reg. 31991, 31993 (in Canada "loan guarantees cannot normally be purchased from commercial sources").

¹¹ A report of Cargill's marketing arrangement is included among the press clippings in Attachment B.

publicly described, however, and we have urged USTR and the Department of Commerce to seek more detailed information on these aspects of the project.

INJURIOUS EFFECTS

The Ad Hoc Committee is certain not only of the commercial nonviability of Saferco, but also of the significant injurious effect that this project will have on the U.S. market. Provided in Attachment F is a copy of a study performed for the Ad Hoc Committee by a respected economic consulting firm, ICF Consulting Associates. The study, based on a detailed econometric model of the U.S. nitrogen market, estimates that U.S. prices will be depressed by 12 to 17 percent, and that U.S. production will decline by 4 to 6 percent as a result of the Saferco project. The study's assumptions, which we believe to be conservative, are fully described in the attached summary.

The ICF analysis makes clear the reasons for U.S. producers' extreme concern with the Saferco subsidies. Members of Congress, including members of the Senate Finance Committee, are also concerned, however, as is evidenced by letters sent to the U.S. Trade Representative by both Democratic and Republican members of the Senate. A sample of the correspondence to the U.S. Trade Representative, as well as responses, are included in Attachment G.

TRADE POLICY ISSUES PRESENTED

The Province of Saskatchewan has decided, at tremendous cost and financial risk, to construct a huge nitrogen fertilizer plant which will change the face of the North American fertilizer market. There is unanimity within the nitrogen fertilizer industry, among Canadian and U.S. producers, and respected industry analysts that the market does not need and cannot absorb the additional capacity that Saskatchewan plans to construct. There is no doubt that this project will have devastating effects on the North American nitrogen fertilizer market. Prices will drop, shipments will decline. There will be a pricing bloodbath, without question. Eventually, unsubsidized capacity will be closed. There simply is no reasonable commercial scenario which justifies the addition of this world scale plant to the North American market.

The Province's decision to proceed, not unlike its decision in the last decade to operate potash mines, with similar devastating effects, is politically motivated. The proponents of the plant see a Saskatchewan self-sufficient in fertilizer and the economic benefits that construction of the plant will bring in terms of jobs and outside revenues. The framework in which the decision has been made to proceed with this project is not one constructed of commercial considerations or even commercial realities. This is obvious to all who have watched the Saferco saga unfold.

As it became increasingly apparent that the Province intended to proceed with its ill-conceived project, U.S. industry representatives discussed the issue with U.S. trade officials in the office of the U.S. Trade Representative, the Department of Commerce and the Department of State. We have even approached officials of the Canadian Embassy. The situation is so alarming that we could not and did not sit quietly by.

Our concerns have been heard by U.S. trade officials with varying degrees of interest and responsiveness. Some have suggested that, if there are subsidies involved in the Saferco affair, the U.S. industry may bring a countervailing duty case when the time is right and the issues will be addressed in that context. As others recognize, that approach is not enough, however, for a number of reasons.

First, the threat of eventual countervailing duties are not enough to deter a provincial government, such as that in Saskatchewan, which must balance the danger of countervailing duties several years down the road against the reality of a coming election and a weak local economy. Because a province, unlike the Federal Government does not have broader trade issues with which to be concerned, it will not hesitate to implement subsidy programs when its local short term interests are served, particularly given the perception of increasing uncertainty in application of U.S. countervailing duty laws. Given the absence of any meaningful deterrent effect of countervailing duty laws in this context, and the history of troublesome provincial subsidy programs, the U.S. must act swiftly, before the Saferco investment is made and nitrogen fertilizer is produced and shipped at any price, to ensure that U.S. markets will not be disrupted. Our Canadian trading partners in Ottawa as well as Regina must receive a clear understanding that the U.S. will not sit and wait for a commercial disaster before taking action. The U.S. must not be reactive, but proactive, in the face of programs such as Saferco.

Second, it is abundantly clear that provincial programs such as those at work in the Saferco project have been among the most troublesome subsidy programs for

U.S. industries. The absence of a bilateral subsidies discipline in the U.S.-Canada Free Trade Agreement resulted in an almost unprecedented opening of U.S. markets to foreign goods and services without any assurances that these market-distorting subsidies would be curtailed. Despite ongoing negotiations, however, Canadian provinces continue to implement subsidies which negatively impact U.S. industries. The U.S. must, as a matter of sound trade policy, take a firm and aggressive stance against both new and continuing Canadian subsidies which threaten not only U.S. industries, but our new "borderless" market. The U.S. should use all trade policy tools available, including Section 301 if necessary, to prevent Canadian provinces from taking advantage of the absence of a bilateral subsidies discipline from the Free Trade Agreement.

Third, the use of government loan guarantees is becoming an increasingly popular means of assisting enterprises that the market would not support. Because loan guarantees are not analyzed under U.S. law as simply as more "straightforward" subsidies such as outright grants, they are incorrectly believed by some to be a fairly "safe" form of assistance. Indeed, certain proposals in the GATT subsidies negotiations would make loan guarantees extremely difficult to countervail. The U.S. must ensure that loan guarantees which are inconsistent with commercial considerations and therefore distortive of the free market will continue to be addressed under countervailing duty laws. The U.S. must be clear in its intent to preserve the actionability of such guarantees in the GATT as well as in the bilateral subsidies negotiations which are currently underway.

U.S. industry will not be idle when its markets are threatened by unfair trade practices. We have used unfair import relief laws before and we will do so again if necessary. However, there is no need to wait until a commercially unjustifiable plant is built and its product is being shipped at any obtainable price in order to make any contribution possible to the huge debt service of the plant. The U.S. should act now, through consultations and under existing trade laws, to address this difficult problem of Canadian provincial politics and economics which threatens an efficient U.S. industry as well as the free and fair trade envisioned by the Free Trade Agreement.

Attachments.

Editors Note:

The following pages are of poor quality.

APPENDIX A

80-092

IMMEDIATE RELEASE
Feb. 7, 1980

SAFERCO

SPRING CONSTRUCTION AT BELLE PLAINE FOR SAFERCO FERTILIZER PLANT

Saferco Products Inc. today announced that its planned Saskatchewan nitrogen fertilizer plant has received final approval and construction will begin this spring.

Representing the shareholders of the company, Saskatchewan Premier Grant Devine and Cargill Limited President Kerry Hawkins announced the project will be built near Belle Plaine.

The contract for construction has been awarded to UNDE GmbH, a world-renowned West German fertilizer technology licensor and construction management firm. UNDE will work within the Buy Saskatchewan policy to maximize Saskatchewan input for the \$438 million project.

Estimated construction costs have increased to \$379 million from \$260 million announced in May, 1979. Added to both figures is an additional \$86 million in costs to account for capitalized interest charges during construction and federal and provincial sales taxes. The increase in the total cost to \$438 million from \$406 million in May, 1979 is due to changes made to initial plant specifications, some of which were designed to improve the facility's operational efficiencies.

Daily production capacity will be 1,500 tonnes of anhydrous ammonia and 2,000 tonnes of granular urea.

The company will market its products primarily in grain-producing areas in western Canada, Ontario, the midwestern United States and offshore, as market conditions warrant.

The marketing of Saferco products in Canada will be handled through independent fertilizer dealers and will be available to all line elevator companies. Saferco will use Cargill's experience in fertilizer marketing and its existing fertilizer-distribution systems to serve these customers, Hawkins said.

BEST AVAILABLE COPY

Premier Devine expressed his satisfaction at the final go-ahead for the Safarco plant, which will be fully operational by the fall of 1993.

"The project will be a boon to Saskatchewan's economy and will help assure a ready supply of locally produced nitrogen fertilizers for our farmers," Devine said.

Construction of the Safarco plant will result in the realization of two of the Saskatchewan government's key economic diversification objectives: continued development of the natural gas industry and in-province production of nitrogen fertilizer.

"Safarco's natural gas supplies will be purchased through SaskEnergy, which means that our gas producers will benefit. Now, our farmers will be able to buy nitrogen fertilizer right here in Saskatchewan made with our own natural gas."

Total benefits to the province will be significant. Plant construction will create an average of 600 jobs, peaking at 1,000. The plant will directly employ 130 people once it is operational. Ongoing purchase of goods and services will generate an additional 500 jobs. During construction phase, about \$400 million will flow through the Saskatchewan economy, while \$300 million in new economic activity will be created annually through purchases of goods and services.

The Safarco plant will use proven state-of-the-art technology and environmental safeguards, said Harry Hawkins, who has been appointed chairman of Safarco.

"We're excited about this joint venture and we would like to encourage Saskatchewan businesses to participate wherever possible."

Safeco Technical BackgroundSAFECO PRODUCTS INC.

Safeco Products Inc. was incorporated as a fully taxable, independent, stand alone company in June, 1988, with head office in Regina. Share ownership is held by Crown Management Board (CMB) of Saskatchewan and Cargill Limited of Winnipeg.

With the movement of the project into construction Cargill Limited has become the largest single shareholder. Membership on the Board of Directors will reflect the equity ownership in the company.

THE PROJECT

The objectives of the Safeco project were to maximise the Provincial benefits of Saskatchewan produced nitrogen fertilizer by supporting a commercially viable, environmentally sound plant. These objectives have been met through a cost competitive, market driven, subsidy free nitrogen fertilizer complex.

Safeco will build this world scale nitrogen fertilizer manufacturing plant at Belle Plaine, Saskatchewan, 25 miles west of Regina. Construction will begin in the spring of 1990 with the plant being operational by fall 1992.

The primary market for the plant's output will be the grain producing areas of western Canada and Ontario. As well, the product will be sold in the United States and the offshore export markets.

Saferec has a commercial contract with Cargill to market its product through independent fertiliser dealers. All retail outlets including line elevator companies will have access to the product.

ECONOMIC BENEFITS

It is estimated that the 30 month construction phase will generate approximately two million construction man hours, which will be the equivalent of an average of 600 jobs. Permanent, direct employment at the plant will be provided for approximately 125 people. Additional employment of over 500 people will be generated in the support industries of maintenance, transportation, dealer networks, natural gas and others. A Buy Saskatchewan policy will be in place for all aspects of the project to maximize Saskatchewan benefits.

During the construction phase some \$600 million will flow through the Saskatchewan economy from the project and on an annual basis \$300 million of new economic activity will be created.

The state-of-the-art technology used at the plant will be a vital building block in the continuing development in Saskatchewan of high value jobs both with Saferec and the myriad of support and service industries which will grow and expand to supply Saferec's ongoing needs.

NATURAL GAS

Natural gas is the principal raw material used in the manufacture of nitrogen fertilizer, and will result in a significant new market for Saskatchewan natural gas producers. The Saferec plant will require 16 billion cubic feet of natural gas each year, representing the largest local market for Saskatchewan producers.

Safarco will utilize the services of SaskEnergy for gas procurement, thus allowing Saskatchewan Gas producers of all sizes to participate in supplying the plant. SaskEnergy will be compensated for this service through a commercially based agent's fee.

LOCATION

Safarco has made arrangements to build the complex 25 miles west of Regina adjacent to the Kellum Chemicals Potash Mine. Both the Canadian National Railway and the Canadian Pacific Railway will service the site. The site uniquely enables Safarco to work in concert with the railroads in making up cost effective unit trains. An extensive highway network will facilitate truck transportation for closer markets. This combination will provide Safarco with competitive access to all of its target markets. The site selected also provides close proximity to all infrastructural requirements.

PLANT

Safarco will establish a plant that produces nitrogen based products for use in agricultural and industrial markets, using natural gas as a feedstock. The plant will have a daily production capacity of 1,500 tonnes of anhydrous ammonia and 2,000 tonnes of granular urea. Under normal operations 1,150 tonnes per day of the anhydrous ammonia production will be upgraded to manufacture the 2,000 tonnes per day of urea, leaving about 350 tonnes per day of ammonia available for direct sale.

The contract has been awarded to UMSE GmbH, who holds the licence for the chosen ammonia process technology. They will be working

• 1 •

in conjunction with SMC of Canada. The Buy Saskatchewan policy has been adopted to ensure maximum Saskatchewan content throughout the plant construction.

In order to ensure maximum flexibility for future diversification, the fundamental infrastructure of the plant (water, power, steam, effluent-treatment, etc.) will be sited to permit the eventual introduction of other products and/or increases in ammonia/urea production.

THE ENVIRONMENT

The Sulfuree plant proposal has received approval to proceed with the plant construction subject to compliance with the regulations set out by the Saskatchewan Environment and Public Safety Department. The latest globally proven technology will be utilized. The contractor chosen to build the plant, UNDS, is recognized as a world leader in technology and plant construction.

Raw water requirements will be sourced directly from Buffalo Pound Lake utilizing a newly constructed pipeline and will be treated on site. There will be no use of water resources required elsewhere in the Province, and Sulfuree will not be negatively impacting the water available to other users of Buffalo Pound Lake. In addition, Sulfuree will not affect local water systems as no liquid effluent will be discharged from the plant site.

FINANCIAL STRUCTURE

The total cost of the plant is as follows:

As announced May, 1989 Construction costs	\$350 million
Additional costs included in May, 1989 project economic (i.e. capitalised interest and corporate expenses during construction, and EAM tax)	\$ 14 million
Total-project cost	\$364 million
Finalised construction costs Feb., 1990	\$379 million
Other costs (as above)	\$ 14 million
Total project cost	\$393 million

The project will be financed as follows:

Total equity (from owners):	
Cargill 300	\$ 65 million
Third Party 10	1 million
CMO 400	64 million
	\$130 million
Debt Financing	\$263 million
Total Funding	\$393 million

The change in construction costs reflects changes in specifications including energy efficiency, water and electrical usage, some of which have provided operating cost benefits.

The one percent third party ownership will likely be held by a financial institution with a vested interest in the project.

The debt financing will be guaranteed by the Government of Saskatchewan, for which the Province will receive a commercial guarantee fee. The fee has been determined based on an independent appraisal.

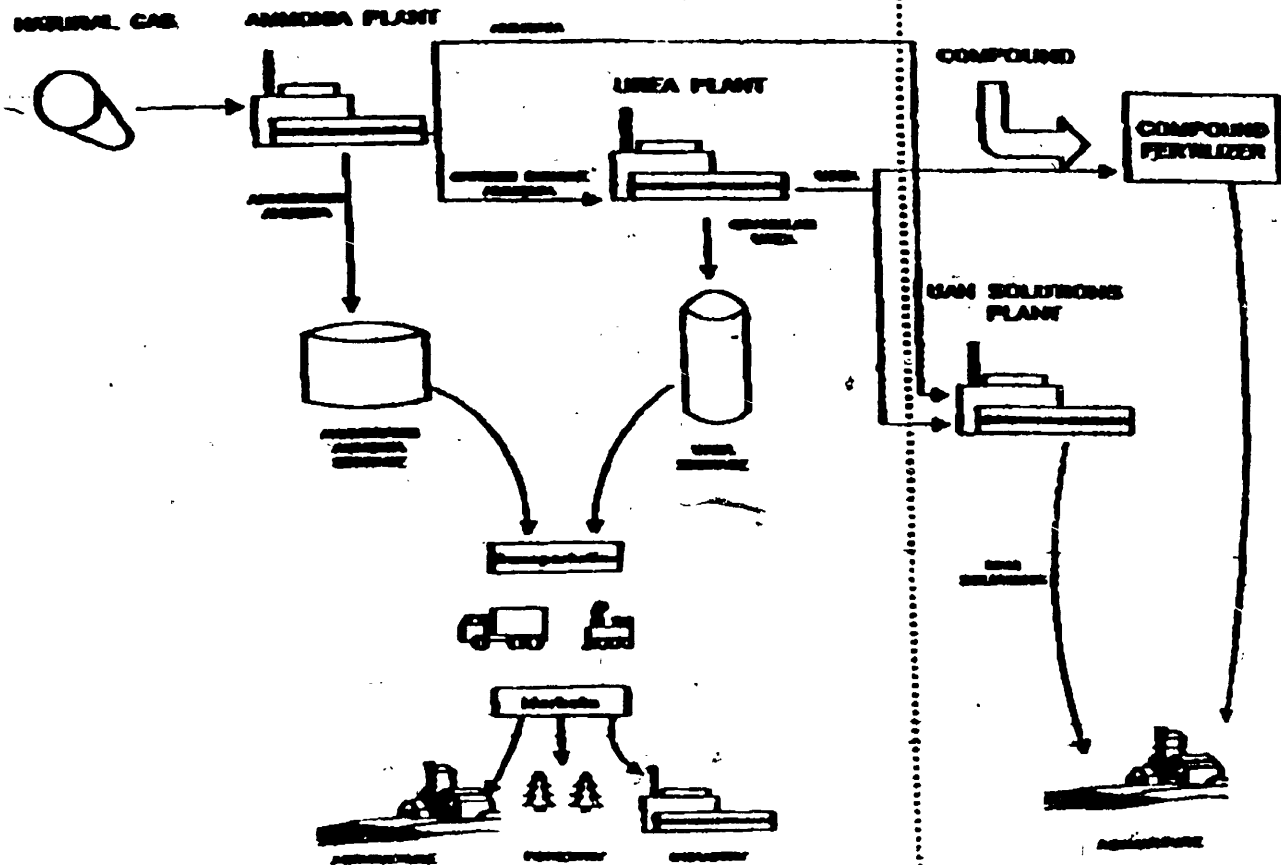
CARGILL LIMITED

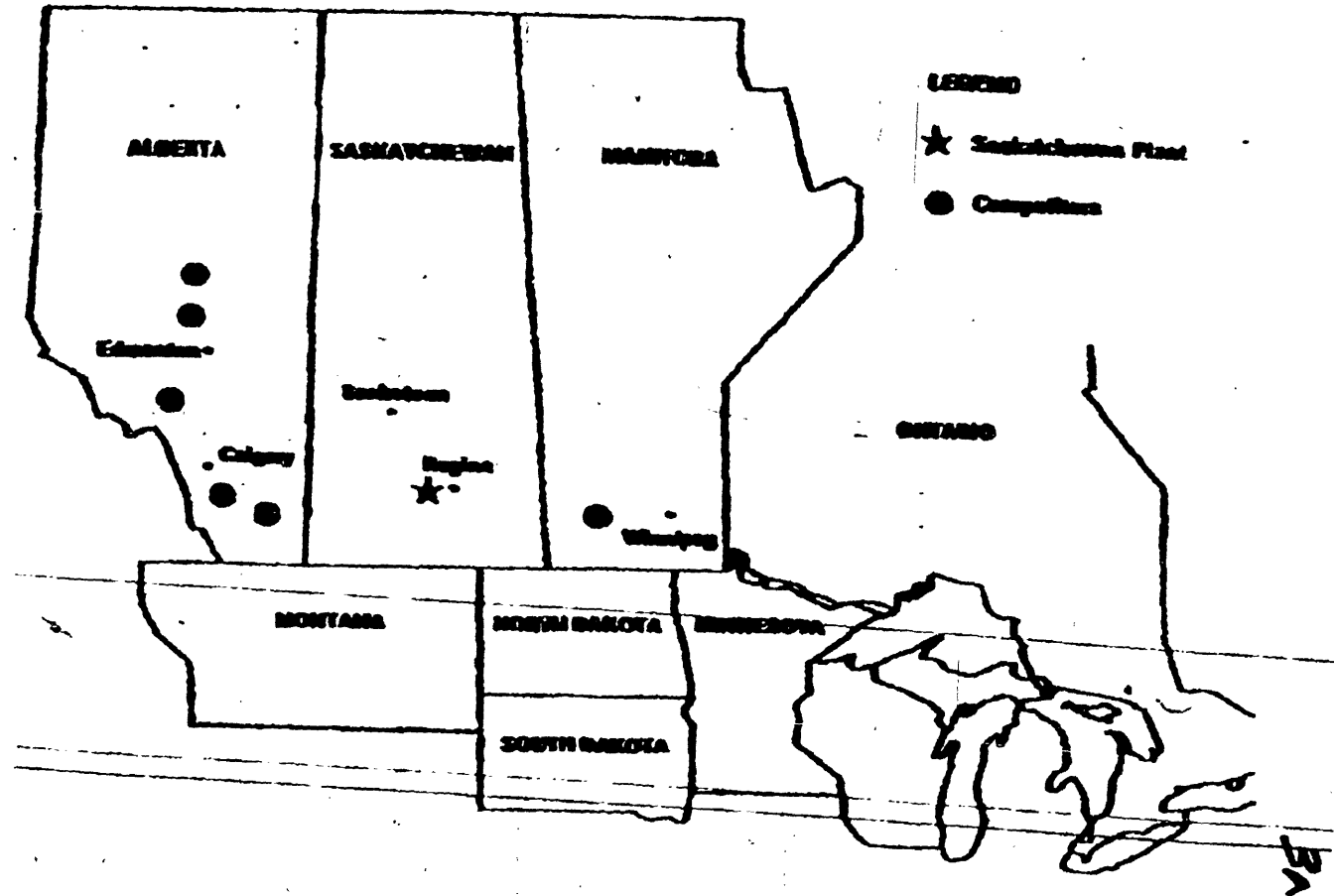
Cargill Limited has been established in Canada since 1926. Cargill has continually reinvested its earnings in the agricultural industry to build a diversified, Canadian agricultural company. In recent years annual sales have reached 1.5 billion dollars, and Cargill employs over 1,300 men and women across Canada. Company headquarters are in Winnipeg, Manitoba.

Cargill Limited has brought valuable services and business innovations to the Canadian agricultural industry and already has a significant investment in Saskatchewan including the first major inland grain terminal at Rosetown.

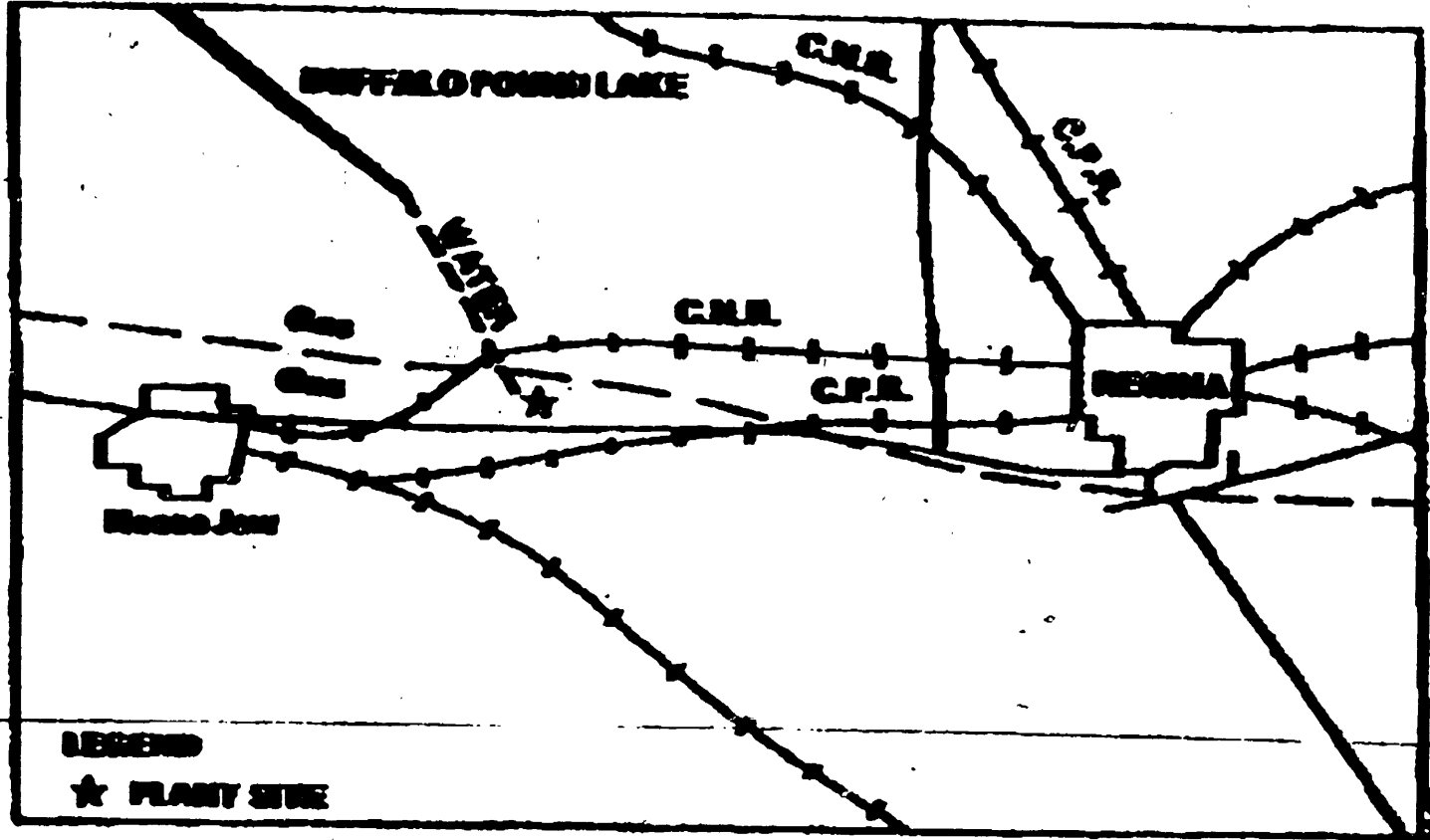
Cargill Limited is owned by Cargill Inc., headquartered in Minneapolis. The company has developed a world-renowned marketing reputation. It employs its worldwide organization for market information and expertise in engineering, risk management, production technology and transportation.

SAFERCO COMPLEX





BA



APPENDIX B

ie LeaderPost

Thurs., Feb. 8, 1990

Mon.-Thurs. 50¢/Fri.-Sat. 75¢

Section A

\$435M fertilizer plant gets gov't go-ahead

By D'Arce McMillan
of The Leader-Post

It will cost more than expected, but the Saskatchewan-Cargill nitrogen fertilizer plant at Belle Plaine will go ahead this spring, Premier Grant Devine said Wednesday.

Improvements to make the high-technology plant more efficient have added \$29 million to the original \$350-million construction cost. And the cost to finance the project, \$56 million, was not included when the initiative was announced in May 1989.

The project's total cost is now \$435 million, but shouldn't grow any more because of locked-in agreements with the construction company and lenders, Devine said at a news conference.

The price is well worth it, Devine said as he announced that a German company, UDHE GmbH — a wholly owned subsidiary of another German company, Hoechst — had been awarded the contract to design what will be one of the world's largest nitrogen urea plants.

"I have said for years and years in Saskatchewan that we are going to produce fertilizer even if I have to do it myself," Devine said.

The province's farmers buy about \$300 million of nitrogen fertilizer a year, he said. It all comes from out-of-province and, with costs such as transportation added on, farmers pay too much, he said.

Cargill Canada will own 50 per cent of the project with an equity investment of \$85 million. The provincial Crown Management Board will have a 40-per-cent share with an investment of \$94 million, and an as-yet-unannounced financial institution investing \$1 million will have a one-per-cent interest.

The remaining \$306-million cost



will be commercially financed, with the province guaranteeing the loan.

In return for this guarantee, Saskatchewan will pay a premium of three-quarters of a percentage point above the government-guaranteed loan rate.

Devine said there will be an average of 600 people working during construction and 200 full-time jobs at the plant. An expected 500 permanent support jobs will be created. The plant is expected to be the major customer for Saskatchewan natural gas producers and will spur gas exploration and royalty payments to the province.

Overall, an economic benefit of \$200 million a year to the province's economy is projected once the plant is operating, he said.

Kerry Hartman, Cargill president, was optimistic about the plant's success even though the current farm economy is in a sharp dip.

It would take a sustained downturn in the farm economy worldwide for the plant to go under, Hartman said.

"It's not going to happen, but Cargill is prepared to put its financial expertise to work to make sure that approach is a disaster scenario is minimized to the greatest possible extent," he said.

The plant will be operated by Urea, a company owned equally by the Crown Management Board and Cargill Ltd.

Stan Montgomery, mayor of Moose Jaw, is pleased the project appears to be on former ground just 20 kilometres away from plant site. Moose Jaw will develop an aggressive marketing package to attract workers and service companies to the city, he said.

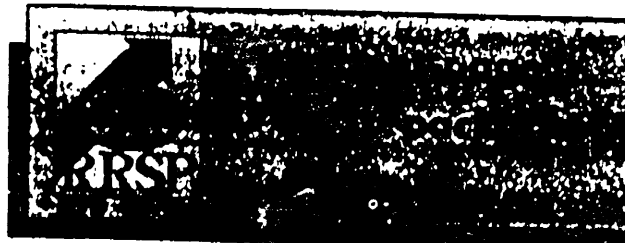
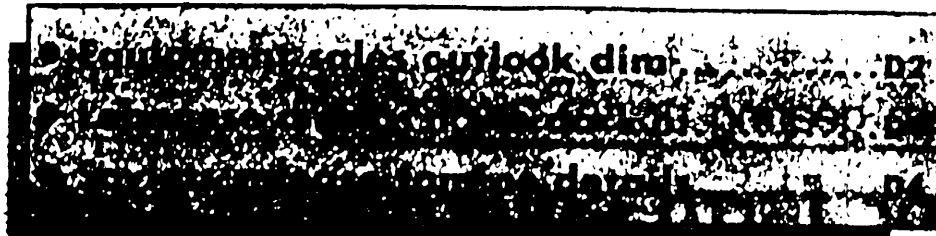
Bill Street, mayor of the RM Municipality of Pense where plant will be built, was also happy about the news, adding he's he has fears about the environmental impact of the plant. He hopes municipality's tax base will increase by \$50,000-\$100,000 because of the new plant.

NDP Leader Roy Romanow said the government has raised too much of taxpayers' money for the province's share of Sulfure.

"Cargill gets 50 per cent of the cost for 15 per cent of the total commitment. The taxpayers get 49 per cent of the action — and no cost — for putting up 85 per cent of total commitment, through equity and loan guarantees," Romanow told reporters.

Romanow said if the venture as economically sound as the government makes it out to be, then it cannot a huge multinational company like Cargill couldn't help it finance the loan.

Reaction — Pense



Fertilizer plant construction set to begin in April: Devine

By Dave Trayser
of the Star-Phoenix

REGINA — Construction on the world's largest nitrogen fertilizer plant will start in April at Belle Plaine, about 40 kilometres west of Regina, Premier Grant Devine announced Wednesday.

The \$379 million plant, first announced last May, will be owned by Safarco Products, a joint venture company owned by Cargill Limited and the Saskatchewan government.

An additional \$56 million in costs for capitalized interest charges during construction and sales taxes bring the total project cost to \$435 million.

When complete in the fall of 1982, the plant will employ 130 people and produce 1,600 tonnes of anhydrous ammonia and 2,600

tonnes of granular urea daily. An additional 500 indirect jobs and \$300 million in economic activity will be created, Devine said.

The plant has received provincial environmental approval, Devine said.

"This is existing technology that is all over the world. That design, world wide, is good enough for environmental people. That's what it looks like, this is the technology," he said.

Public hearings weren't necessary under current environmental regulations because this is proven technology — not a new process, said Cargill president Kerry Hawkins.

The plant will use about 350 tonnes of water a day from Buffalo Pound Lake but will not have an effect on the drinking water supply for Regina or Moose Jaw,

according to a project background report.

In addition, there will not be any liquid or air effluent discharged, Hawkins said.

During construction, an average of 600 jobs will be created, peaking at 1,000 and generating \$600 million in economic activity.

SackEnergy will be the main supplier of natural gas for the plant, which will use 18 billion cubic feet each year.

The construction contract has been awarded to a West German company, UHDE GmbH, the leading company in the field, for a locked in price of \$379 million, Hawkins said.

The \$435 million project cost is being financed through \$130 million in equity put up by both partners and \$305 million in debt financing, guaranteed by the

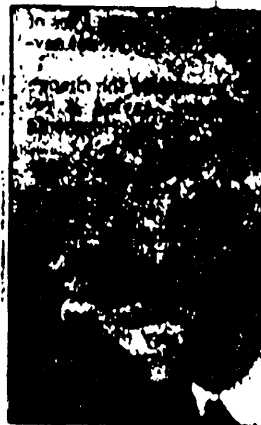
provincial government.

Cargill will pay \$80 million for a 50 per cent share of the company, while the provincial government is paying \$84 million for 49 per cent. The remaining \$1 million and one per cent share will be owned by an as yet unnamed third party, most likely a lending institution, Hawkins said.

Hawkins and Devine were quick to point out the project is being built without any provincial or federal subsidies.

In return for providing the loan guarantee, Safarco will pay a fee to the government of three-quarters of one per cent, effectively ending up paying the going commercial rate for financing.

Devine stressed both sides had brought something to the joint venture deal — Cargill brought its global marketing network and the



KERRY HAWKINS

... not a new process

government acted as the mediator and provided the guarantee.

Although the government planned to sell its equity share of the project fairly quickly, Devine now seems more inclined to own for awhile.

"If the return-on investment is as good as it looks, then it will be wise to look at that sector," he said.

Business

Plant's construction to begin without environment review

REGINA (CP) — Construction of a huge ammonia fertilizer plant west of Regina will begin in the spring without a public environmental review, a government official confirmed Wednesday.

Cargill Ltd. and the Saskatchewan government are partners in the \$435-million plant to be built at Belle Plaine, a tiny farming community 40 kilometres west of Regina.

The project did not fit the criteria for what is called an environmental impact assessment, said Larry Kratt, director of the province's environmental assessment branch.

Provincial laws require such an assessment if a project "causes widespread public concern" or "would have a significant impact on the environment." The assessment includes a 30-day period during which the public can make submissions.

"There's always a judgment call," Kratt said in an interview. "It was ultimately my decision."

Cargill president Kerry Hawkins assured reporters Wednesday the plant will be environmentally

sound even without a public review.

"It wasn't necessary because of the regulations that currently exist," said Hawkins. "We are going to guarantee that there is not an environmental problem of any sort during the construction or once this plant is up and operating."

The plant will produce urea fertilizer and anhydrous ammonia from natural gas feedstock.

A pipeline will supply the plant with water from Buffalo Pound Lake, also the main water supply for Regina and Moose Jaw. But Premier Grant Devine said the plant would not threaten the cities' water.

Many lakes in southern Saskatchewan have experienced huge water losses through evaporation over the past decade.

NDP Leader Roy Romanow pressed for a full-scale review.

"We are dealing with the water supply for the cities of Moose Jaw and Regina," Romanow told reporters. "Doesn't that rate a public environmental assessment?"

The proposed Safarco fertilizer plant will not undergo an environmental impact assessment

No environment review for plant

By Mark Wyatt
of The Leader-Post

The Safarco fertilizer plant will not undergo an environmental impact assessment because it is not considered by law to be a development.

The project has received the approval of the provincial environmental assessment branch, based on a month-long review conducted by several government departments and agencies.

Larry Kratt, director of the environmental assessment branch, said it was concluded the plant will not have a significant impact on the environment.

As a result, the company will not be required to conduct an environmental impact assessment and there will be no public review process.

Safarco project manager Peter Hayward said the manufacturing process will not produce a liquid discharge and emissions into the air will consist of steam and exhaust from burning natural gas — similar to the exhaust produced from home furnaces.

Another stack is in place to burn off anhydrous ammonia in the unlikely event of a pressure change in one of two storage tanks, Hayward said in an interview Wednesday.

The demand on the Buffalo Pound Lake water reserves will be minimal, and present no threat to drinking supplies in Regina and Moose Jaw, he added.

But NDP Leader Roy Romanow isn't satisfied with the precautions being taken by the government.

"I would call on the minister of environment to implement full, public consultation on all the environmental implications of such a large project," Romanow said.

He said the public has heard the government's assurances before that proper environmental channels have been followed "and we don't need another Rafferty-like fiasco."

For a project to require approval under the Environmental Assessment Act, it must be deemed a "development."

That means it must meet one of the following criteria:

- Have an effect on a unique or

endangered feature of the environment;

- Substantially utilize a provincial resource in a quantity that would pre-empt other uses;

- Cause the emission of pollutants or byproducts which are disposed of in a way that is not regulated by other legislation;

- Cause widespread concern because of potential environmental changes;

- Involve a new technology that may induce significant environmental change, or

- Have a significant impact on the environment.

"The regulations are stringent and we missed them and made sure we were well inside," Hayward said.

While the initial review was based on Safarco's proposal, the completed plant will still have to meet licensing requirements under the Clean Air Act, the Environmental Management and Protection Act and the Occupational Health and Safety Act, Kratt said.

Premier Grant Devine said the

government has learned to be careful not to take shortcuts in the assessment process.

"We could talk about Rafferty as an example of how not to do it. You don't build it and then do an environmental impact study. You say here is the design, here is what it will do . . .

"Don't wait until you build it and then have your third environmental impact study because you've changed the tap and it's going to go right instead of left."

Despite the ongoing problems in obtaining a licence for the Rafferty-Alameda dam project, Kratt said it's not necessary to demand an environmental impact review from Safarco as an extra precaution.

"We could say that about 50 per cent of 250-odd projects we look at in a year. But I don't think we can.

"We have to be as professional as we can in dealing with the process and that's the way we're going to play it."

Kratt said the project has received ample publicity and "my phone certainly wasn't ringing off the hook."

Regina Leader Post Thursday Feb. 8, 1990

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Dale EISLER



For the longest time, the greatest failing of Grant Devine has been his inability on certain issues to draw a distinction between economics and politics. It is, no doubt, all a part of the fact he is an economist who later became a politician.

The result has been that at crucial times, Devine thinks more like an economist than the politician he has become. When that happens, he seems either unable or unwilling to fathom the political implications of something that he believes makes perfect economic sense.

There are two particular examples of this problem afflicting Devine that come to mind.

One is the Rafferty-Alameda dam, which from the beginning has been a project that the premier has maintained makes perfect economic sense. Therefore, by extrapolation, he has always believed it must be just as sound politically.

In economic terms, it is hard to argue with Devine on the Rafferty issue because he builds a compelling case for the project.

It is being constructed in an area that has suffered from chronic dry weather. Therefore the dam will provide potential for both irrigation and recreation by exercising our right to 80 per cent of the water that flows down the Souris River, which up to now has all been going into the United States.

As well, more than a third of the cost of the dam is being paid for by the Americans, who need flood control. And finally, water from the dam will be used to cool generators at the nearby Shand power facility being constructed by SaskPower.

But even with all the economic arguments behind Rafferty, it has nonetheless turned into a political nightmare. When attacked against allegations of being a "political boondoggle" because it is in Devine's own constituency and the recurring environmental wrangle over the dam, the economic arguments have become meaningless.

The lesson here is that Rafferty has turned into a major political anchor hanging about the Tories' neck.

The second vivid example where economics has blinded Devine is the potential politics of a project for the \$435-million nitrogen fertilizer plant that will be built this spring near Belle Plaine. It is a joint venture involving the provincial government and Cargill Ltd. of Winnipeg. The partners have formed a company known as Sulfure Products Inc. to build and operate the plant.

From the premier's perspective, this is another textbook case of economic common sense.

To begin with, it is an example of value-added economics, which is something we don't have enough of in Saskatchewan. What happens is that our natural gas reserves will be used to produce fertilizer, something our farmers use and need. As well, the locally produced fertilizer will generate revenue from sales

"We spend \$300 million a year importing nitrogen fertilizer. No longer will we have to purchase fertilizer from outside the province and Sulfure's natural gas supplies will be bought from SaskEnergy which means that our gas producers will benefit Devine explains.

Coupled with all that are the employment benefits. At the peak construction period, the plant will employ 1,000 workers and will maintain 130 full-time jobs when operational. Then there is the market and technological expertise that the province gains by being in a joint venture with a company like Cargill, which operates worldwide.

All those elements, Devine argues, make it sound economic project that will be good for the province. They also are used to legitimize the government's decision to put in \$84 million in equity and expose taxpayers further by guaranteeing Sulfure's debt financing of \$308 million.

When the matter of the province assuming a loan guarantee is raised, Devine argues it does reduce the economics of the project.

"This is a lot better than trying to build a facility like this alone. We wanted to go for the best management expertise you can find and we fully expect very good returns on our investment," he says.

But the economic arguments cannot be made in isolation of the current political climate. Few will judge the project in relation to other issues it are on the public agenda, and to make sure they NDP leader Roy Romanow was helping people sleep on Wednesday afternoon.

Romanow was calling the fertilizer plant a deal for the province, and he was casting his argument in political rather than economic terms. He called it a "very inefficient, high-cost way" to create employment.

"It is incredible that, in the midst of record bankruptcies and small-business bankruptcies, in five cutbacks in health and education, and a record deficit, they see fit to align themselves with the largest corporation in the United States and not with people of Saskatchewan," Romanow said.

What he did was link the government's loan guarantee for Cargill to the other priorities that face the province. Instantly, Romanow turned the economic choice made by the Tories to support Cargill into a political decision.

"When I look at the priorities that this province has before it and then see this government stand with Cargill, I have to ask what's going on," Romanow said.

It is a question that you can be sure he will repeat from now until the next election.

And every time he does, it will make the economic arguments advanced by Grant Devine all the tougher to sell.

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Regina Leader Post

THURSDAY FEB 3 1990

Competitor pans new fertilizer plant

By D'Arce McMillan
of The Leader-Post

Construction of the Saferco fertilizer plant will cause a "bloodbath" in an already over-supplied industry, says a major competitor.

Saferco's entry into the market in 1993 will result in an annual Western Canadian surplus capacity of about three million tonnes of urea and anhydrous ammonia fertilizer that will be a problem to sell, said John Van Brunt, vice-president of operations for Cominco Fertilizers, makers of Elephant brand products.

Cominco has a plant near Calgary similar to Saferco's, and another large anhydrous ammonia facility near Red Deer.

Saferco officials say their plant will have little effect on the North American nitrogen fertilizer market. Demand will grow simply because farmers are switching from anhydrous to the more easily handled urea, they said.

There should be tremendous growth in Saskatchewan alone because farmers here on average use only half the amount of nitrogen that farmers elsewhere do.

And if there is an over-supply, Cargill's worldwide sales network will be able to handle the surplus, they said.

"That's just an outright bunch of bull," Van Brunt said from his office in Calgary.

"Even if you allow a five-per-cent annual increase in consumption in the Canadian Prairies — and that's optimistic — there is going to be more than a million tonnes of ammonia capacity and almost two million tonnes of urea that would be surplus to the Prairies by 1993," he said.

And you can't sell much of it overseas because plants in OPEC and Third World countries use what is basically free, waste natural gas — the major component of the fertilizer, he said.

"That means (the Canadian) surplus is going to have to go to the United States and there is going to be a bloodbath for product," he said.

"You start lowering the price down there and you are charged with dumping and the Saskatchewan government knows all about that with potash," he said, referring to the U.S. anti-dumping suit launched against Saskatchewan potash in 1987.

And he warned the Saferco plant won't survive a price war against its Canadian competitors. He admitted the new plant would be more efficient than existing Alberta operations. But Alberta plants, much nearer rich gas fields, will have lower input costs. Also, the Saferco plant will be weighed down by its large debt.

Only Premier Grant Devine's political agenda is driving construction of the Saferco plant, he said.

"If this project is so damn good ... why has the government had to take a disproportionate share of the risk?" he asked.

"This project was shopped around to other people beside Cargill — like Cominco, Sherritt Gordon and the wheat pools — for years and no one would touch it."

Another competitor, Canadian 88 Energy Corp., is still considering its options regarding the construction of a small liquid nitrogen fertilizer plant in Rosetown, a company spokesman said.

questions reasoning for plant

By James Parker
of the Star-Phoenix

When Cargill opens its Belle Plaine fertilizer plant in 1992, it will bring more uncertainty to a three-year industry.

It may also bring cheaper fertilizer prices for farmers, at least in the short term.

"They obviously see something we don't," said Bud Kusnir, vice-president of Sherritt Gordon Ltd., an Alberta fertilizer producer.

"The experts aren't forecasting major increases in (fertilizer) use. If anything, it's going the other way."

The \$435-million plant will boost total production of 1,500 tonnes of anhydrous ammonia and 2,000 tonnes of granular urea.

Cargill claims industry demand for the two products is growing.

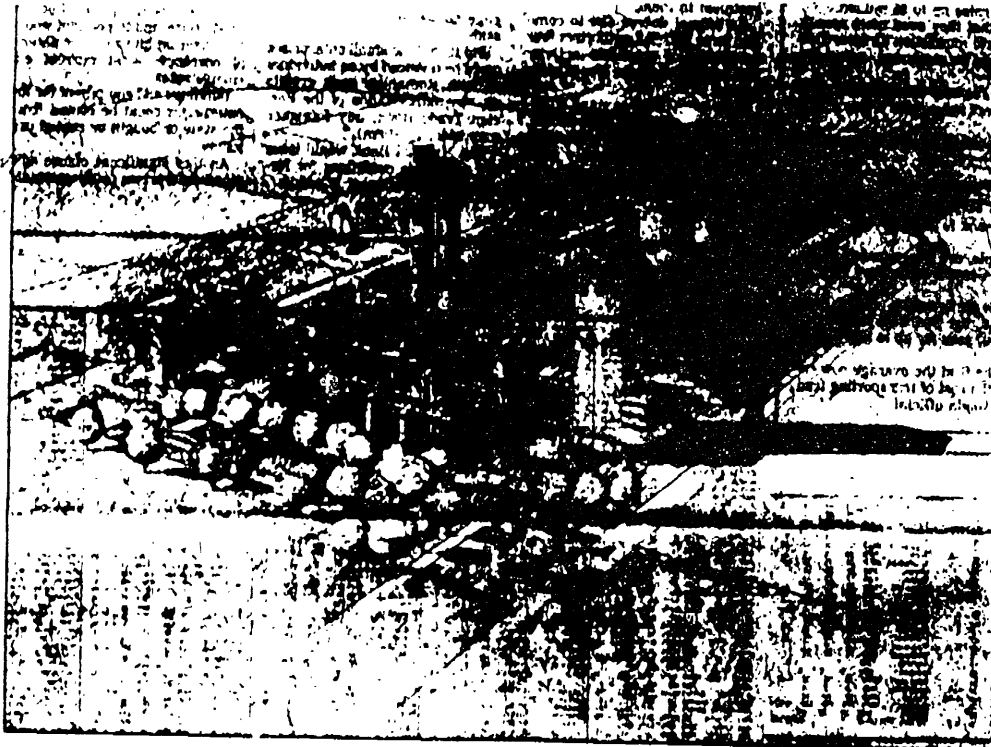
And with a distribution system in place, it believes North American and overseas markets are ripe for exploitation.

But Kusnir said the demand to support a new fertilizer operation doesn't exist.

He said sales of anhydrous ammonia have decreased every year since 1985.

Kusnir said Sherritt Gordon learned the hard way about market oversupply when it recently expanded its urea production by 6,000 tonnes and ammonia production by 300,000 tonnes.

"It's a bloody disaster. You can't put up our annual reports and call it a bad investment. We said no ammonia/urea plants have been constructed in the United States since 1977.



Artist's drawing of announced \$435-million fertilizer plant at Belle Plaine, 60 kilometres west of Regina.

"If it's such a fine thing to do, why isn't anybody else doing it?"

He said Cargill should be prepared for a slugfest with its competitors because a recent industry shakeout left a handful of large, efficient operations across the West.

Narry Clarke, a fertilizer consultant with Fortecum Canada

Ltd. of Vancouver, said Cargill will have to gain market share at the expense of its competitors.

"It's got to come out of the hide of someone in the business."

Clarke, who contends the Belle Plaine project is driven by politics, not economics, said Cargill's export competition will come from Arabian Gulf producers who

have access to ample supplies of natural gas.

Ray Howe of the Saskatchewan Wheat Pool said Cargill is building for the day agriculture turns around.

He said market competition from another player should be positive.

technically, because competition doesn't always result in cheap prices.

Ralph Ashwood, an agricultural consultant in Calgary, said fertilizer prices could drop with the entry of Cargill.

But not for long. "If Cargill wins the battle, the

Third Page

NDP demands public hearing as fertilizer plant gets nod

Construction begins in April and is to be complete by the fall of 1992

By Dave Traynor of the Star-Phoenix

REGINA — Nine months after it was first announced, a proposed \$775-million fertilizer plant to be built near Regina has been given the green light.

Premier Grant Devine said Wednesday the project will be a boon for the Saskatchewan economy, creating 130 permanent jobs and 200 more indirect ones, while

generating \$300 million each year in economic activity.

But NDP Leader Roy Romanow accused Devine of being "inspired by mega-projects at the expense of main street Saskatchewan."

Safeco Products Inc., a joint venture between grain giant Cargill Limited and the government, will manage the plant, located at Belle Plaine, 40 kilometres west of Regina.

Construction begins in April and

is to be complete by the fall of 1992.

In addition to the plant, there will be \$65 million in other costs, such as interest and taxes, bringing the total project to \$435 million.

Romanow demanded an immediate full public hearing on the environmental effects to avoid another "Rafferty Gasco."

Devine said the project already has received the go-ahead from Saskatchewan Environment,

which decided no hearings were necessary since it will use existing technology and no effluent will be created.

But Romanow said the plant will use 350 tonnes of water a day from Buffalo Pound Lake, which is the source of drinking water for Regina and Moose Jaw.

"Doesn't that rate a public environmental assessment?"

Romanow also attacked the financing of the project, under which Cargill puts up \$65 million

in equity and receives 50 per cent of the shares, the province pays \$64 million for 40 per cent of the company and a third party, probably a bank, will pay \$1 million for one per cent.

The remaining \$326 million will be financed by debt, guaranteed by the province.

That means Cargill, one of the world's largest companies, is putting up 15 per cent of the total cost but getting control of the company, while the taxpayers are on the

hook for the other 85 per cent, Romanow said.

Devine rejected the charges, saying the loan guarantee is simply the best and quickest way to secure financing.

In the unlikely event of a complete failure, the province still would own the plant and have Cargill's equity money to boot, he said.

Related stories Page B1

RED DEER, ALBERTA, Feb. 21/73

Fertilizer 'bloodbath' predicted

REGINA (CP) — The Saskatchewan government and the Canadian arm of a huge U.S.-based grain company are going ahead with plans to build a \$435-million fertilizer plant near the small southern village of Belle Plaine.

The announcement Wednesday was welcomed by municipal officials in the area. But a competitor said the plant, due to

start production in 1983, will cause a "blood bath" in an already over-supplied industry.

The plant, 40 km west of Regina, will be operated by Saferco, a company owned by Saskatchewan's Crown Management Board and Cargill Ltd.

It will result in an annual surplus capacity in Western Canada, said John Van Brunt, vice-president of operations for Co-

tinco Fertilizers. Combined with an anhydrous ammonia plant near Red Deer.

If there is an over-supply, Cargill's worldwide sales network will be able to handle the surplus, Saferco officials said.

"That's a bunch of bull," Van Brunt said. He said the surplus would have to go to the United States and there is going to be a bloodbath for (the) product.

Questionable economics

At the risk of raining on Great Devine's parade, this week's go-ahead for the \$425-million fertilizer plant at Belle Plaine raises a number of interesting questions.

First, why is a government supposedly committed to the private sector, free enterprise and the market economy once again using taxpayers' dollars — most of them borrowed — to finance yet another megaproject?

Second, why does Cargill — the world's largest privately held corporation — require government assistance to the tune of \$300 million in equity and loan guarantees?

Third, what are the chances of the project's success and, by implication, what are its possible effects on the North American fertilizer industry?

The first question goes to the heart of the Devine government's economic philosophy, a philosophy, I might add, observed more in theory than in fact.

The Devine government philosophy, as I understand it, is to provide a healthy economic environment — low taxes, low input costs, stable work-force, minimal interference — and let the private sector do the rest.

Under the Devine PCs, Saskatchewan was "open for business," where the private sector would be the star and the state would play a supporting role.

The reality has been somewhat different. Far from getting government out of business, the PC government has been an active player in the economy — in



some cases, even more so than the previous NDP government.

Thus, we've seen a string of megaprojects, such as the Co-op and Husky upgrades, the Meadow Lake pulp mill and a myriad of others, in which the government puts up the lion's share of the debt for less-than-controlling interest.

The Safero fertilizer plant is only the latest iteration of Devine's own brand of state capitalism. In Devine's own words: "I have said for years and years in Saskatchewan that we are going to produce fertilizer even if I have to do it myself."

Which brings us to the second question: Does Cargill really need a \$205-million loan guarantee, on top of a \$64-million equity contribution from the government?

The answer is probably not, given that any company will do everything in its power to reduce its risk in an investment.

And, on the face of it, the Safero deal looks like a

for fertilizer plant

good one for Cargill. With a capital outlay of \$85 million and a fee of three-quarters of a percentage point in interest, Cargill gets control of a \$425-million fertilizer plant.

Cargill also gets a big boost in credibility as a fertilizer producer.

While the company has some phosphate production in the U.S., Safero will be far and away the company's major fertilizer production facility in North America. According to one industry source, the Belle Plaine plant will also be one of the dozen largest in the U.S. and fourth biggest in Canada.

What does the government get out of it? Some nice economic numbers: 130 direct permanent jobs, up to 1,000 construction jobs, \$90 indirect permanent jobs, \$800 million in construction spending, \$760 million in goods and services annually once the plant is operating.

But at a cost. One competitor generously estimated Safero's cost to the taxpayers at \$3.3 million per full-time job.

So much for Safero's impact on the Saskatchewan economy. What about the plant's impact on the industry?

Cargill officials downplay the effect on 3,500 tonnes of fertilizer per day coming onto a market that has been less than robust.

Farmers switching from anhydrous to urea fertilizer and growth in the under-fertilized Saskatchewan market, plus Cargill's world-wide connections, will take care of any excess fertilizer on the market, they say.

"Overtight hand" is the way one competitor reacted to Cargill's blazed assurances. According to one producer with two large fertilizer plants in Alberta, the result will be surplus capacity of three million tonnes by 1985 in Western Canada alone.

A three-million-tonne a year surplus could lead Canadian fertilizer companies to dump — sell below cost — in the U.S. The resulting "blood bath" among Canadian and American producers could cause another anti-dumping action by U.S. producers, similar to the potato dumping dispute in 1977.

How groups from potential competitors? Maybe. But one industry observer believes that with some U.S. producers selling below cost during the last half of 1979, the last thing the industry needs is more production capacity. "I think it's too much production."

Of course, the jury is still out on the Safero project. It may well turn out to be a good investment, both for Cargill and the people of Saskatchewan.

But, whenever you detect the whiff of politics, you wonder whether the economics of the deal add up as well.

Devine's economics often don't add up politically

REGINA — For the longest time, the greatest failure of Grant Devine has been his inability on certain issues to draw a distinction between economics and politics. It is, no doubt, all a part of the fact he is an economist who later became a politician.

The result has been that at crucial times, Devine thinks more like an economist than the politician he has become. When that happens, he often either walks or crawls to follow the political implications of something he believes makes perfect economic sense.

There are two particular examples that come to mind.

One is Rafferty-Alameda, which from the beginning has been a project the premier has maintained makes perfect economic sense. Therefore, by extrapolation, he has always believed it must be just as sound politically.

In economic terms, it is hard to argue with Devine on the Rafferty issue because he holds a compelling case for the project.

It is being constructed in an



Dale Elster

S-P Political Editor

area that has suffered from chronic dry weather. Therefore, the dam will provide potential for both irrigation and recreation by providing our right to 50 per cent of the water that flows down the Souris River, which up to now has all been going into the United States.

As well, more than a third of the cost of the dam is being paid for by the Americans, who need flood control. And finally, water from the dam will be used to cool generators at the nearby steam power facility being constructed by S&P Power.

But even with all the economic arguments behind Rafferty, it has nonetheless turned into a political nightmare. What started

against allegations of being a "political boobytrap" because it is in Devine's own constituency and the recurring environmental wrangle over the dam, the economic arguments have become meaningless.

The bottom line is that Rafferty has turned into a major political anchor hanging about the Tories' neck.

The second vivid example where economics has led Grant Devine to the potential politics of a project is the \$20-million nitrogen fertilizer plant that will be built this spring near Belle Plaine. It is a joint venture involving the province and Cargill Ltd., which have formed a company known as Inshore Products Inc. to build and operate the plant.

From the premier's perspective, this is another textbook case of economic common sense.

To begin with, it is an example of value-added economics, which is something we don't have enough of in Saskatchewan. What happens is that our natural gas reserves will be

used to produce fertilizer, storing our farmers use and need. As well, the locally-produced fertilizer will generate revenue from sales made around the world.

"We spend \$20 million a year importing nitrogen fertilizer. No longer will we have to purchase it from outside the province and Inshore's natural gas supplies will be bought from Saskatchewan, which means our gas production will benefit," Devine explains.

Coupled with all that are the employment benefits. At the peak construction period, the plant will employ 1,200 workers and will maintain 120 full-time jobs when operational. Then there is the marketing and technological expertise the province is gaining by being in a joint venture with a company like Cargill, which operates worldwide.

All these elements, Devine argues, make it a sound economic project that will be good for the province. They also are used to legitimize the government's

decision to put in \$24 million to equity and expense taxpayers further by guaranteeing Inshore's debt financing of \$20 million.

When the matter of the province covering the loan guarantee is raised, Devine argues it doesn't reduce the economics of the project.

"This is a lot better than trying to build a facility like this dam. We wanted to go for the best management expertise you can find and we fully expect a very good return on our investment," he says.

But the economic arguments cannot be mounted in isolation of the current political climate. People will judge the project in relation to other issues that are on the public agenda, and to make sure they do, S&P Minister Roy Romanow was helping people along.

He was calling the fertilizer plant a "real deal" for the province and was casting his argument in political rather than economic terms. He labelled it a "very significant, high-cost way" to create employment.

"It is incredible that, in the midst of record farm bankruptcies and small business liquidations, members of the cabinet in health and education, and a record deficit, they are still playing themselves with the loan guarantee corporation in the United States and not with the people of Saskatchewan," Romanow said.

What he did was link the government's loan guarantee for Cargill to the other priorities that face the province. Inevitably, Romanow turned the economic choice made by the Tories to support Cargill into a political decision.

"When I look at the priorities this province has before it and then see the government standing with Cargill, I have to ask what's going on?" Romanow said.

It is a question you can be sure he will repeat from now until the next election.

And every time he does, it will make the economic arguments advanced by Grant Devine all the tougher to sell.

The Leader-Post Regina Sat., Feb. 10, 1980

Assurance needed on 'safe' plant

Good news, these days, often seems to come bracketed in question marks.

Saskatchewan has just been offered some good news with announcement of a deal to build one of the world's biggest nitrogen fertilizer plants at Belle Plaine, starting this spring. The Safarco project, confirmed Wednesday by Premier Grant Devine, represents an important branching into manufacturing for provincial economic diversification. It is to return benefits in sales and jobs, with additional advantages for Pense R.M.'s tax base and likely to Moose Jaw and Regina as well.

Everything has its cost. The plant will cost \$435 million. The province will invest \$84 million and guarantee \$305 million in loans (servicing the loans: \$54 million, to be paid by Safarco), for which the Crown Management Board will hold a 49-per-cent interest in the company. A financial institution will invest \$1 million and get a one-per-cent interest. Cargill Canada will invest \$65 million and get a 50-per-cent stake. Opposition Leader Roy Romanow had obvious questions about that arrangement.

Market-share is another question. Devine said Saskatchewan farmers alone spend \$300 million a year on nitrogen fertilizer. However, there is more than one source, and Fomineco Fertilizers thinks Safarco's output will lead to an annual three-million-tonne surplus of urea and anhydrous ammonia fertilizer for Western Canada. Another company is considering a liquid nitrogen fertilizer plant in Rosetown.

Safarco responds that Cargill's sales network will be able to dispose of surpluses, but will Third World customers most in need of the fertilizer be able to pay? How long will our estimated 50-year supply of natural gas last if it is tapped for fertilizer?

Another question concerns environmental impact. In the past few days, the province has served notice that the proposed Miller Western Pulp Ltd. semi-thermal pulp mill in Meadow Lake, environmental impact statement and technical review in hand, now is open to public comment. The proposed oil and coal mine is to produce an environmental impact statement, leading to technical and public reviews, before its 1.5-

million-tonnes-per-year open-pit strip mining operation can proceed. However, we are assured that the Safarco proposal is safe and no public environmental review is needed. Oh?

Safarco will not produce a liquid discharge. Combustion emissions will be steam and natural gas exhaust. If there is a storage pressure problem, anhydrous ammonia will be burnt off through a separate stack. Water use will be nominal. Because there is no liquid discharge, there is no threat to drinking water supplies.

All of this is comforting, but we have had too many instances of foolproof devices failing, whether in mine-water spills or upgrader burn-offs that get out of hand. Despite precautions, human or other error has seen some things go wrong. If there is an emergency ammonia burn-off, the gas product includes nitrous oxides which can wash out of the air as ammonia hydroxide, adding to the common pH-8 alkalinity of our soil.

Safarco must deal with chemicals, combustion, water and air. If all the elements are protected, should that not be established through the process that is applied to strip mines and

pulp mills?

We all hope the good news will be good news, but it would be nice to have it without question marks — and crossed fingers.

THE WESTERN PRODUCER, FEBRUARY 15, 1990

Saskatchewan, Cargill say they're determined to build new fertilizer plant

By Deborah Sproat, Western Producer reporter

REGINA — The Saskatchewan government and Cargill Canada have announced plans to proceed with construction of a nitrogen fertilizer plant at Belle Plaine, Sask.

The announcement last week by premier Grant Devine and Cargill Canada president Kerry Hawkins dispelled questions about whether the plans, first made public last May, would actually go ahead.

Industry officials have said there is no need for more production facilities.

Devine and Hawkins said the plant will become the largest local market for Saskatchewan natural gas and will mean lower fertilizer prices for western farmers when it begins production in the fall of 1992.

"A new world-scale plant in Western Canada will create a new competitive element in the marketplace," Hawkins said. He said more competition usually means lower prices.

"I've said for years we are going to produce fertilizer here even if I have to do it myself because farmers pay way too much for inputs," Devine said.

The \$436 million project will be carried out by a separate, independent company called Safero owned 49 percent by the province, 50 percent by Cargill and one percent by a third party.

The project will get \$64 million in equity from the province, \$65 million from Cargill and \$1 million from the third party. In addition, the government will guarantee a \$300 million loan from a commercial lender.

'A bad deal for the taxpayer'

New Democratic party leader Roy Romanow criticized the government for putting so much public money at risk in return for only 49 percent of the shares. "On the face of it, that sounds like a bad deal for the taxpayer," he said.

Romanow also criticized the government for backing Cargill, a large multinational, instead of a plan that would have seen smaller plants in Hometown and several other Saskatchewan communities.

"Mr. Devine's government wants to stand with the Cargills of the world," he told reporters.

But Devine said Saskatchewan had money and natural gas but needed a partner with Cargill's management expertise and world-wide marketing arm to make the project work.

He said he also expects taxpayers will get a good return on the investment and hinted the government will hang on to its equity for a while rather than sell to other partners.

Safero will produce 350 tonnes of anhydrous ammonia and 110 tonnes of granular urea for market daily and plans to sell it in grain-producing areas of western Canada, Ontario, the U.S. and Mexico. Cargill will be responsible for marketing the plant's product.

Peter Hayward, co-project manager, says demand for fertilizer is growing worldwide and urea is becoming the "product of choice" for health and environmental reasons. He said there's enough capacity in the marketplace to easily absorb the new capacity Safero will create.

'It just makes common sense'

Devine said Saskatchewan farmers spent \$300 million a year on nitrogen fertilizer and consumption is increasing. He said that in Saskatchewan would mean some of that \$300 million would stay in the province.

"It just makes common sense that we should be diversifying an industry that will support our most important business and that is agriculture," he said.

But others in the industry say there is already an overcapacity of nitrogen fertilizer in the West and the Belle Plaine plant would add to the problem.

They say competition in the U.S. is tough and selling fertilizer is more difficult because many third-world nations are building plants.

"There isn't enough room for another producer," said Bob Brant, vice-president of the fertilizer division of Sherrill-Gordon. He said the industry has been very unhealthy in recent years and the situation hasn't changed.

"We can't quite understand how the project is economic," said John Van Brunst, vice-president of operations with Cargill. He predicted it would be a disaster both for the province and the industry.

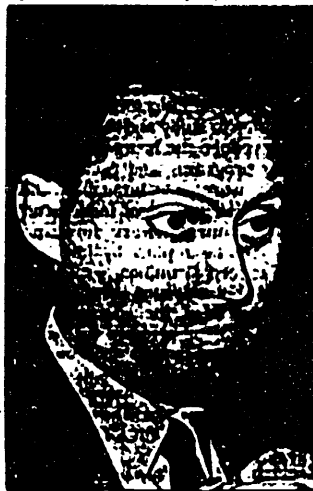
'It's tough news for the industry'

"It's tough news for the industry because the industry here is absolutely no need for that product. It will hurt."

*for the last 4 years
B.S. 11*

Over fertilizer plant

Outcry may lead to meetings



Hodgins

YORKTON (CP) — Public concern has forced the Saskatchewan government to consider holding public meetings on the huge fertilizer plant to be built west of Regina, says Environment Minister Grant Hodgins.

Some people living near the site of the \$435-million plant — which will be paid for jointly by the provincial government and Cargill Ltd. — were angered that the government approved it without any public review.

"There will probably be meetings on that particular project," Hodgins said Friday.

"Public interest in the project would say 'Hey, you better have a meeting. If you're going to have that big a project, you'd better have a meeting.'"

Details about the meetings will likely be announced within days, the minister said.

But he did not say whether the meetings will be held as part of the province's environmental review process, or just to release information.

Premier Grant Devine said earlier this week he favored public meetings on the fertilizer plant. Devine suggested meetings may be held in Belle Plaine, Pense and Moose Jaw — the nearest communities to the proposed plant site.

The government might also provide the public with technical information on the fertilizer plant and back-

ground on environmental concerns raised during the province's internal review, said Hodgins.

He insisted there is no need for an environmental impact study — a document produced by the company for public review. But he would not say how his department can provide written information on the plant's environmental impact without first having such a study.

"I don't know of a formal process that we have to do that, other than going back to square one with an environmental impact assessment," he said. "But I am certain that we could come up with something that would provide adequate information to the public."

Both Hodgins and Devine have said that because the fertilizer plant is to be built using modern technology, there is no need for a formal public review.

But the Saskatchewan Environmental Society says there's no question the plant will have an impact on the environment.

"It will use large amounts of water, electricity and natural gas," said society president Bert Weichel. "That in itself will have a significant impact on the resource base in Saskatchewan."

Hodgins and Devine have also said the province's environment laws, which were used to approve the project without a public review, are behind the times and will be changed.

Dale EISLER



The demise of a government is always a messy business. Once the political decay sets in, it can be a slow and painful spectacle.

At this point, there is little doubt that the Devine government is suffering badly. Maybe there hasn't been a public poll for almost a year, but the truth is no secret.

There are the recurring voices that concede nothing much has changed since the tumultuous events of last spring and summer. In those days, polls put the Tories more than 20 points behind the New Democrats. If anything, we're told the situation has likely grown worse, not better, for the Tories.

Still, quantifying the problem is not easy. The best anyone can do is recite what they hear about a recent internal Tory poll that puts the Tories 25 points behind the NDP. And if that's not bad enough for the Tories, the same phantom poll allegedly shows them deadlocked with the Liberals for a distant second or third, depending on your point of view.

"At this point, there is nothing to be happy about," says one glum Tory.

"There is what everyone believes will be a tough federal budget, the GST is coming and the provincial economy is in bad shape."

But as bad as those problems are for the Tories, the fact remains the political malaise goes much deeper. At the root of the Tories' dilemma is their lack of credibility. It is an affliction that permeates the provincial political scene.

Any government's political strength is only as solid as its integrity in the eye of the public. That does not mean people must necessarily agree with everything a government does, or even the direction it takes. But at a minimum, people must believe the government is operating in good faith if the party in power is to retain the credibility it needs to advance a political agenda.

The situation for the Devine Tories has clearly reached the point where the government's credibility is at an all-time low. This has gone far beyond the traditional political necessity of managing issues, to the need for the government to somehow regain its public integrity.

How it has reached this point should be obvious.

For the past 12 months, the public has been fed a steady diet that has done nothing but erode the Tories' credibility and create a wave of cynicism.

One does not want to dwell excessively on the symptoms that have created this problem, but they are too obvious to simply ignore.

The most recent example of this illness is the controversy involving two senior executives at the Saskatchewan Transportation Company (STC). The allegations of bribes and kickbacks totalling \$50,000 for the purchase of buses by STC attack the government where it is the most vulnerable.

While STC minister George McLeod might try to distance the government from the scandal, it is not so easy. The public does not make such distinctions, nor should it, because ultimately, accountability must rest with the government.

Unfortunately, the public has witnessed what it can only conclude has been a series of incidents and events that has raised grave questions about the Devine government's integrity.

Although the STC controversy is the most current, it is only the latest on a long list that has done much to undermine the Tories' credibility.

You don't have to look far to find people still fuming over the handling of Graham Taylor and Bob Andrew's departure from politics. The severance payments the two received on their way to landing well-paying government jobs has created an issue packed with anti-Tory emotion. It doesn't matter that all the MLAs — Tories and New Democrats — agreed to the benefit package they receive should they be defeated or simply leave politics. The symbol of the injustice, in the mind of the public, remains attached to the Andrew and Taylor episode.

Although the scope of the negative political impact might not be as broad, the Devine government is also suffering from the recent deal it struck with Cargill to construct a fertilizer plant.

The decision to put the public at risk by guaranteeing a \$305-million loan for a project that will be controlled by Cargill does nothing to help the Tories' credibility on other issues:

Then, there is the lingering hangover from last year's GigaText affair. Again the Devine government was seen as being involved in a scheme that seemed dubious, at best, from the outset. Although the money involved was small by government standards — \$5 million — it still raised doubts about the Tories' ability to manage affairs in the public's interest.

Coupled with the GigaText affair were questions about which individuals with political connections had actually benefited personally from the entire misadventure with public funds.

All of those individual issues have gravely weakened the Tories' ability to redeem themselves with the public. They find themselves trapped, needing to regain credibility but lacking the integrity it takes to win back the public's confidence.

The only unanswered question at this point is whether or not the situation has gone so far that it is now politically irretrievable.

It is the only grey area that exists these days in Saskatchewan politics, and even it is becoming more black and white as the Tories struggle against a tide threatening to overtake them.

Eisler is The Leader-Post's political editor



Readers Viewpoints

W.A. 156

Fair environmental process needed

On reading press coverage of the recently announced mega-projects, namely the Meadow Lake pulp mill and the Belle Plaine fertilizer plant, I was incited to comment.

The Saskatchewan Environmental Assessment Act is an act that Josef Stalin would be proud of. At a time when the peoples of Eastern Europe and the Soviet Union are trying to free themselves of discriminating laws and governments, we have a government that feels at home using the Environmental Assessment Act for purely political reasons.

Premier Grant Devine reasoned the fertilizer plant involved existing technology that is all over the world.

Well, this certainly wasn't the Devine government's attitude when the Redberry Development Corp. was trying to develop a cottage-lot subdivision at Redberry Lake. The building of cottages and boating, sailing, golfing and fishing facilities were and still are "existing permitted uses" at the lake. The land on which this development was to be constructed is agricultural. This land is adjacent to

Crown declassified wildlife habitat lands. Since the development land is agricultural land, the bush can be bulldozed down and the beach cultivated without so much as a permit required by the farmer.

This project was stopped by the environment minister after the Redberry Development Corp. had received all the required approvals from government departments. I should note that there are many cottage-lot subdivisions throughout Saskatchewan — even at Last Mountain Lake, north of Regina, which is also a federal bird sanctuary.

It is interesting to note that recently local boards at Redberry Lake were given \$15,000 by the Future Corp., a government body, to promote the lake. I wonder, would this have anything to do with the new associate minister of tourism being John Gerich, the MLA for the constituency of Redberry?

The good news in all this is that Bert Weichel, president of the Saskatchewan Environmental Society, and NDP environment critic Ed Tchorzewski have both recognized that the

act is one with no rules or regulations, but only guidelines to be used by the government in a discriminating, biased and self-serving manner.

As for the two mega-projects, I believe that the environment minister would have no problem in assessing these projects as "developments" under the act. Simply by acknowledging the magnitude of the public outcry and the economic impact (taxpayers' dollars) of these projects, he would find that under the act they require an environmental impact study with formal public hearings.

The taxpayers' interest in the environment would be better served if the government were to put a hold on these mega-projects. It would be of great benefit to use a portion of the available time during the spring session of the legislature to develop an environmental process that would be fair and equitable. We then would create harmony among environmentalists, developers and the government.

BORIS E. MAMCHUR
Prince Albert

The Leader-Post Regina Wed., Feb. 21, 1990

Cash, farm woes theme of meeting

By Beverley Bucholtz
for The Leader-Post

YORKTON — Finance minister Lorne Hepworth may have been knocked out by the federal government's budget Tuesday, but he bounced back to field questions from 70 people attending a public meeting here.

Hepworth said he'll face his toughest bout when he wrestles with a \$91-million reduction in transfer payments from Ottawa over the next two years — funds which help support education and health-care programs in this province.

"The federal budget 'shook our budget to its foundations. We have to start again at zero. I don't want to be an alarmist," he said.

Hepworth flew in from Regina an hour late for the sixth public meeting designed to give residents a chance to help plan the upcoming provincial-government moves.

Most of the questions centred on provincial concerns like reducing the deficit, problems in agriculture, shortages in health care and limited enrolment for universities.

Yorkton Ald. Ben Weber questioned the long-term value of mega-projects, such as the Cargill fertilizer plant for Belle Plaine. "It's a horrendous commitment of dollars we don't have," he said. "My fear is the provincial budget will follow the same pattern as the federal budget and reduce payments to municipalities."

Hepworth replied that Saskatchewan needs anchors that can boost the numbers of processing and manufacturing plants and create spinoffs.

One Yorkton resident suggested rolling back the salaries of public employees.

But the finance minister reminded the audience that a two-year wage freeze was imposed in 1987 for all public wage-earners — a move that made Saskatchewan civil servants one of the lowest paid in the country.

Martin Arndt, Yorkton Union Hos-



Hepworth

pital board chairman, said this area has one of the highest percentages of seniors. The average age in one nursing home is 86, he said.

"We have a long waiting list and don't have any beds," he said. "Unless young people change their attitude and start keeping parents at home, we are going to be in serious trouble," Arndt said. It costs \$2,400 to keep one person in a nursing home for a month, he said.

He also suggested pegging the dollar to bring down the interest rate.

Hepworth replied he didn't agree with raising the interest rates to fight inflation.

John Miller, of the Royal Canadian Legion, questioned severance pay packages for MLAs who quit their jobs and suggested any interest payments for companies such as Massey Ferguson should be given to farmers to offset wheat prices.

Eliminating the gas tax rebate program, mortgage protection plan and the home improvement program were also suggested.

The next public meeting will be held in Weyburn Thursday.

NDP case against fertilizer

REGINA — To this point, the NDP criticism of the Cargill fertilizer project has been based purely in politics.

The argument leveled by NDP leader Roy Romanow has been that the Devine government is trapped by its love of big business and mega-projects. As a result, Romanow maintains the province now finds itself locked into a bad deal with Cargill.

The heart of the NDP attack on the Cargill plant to this point is that taxpayer dollars are being used to prop up a project that will be controlled by a rich multi-national. The Devine government is putting up \$64 million and getting 49 per cent equity in the project. But as well, the province is guaranteeing a loan of \$306 million to cover the project's debt financing.

But for a total "exposure" of \$369 million in a project worth \$435 million, control belongs to Cargill. Therefore, the government takes the vast majority of the risk and Cargill gets to run the project, with an option to buy out the government should it de-



Dale Eisler

S-P Political Editor

cide to sell its share, which Grant Devine says is very likely.

To make all this mean something at the grassroots level, Romanow talks about it being a waste of taxpayers dollars. Instead of "propping" up a wealthy company like Cargill that last year had total sales of more than \$3 billion, he says the government should be putting money into the hands of farmers on the verge of going broke.

The political message, therefore, becomes that the Tories have money for Cargill, but nothing for farmers.

There is little doubt the NDP argument carries significant political weight. But that doesn't

mean it is legitimate or even makes sense.

For that matter, since the Cargill announcement, Romanow often has made the argument that, if the Tories wanted to do something for rural Saskatchewan, they should take the \$369 million and make it available to entrepreneurs in hundreds of small towns.

He was at it again on Wednesday, this time linking the Cargill deal to this week's federal budget. The NDP leader related the cuts in transfer payments from Ottawa to what the government has committed to the Cargill plant.

"The Devine government could save Saskatchewan taxpayers \$770 million by withdrawing its government giveaways to the Cargill fertilizer project," Romanow said.

It is expected that over two years the reduction in transfer payments to Saskatchewan will total almost \$100 million. That money will have to be found somewhere, and Romanow argues a good place to look would be the fertilizer plant. The

plant makes little sense

equity investment of \$64 million by the government's Crown Management Board would more than cover the first year in lost money from Ottawa.

Of course, the suggestion the taxpayers will save \$370 million if the fertilizer plant didn't go ahead is little more than voodoo economics. The loan guarantee of \$306 million doesn't cost the government anything and is only a contingent liability should the project itself fail.

As well, by arguing against the investment, Romanow is sounding very much unlike the NDP government the people rejected almost eight years ago.

The previous government eagerly invested in all sorts of joint ventures with private companies. The Blakeney administration even granted itself, by law, the option to take an equity position in any private sector mining developments in the north.

In the days ahead, Romanow promises to expand his critique of the Cargill deal. He says a series of news conferences are planned to demonstrate this is a

bad deal for Saskatchewan people.

However, up to this point, Romanow and the NDP have done nothing to build a convincing case to suggest the project doesn't make sense. Their position has been based entirely on making people believe the money would have been better spent in other ways if the government truly wanted to diversify the economy.

But the fact of the matter is diversification must be based upon something. It is simply not good enough for Romanow to say the government should have taken the mythical \$369 million and spread it around the province. While that might sound good for the people who would get the money, making it a popular political line to sell, it is meaningless.

If the NDP wants to build a credible argument against the fertilizer plant, it will have to do it in the context of some kind of economic strategy.

At this point, the New Democrats have said nothing of any substance about their version of how to diversify the Saskatche-

wan economy. Other than offering vague notions about "identifying" the province's economic strengths, providing financial stability to local business and something called a "Saskatchewan First" policy, there has been nothing but empty rhetoric from the NDP.

The time has come to do more than just criticize projects like Cargill while framing alternatives in meaningless, if nice-sounding, terms.

If the political debate over economic policy is ever going to enlighten anyone, then the NDP will have to offer up its answers and alternatives. And that doesn't mean the New Democrats have to unveil their election platform.

But what they must do is explain at least where they stand and how they propose to deal with economic reality in this province. In the final analysis, that has little to do with politics and everything to do with a small population living off a fragile farm-based economy that operates in an often hostile world economic environment.

Devine blamed for budget woes

By Murray Mandryk
of The Leader-Post

The provincial government should not get away with blaming Saskatchewan's dire financial straits on Michael Wilson's federal budget, NDP Leader Roy Romanow charged Wednesday.

Ridiculing Tuesday night's "emergency" cabinet meeting as a phoney showpiece to gain public sympathy, Romanow said the provincial economy was on the skids long before the federal finance minister's decision to cut transfer payments.

"The federal budget will hurt the Saskatchewan economy, but our economic problems were not created by Michael Wilson alone," Romanow told reporters. "Saskatchewan is in the economic mess it is today thanks largely to the Devine government's eight years of economic mismanagement."

"GigaText is not Michael Wilson's fault."

Wilson's decision to cut transfer payments to Saskatchewan by \$1 billion in the next two years deals a serious blow to the provincial economy, Romanow agreed. But Saskatchewan had a "\$4-billion deficit long before Wilson delivered (the federal) budget."

Realizing this, the Tories went through the theatrics Tuesday night of portraying Wilson as the scapegoat, he said.

By calling his "emergency" cabinet meeting Devine was putting on a show for the television cameras to suggest they were gravely concerned about the negative impact of the budget on the Saskatchewan economy, he said.

"Last night's cabinet meeting was as phoney as a \$3 bill," Romanow said Wednesday. "Less than an hour to review the budget? I would argue that a provincial government has to do more than (provide) a photo opportunity."



Romanow

Romanow said.

"That is either an admission of incompetence or an attempt to mislead."

Devine's suggestions the federal budget will mean a total rewriting of the provincial version — expected to be delivered some time around April 1 — is equally ludicrous, the NDP leader said. Even if Wilson's cuts were larger than expected, finance departments would likely have a contingency plan to make up for the shortfall, he noted.

If Devine is truly worried about the shortfall from transfer payments, he could easily make it up by withdrawing the \$370 million the province has invested in equity and loan guarantees to build a \$425-million fertilizer plant at Belle Plaine with Cargill Ltd., Romanow said.

"Just the cash-up-front equity of \$64 million would almost be double the loss (in revenue) of transfer payments (in 1990-91)," he said. "If this project is such a winner, then Cargill should be

told to finance the deal itself."

Asked what economic development alternatives the NDP was proposing to allow the province to be less dependent on transfer payments, Romanow said he wasn't going to reveal his party's election platform yet.

But the NDP leader said he did not see cancelling the Carx 1 deal as a long-term blow to the province's economy.

There are many other examples of wasteful provincial spending — including the government's advertising budget — that would help offset the lost revenue, he said.

Romanow also took shots at Devine's complaint the Wilson budget neglected the farm crisis.

If Devine is upset because he has been unable to convince his Tory brethren in Ottawa to spend more money on agriculture, he can only blame himself, Romanow said.

But if Devine is shedding crocodile tears now as part of an elaborate scheme he has cooked up with Prime Minister Brian Mulroney to again bail out Saskatchewan farmers during a future provincial election campaign, he is playing with people's lives, he said.

But when asked if he and other NDP MLAs would be willing to show leadership by proposing the elimination of their severance package and rolling back their own salaries, Romanow was not so willing.

The right symbolic restraints are important, the NDP leader said, and it is just as important to display those symbols in other areas.

"Whatever we do has to be tempered by making sure the pay package for MLAs and ministers is sufficient to attract a wide spectrum of Saskatchewan people (to run for political office)."

Dale EISLER



To this point, the NDP criticism of the Cargill fertilizer project has been based purely in politics.

The argument levelled by NDP leader Roy Romanow has been that the Devine government is trapped by its love of big business and mega-projects. As a result, Romanow maintains the province now finds itself locked into a bad deal with Cargill.

The heart of the NDP attack on the Cargill plant to this point is that taxpayers' dollars are being used to prop up a project that will be controlled by a rich multinational. The Devine government is putting up \$64 million and getting 49 per cent equity in the project. But as well, the province is guaranteeing a loan of \$305 million to cover the project's debt financing.

But for a total "exposure" of \$369 million in a project worth a total of \$435 million, control belongs to Cargill. Therefore, the government takes the vast majority of the risk and Cargill gets to run the project, with an option to buy out the government should it decide to sell its share, which Grant Devine says is very likely.

To make all this mean something at the grassroots level, Romanow talks about it being a waste of taxpayers' dollars. Instead of "propping" up a wealthy company like Cargill that last year had total sales of more than \$3 billion, Romanow says the government should be putting money into the hands of farmers on the verge of going broke.

The political message therefore becomes that the Tories have money for Cargill, but nothing for farmers.

There is little doubt that the NDP argument carries significant political weight. But that doesn't mean it is legitimate, or in fact even makes any sense.

For that matter, since the Cargill announcement, Romanow has often made the argument that if the Tories wanted to do something for rural Saskatchewan they should take the \$369 mil-

lion and make it available to entrepreneurs in hundreds of small towns.

Romanow was at it again on Wednesday, this time linking the Cargill deal to this week's federal budget. The NDP leader related the cuts in transfer payments from Ottawa to what the government has committed to the Cargill plant.

"The Devine government could save Saskatchewan taxpayers \$370 million by withdrawing its government giveaways to the Cargill fertilizer project," Romanow said.

It is expected that over two years the reduction in transfer payments to Saskatchewan will total almost \$100 million. That money will have to be found somewhere, and Romanow argues a good place to look would be the fertilizer plant. The equity investment of \$64 million by the government's Crown Management Board would more than cover the first year in lost money from Ottawa.

Of course the suggestion the taxpayers will save \$370 million if the fertilizer plant didn't go ahead is little more than voodoo economics. The loan guarantee of \$305 million doesn't cost the government anything and is only a contingent liability should the project itself fail.

As well, by arguing against the government investment, Romanow is sounding very much unlike the NDP government the people rejected almost eight years ago.

The previous government eagerly invested in all sorts of joint ventures with private companies. The Blakeney administration even granted itself, by law, the option to take an equity position in any private sector mining developments in the north.

In the days ahead, Romanow promises to expand his critique of the Cargill deal. He says that a series of news conferences are planned to demonstrate that this is a bad deal for Saskatchewan people.

However, up to this point, Romanow and the NDP have done nothing to build a convincing

case to suggest the project doesn't make sense. Their position has been based entirely on making people believe that the money would have been better spent in other ways if the government truly wanted to diversify the economy.

But the fact of the matter is that diversification must be based upon something. It is simply not good enough for Romanow to say that the government should have taken the mythical \$369 million and spread it around the province. While that might sound good for the people who would get the money, making it a popular political line to sell, it is also meaningless.

If the NDP wants to build a credible argument against the fertilizer plant, it will have to do it in the context of some kind of economic strategy.

At this point, the New Democrats have said nothing of any substance about their version of how to diversify the Saskatchewan economy. Other than offering vague notions about "identifying" the province's economic strengths, providing financial stability to local business and something called a "Saskatchewan First" policy, there has been nothing but empty rhetoric from the NDP.

The time has come for the Opposition to do more than just criticize projects like Cargill while framing alternatives in meaningless, if nice-sounding, terms.

If the political debate over economic policy is ever going to enlighten anyone, then the NDP will have to offer up its answers and alternatives. And that doesn't mean the New Democrats have to unveil their election platform.

But what they must do is explain at least where they stand and how they propose to deal with economic reality in this province. In the final analysis that has little to do with politics, and everything to do with a small population living off a fragile farm-based economy that operates in an often hostile world economic environment.

Eisler is The Leader-Post's political editor

U.S. fertilizer firms take aim

By Randy Burton
of the Star-Phoenix

American fertilizer companies are banding together to fight the Saferco fertilizer plant due to begin construction this spring.

Although the sod has yet to be turned on the joint project between the provincial government and Cargill Ltd., seven U.S. competitors are already crying foul.

They say the plant will benefit from government subsidies that could be subject to American countervailing duties or anti-dumping action.

The companies have taken their concerns to the U.S. Commerce

dept. which takes the lead role in determining whether there are grounds for such actions under American law.

Bob Luzzi, president and chief executive officer of CF Industries in Chicago is heading the opposition from American producers.

"We think that given the surplus production that exists in Western Canada, that a lot of the production from this plant, if it goes forward, is going to wind up in the United States, with a high likelihood of prices that would raise severe dumping questions," he said in an interview Friday.

Luzzi said he doesn't think the Saferco plant could go ahead



without some kind of hidden government subsidy.

"We have looked at this project in previous years and turned it down, and other companies have looked at it and turned it down."

Luzzi has met with Commerce department officials, the U.S. trade representatives department and others involved in overseeing

the Can.-U.S. free trade agreement.

Luzzi said American producers have pursued anti-dumping actions against both Germany and the Soviet Union in the past and won.

He said there is already two million tonnes of annual production overcapacity in the nitrogen fertilizer industry, and the Saferco plant is not needed.

Luzzi represents his own company, and Freeport McMoRan the company backing Saferco's would-be Canadian competitor Canadian 88 Corp. of Calgary, J.R. Simplot, First Mississippi Corp., Mississippi Chemical Co., Arcadi-

at Saferco

an Corp. and Terra International.

Several of these companies have already lobbied the provincial government to get out of the project without success.

Bill Gibson, president of the provincial Crown Management Board, said the government has examined the issue of potential countervails very closely and is satisfied the Saferco plant will stand up to scrutiny.

"These guys are all our future competitors. Their life would be a lot easier if we weren't in business and there's been a fairly heavy duty attempt by our competitors to get us to stop working on this project."

"I guess if Eaton's can prevent The Bay from building a store, they're happier."

The CMB has also talked to the U.S. Department of Commerce and explained how the deal is to work.

"There's no guarantee that we won't have a problem. All I'm saying is we've done an awful lot of work on it," and the CMB is aware of the possible pitfalls.

While the Americans are complaining about government loan guarantees, Saferco's real advantage will be its location and consequent ability to centrally serve the North American market, Gibson said.

BEST AVAILABLE COPY

U.S. fertilizer plants are wary of Saferco

By D'Arce McMillan
of The Leader-Post

Fertilizer manufacturers in the United States are lobbying hard in Washington to make sure product from the proposed Saferco nitrogen plant at Belle Plaine doesn't damage their markets.

The threat of U.S. trade action has the provincial New Democrats worried and they are calling on the Devine government to make public its legal opinion that makes it confident Saferco will be able to sell in the U.S. without problems.

Bob Liuzzi, chairman of CF Industries in Chicago, said Friday an ad hoc committee of seven U.S. nitrogen fertilizer producers has already complained about the Cargill-Saskatchewan plant to the U.S. Department of Commerce — the body that oversees U.S. trade protection laws.

"Until this thing is built, we are not going to sit idly by," he said.

"We will continue to talk to people in Washington, to people on (Capitol Hill) — we are going to express our concern.

Liuzzi, whose company has world-scale fertilizer plants in Louisiana and an interest in a fertilizer plant in Medicine Hat, Alta., said he was "appalled" that Cargill and Saskatchewan were going ahead with the plant when Western Canada produces much more nitrogen fertilizer than can be used regionally.

CF Industries was once approached by the Saskatchewan government about the fertilizer plant, but it wouldn't get involved, he said. It still thinks the project isn't commercially viable unless there was "heavy provincial involvement."

A product is considered dumped when it is sold at less than the cost of production.

Liuzzi's concerns are reflected in a legal opinion done by an American law firm for Cominco Fertilizers, a summary of which was released by provincial New Democratic trade and investment critic Friday.

Cominco, which produces nitrogen fertilizer in Alberta, has taken strong exception to the provincial government's involvement in the Saferco project.

The legal opinion noted that while it is not certain that Saferco product exported to the U.S. would be subject to anti-dumping laws, it is possible.

Much depends on the state of the North American nitrogen fertilizer market in late 1992, when the plant starts operations.

A few years ago, Liuzzi's group was instrumental in having anti-dumping duties levied against nitrogen fertilizer from the Soviet Union, Romania and East Germany.

The amount from those three sources being exported to the U.S. then was about 800,000 tonnes a year.

By 1992-93, with the start up of the Saferco plant, about two-million tonnes of surplus urea nitrogen fertilizer is expected to be produced in Western Canada, the Cominco legal opinion estimates.

This will drastically lower the price to the point of being below the cost of production, it says.

The NDP's Mitchell said the government must answer these concerns with more than mere assurances that U.S. trade law pose no problem.

"What I want and what Saskatchewan people want, is to see their (the government's) written legal opinion which explains how these areas are to be dealt with."

Deal OK: manager

The manager of the Saferco project says Cargill and the Saskatchewan government have spent 18 months making sure it won't run afoul of U.S. trade law.

"We have spent the last year-and-a-half on these issues because, with Cargill being an international trader, we understand completely all of the issues that come forward," Peter Hayward said Friday.

"It would be ridiculous to be involved in building a plant of this nature and size that wouldn't be able to move into foreign markets."

To make sure the government's loan guarantee is not considered a subsidy that could be subject to a U.S. countervail duty, Saferco will pay a fee for it. To establish the fee, it had outside legal council recommend a countervail-safe fee. Then it went to investment house Merrill Lynch and asked the same question.

The result was a fee that equals paying three-quarters of a percentage point more than the government-guaranteed interest rate for the loan.

"The only thing that could happen is that the U.S. would say we aren't paying enough, and then I guess we'd have to pay the government more money," he said.

"But as far as we are concerned, we have something that will stand up in any court."

As for running afoul of U.S. anti-dumping laws, much depends on the state of the North American market

at the time Saferco starts producing in late 1992.

Saferco believes modest growth in North American demand for urea nitrogen will be enough to soak up the Belle Plaine plant's production.

Saferco's projections are backed up by a fertilizer market analyst with the Tennessee Valley Authority, National Fertilizer and Environmental Research Centre in Muscle Shoals, Ala.

Curtis Brummitt said Friday he sees slow growth in demand for nitrogen fertilizer, at most two per cent. He also said there has been a constant, gradual switch from anhydrous ammonia to granular urea or solutions for safety reasons.

This rate of market growth for urea seems to match Saferco's projections.

But to be safe, Saferco has backed up plans, Hayward said.

"Even if we have a real downturn in the marketplace because of drought or whatever, we asked ourselves where could we move the product to," Hayward said.

He said the company worked out profit-loss projections for a scenario where Saferco had to move 250,000 tonnes of urea — about a third of its capacity — off-shore in each of its first three years of operation.

Saferco already has a standing order to supply China with 250,000 tonnes a year, he said.

— McMILLAN

Saferco's foes back U.S. fears

Saferco's Canadian competitors are not surprised U.S. politicians are asking questions about the giant fertilizer plant proposed by the Saskatchewan government and Cargill.

And they fear U.S. trade actions aimed at Saferco will hurt the whole Canadian industry.

"If they are successful in either a countervailing duty or an anti-dumping duty on Canadian production, it would be a disaster for us because we ship sizable quantities over there now," Joe Fraser, chairman of the Council of Canadian Nitrogen Producers, said in an interview Wednesday from Edmonton.

The council represents Sherritt Gordon, Cominco, CF Industries and Simplot Chemicals.

Fraser has been lobbying the Saskatchewan government to give up on the project because of the danger the Saferco plant presents generally to the industry in the form of U.S. trade actions, he said.

He said it's hard to argue against U.S. companies' claims that the Saferco project is subsidized — mem-

bers of the council have used similar arguments.

"Their basic argument is that plant just wouldn't be built without government involvement, therefore it must be subsidized.

"Cargill, isn't short of money — it's one of the wealthiest companies in the world — and if it was that attractive a situation they would build it themselves."

Meanwhile, John Van Brunt, vice-president of Cominco Fertilizers in Calgary, said the U.S. political response to the Saferco project should show the Saskatchewan government the issue of trade retaliation is an important one.

"When lobbying the Saskatchewan government, the impression we got . . . was that they didn't think we were down-playing, or weren't concerned that the U.S. industry was concerned," he said.

"It was like they thought we were whistling Dixie."

— McMILLAN

U.S. senators question effect of Saferco plant

By D'Arcy McMillan
of The Leader-Post

U.S. senators are asking questions about the trade and environmental implications of the Saferco fertilizer plant to be built at Bella Plaine by Cargill and the Saskatchewan government.

Republican Senator Thad Cochran of Mississippi and seven other senators have written U.S. trade representative Carl Hilla to look into the terms of the Saferco project and to provide them with information about the plant and the involvement of the Saskatchewan government.

Cochran read the letter into the Congressional Record on March 8.

Cochran said information provided to him by U.S. fertilizer producers lead him to believe the production of Saferco will contribute to a surplus of fertilizer that will lower prices in the U.S.

"I am certainly not opposed to competition, but I have been told there is evidence that this plant could not be competitive were it not for the government subsidy," he said.

"This seems to be in conflict with the recent United States-Canada Free Trade Agreement."

In the letter to Hilla, the senators say they are "dismayed" that, given Canada's oft-repeated concerns about acid rain and ozone depletion, "Saskatchewan (has) essentially ignored sensitive environmental concerns in its haste to construct this huge chemical plant."

By not conducting an environmental impact study, the government is providing the plant with a competitive advantage, the senators wrote. "Given the serious issues raised

from an environmental as well as a fair trade standpoint, it would be most beneficial to all concerned if the matter could be addressed before the need arises for the pursuit of unfair trade litigation," they wrote.

Senator Cochran couldn't be reached Wednesday for comment.

Peter Hayward, Saferco project manager, also wasn't available Wednesday, but said in a recent interview that the financing arrangements with the province were designed to ensure it couldn't be the target of a successful trade action by the United States.

The province's loan guarantee isn't a subsidy because Saferco is paying a fee for it, he said. If a U.S. review finds it to be a subsidy "then I guess we'd have to pay the government more money (for the guarantee)," he said.

Saferco has also made arrangements to sell its fertilizer to China and other offshore markets if it appears that when the plant starts, its production would flood the North American market, he said.

He said the Saferco plant will use the latest in technology and will not produce a liquid discharge. Emissions into the air will consist of steam and exhaust from burning natural gas. There will be an emission stack to burn off anhydrous ammonia if there is ever a pressure change in the plant's storage tanks.

The Saskatchewan environmental assessment branch has been satisfied that the plant will not have a significant environmental impact and under its regulations there is no need to have a public review of the plant.

Farmers question financial risk associated with Saferco

PENSE (CP) — Farmers living near the site of the government-supported fertilizer plant being constructed west of Regina are concerned over the financial risks of the project.

Several farmers who attended a public meeting to discuss environmental aspects of the project later questioned the province's decision to enter the joint venture with Cargill.

"The question is why are we doing this, especially with government money," said Wes Brunskill, one of several farmers at the meeting.

Brunskill also questioned why Saferco, the company formed to manage the project, waited until after construction began before holding public meetings.

"If you've got any concerns, it's

too late to really air them because the project is going ahead," said the burly grey-haired farmer.

About two dozen people attended the first company-sponsored public meeting on Monday night in this quiet bedroom community of 650 people, about 30 kilometres west of Regina.

The meeting was the first in a series of four meetings to gather public reaction to the project.

But most everyone who spoke to reporters after the 70-minute slide presentation and question period raised concerns about the government's investment in the \$435-million project.

The Devine government is putting up \$64 million in equity and guaranteeing a \$305 million loan.

"It's not the money (the government) is putting in right at the

moment, it's the loan they're going to back," said Lloyd Morrison, a resident of Pense. "If something goes wrong, who's going to pay it?"

An Angus Reid poll last month of 500 Saskatchewan residents, sponsored by Cargill's competitors, also raised doubts about the project.

The poll suggested only 10 per cent of those aware of the project thought it was a good deal for Saskatchewan.

The poll also indicated over half of those surveyed believed Cargill had been given a one-sided deal by the government.

But Spearing, who also farms in the Pense area, said he shares the contention raised by Cargill's competitors that there's no room in the Canadian market for another

or nitrogen fertilizer plant.

"If a lot of these other companies are forced out of the fertilizer business, I can see the price of fertilizer going up," said Spearing.

Premier Grant Devine has repeatedly defended the province's decision to enter the joint venture with Cargill to build the first nitrogen fertilizer plant in Saskatchewan.

Devine, who is also Saskatchewan's agriculture minister, argues that Saskatchewan farmers spend \$300 million annually on fertilizer and should have the option of buying a product made in the province.

Further public meetings on the plant will be held tonight in Moose Jaw, Wednesday in Regina and Thursday in Saskatoon.

S-P Opinions

Question Saferco deal

The call for an independent inquiry into the environmental and economic impact of the Saferco fertilizer plant is more than justified.

When the four Manitoba and Alberta companies who made the request released a poll indicating 31 per cent of Saskatchewan residents thought the plant was a bad deal, a Saferco spokesman said "it's just another attack by a group of non-Saskatchewan fertilizer companies on the project."

Fifty per cent of Saferco is owned by Cargill Ltd., which is a subsidiary of the privately owned Cargill Inc. of Minneapolis. That is non-Saskatchewan and non-Canadian. There is little chance this multinational would have a subsidiary involved in a money-losing venture.

The four existing fertilizer manufacturers fear competition in what they say is a volatile and over-supplied market.

Prairie farmers have cut back on costs by reducing fertilizer inputs. Further, a small but growing number of farmers realize that inorganic fertilizers are not the answer to economic woes, and the long-term goal of rebuilding the soil is environmentally necessary and economically desirable. Healthy soils, with adequate organic matter, are not prone to erosion. Organic matter is a natural storehouse of soil nutrients.

There is little doubt Cargill is the main beneficiary in this venture, with \$64 million from the province, plus government backing for \$305 million in loans. Saskatchewan farmers may account for an insignificant portion of Saferco's customers. Chances are the fertilizer will be sold elsewhere in Canada and, more importantly, overseas.

Considering Cargill's international connections, a significant portion of the fertilizer will end up on crops grown by Canada's grain competitors, or even on crops grown by customers eager to cut back on food import bills.

As well, the government grant and loan guarantees fly in the face of the free trade agreement. Remember the countervail fiasco over potash.

Taxpayers, particularly farmers, shouldn't be afraid to voice their opposition to the Saferco plant.

Safarco officials pelted with questions, concerns

By BRIAN FODEN
of The Leader-Post

MOOSE JAW (Staff) — Skeptics pelted Safarco Products Inc. officials with concerns, and supporters applauded each other during a meeting Tuesday night that drew about 35 residents.

Criticism ranged from the government providing Cargill Ltd. with a loan guarantee of \$305 million for the mega-project being constructed near Belle Plaine to complaints about increased rail traffic in the Moose Jaw area.

"It just seems so strange to me that in hard-up Saskatchewan, that Cargill has to borrow money from our hard-up government," former Moose Jaw alderman Marion Tolley said during a question period after the Safarco presentation.

Tuesday's meeting at the Harwood Moose Jaw Inn was one of a series of public presentations and discussions Safarco is holding.

Tolley asked several questions of two Safarco executives and an environmental consultant involved in a voluntary impact assessment of the \$435-million plant.

Joe Rakko, Safarco's manager of corporate affairs, said Cargill did not come looking for the government's financial support, but was invited by the Tories instead.

While Tolley's concerns focused on the government's financial commitment and how much the project will

actually help the province, others expressed worry over the possibility of environmental accidents.

Moose Jaw resident Ed Burton said the thought of several rail cars carrying anhydrous ammonia through Moose Jaw did not comfort him.

Burton estimated 40 cars per day would carry the corrosive substance through the city once the plant began production.

However, project director Ron Christenson said some of the fertilizer will be delivered by truck.

Former agricultural representative John Hanson asked what precautions Safarco has taken to minimize the risk of danger to the environment, prompting Christenson to outline several safety features of the plant.

Comments by Coun. Jim Dixon about the positive effect of the Safarco plant to Moose Jaw were greeted with robust applause by several members of the audience.

"I'd just like to say some positive things, and I think Moose Jaw welcomes Safarco greatly," Dixon said.

Others, including Bill Pitcher, did not express their views to Safarco officials, but said in interviews after the meeting they support the nitrogen fertilizer plant.

"Absolutely. As long as they're meeting the major concerns, the real concerns, the jobs and the economic development are just going to be super for Moose Jaw and Regina," said Pitcher, who works as a fund-raiser for Moose Jaw's Union Hospital.

Don CURREN



Even before the Safarco fertilizer plant at Belle Plaine has even gone into production, it's already generated a lot of fertilizer.

The verbal kind, not the nitrogen-based varieties.

The \$435-million fertilizer plant, a joint venture of Cargill Ltd. and the provincial government, has become the focus of a torrent of words, both opposing and supporting.

In the most recent bit of bombast, the Canadian Council of Nitrogen Producers produced an Angus Reid opinion poll it commissioned suggesting that 31 per cent of Saskatchewan residents don't believe the project is a good deal for the province.

Safarco has fallen prey to what might be dubbed the "Rafferty Syndrome."

Whatever political benefits might have come to the government from the jobs and other economic spinoffs created by Safarco have likely long since been eroded by the continuing controversy about it.

Like the Rafferty broohaha, the Safarco kerfuffle doesn't show any signs of dying away.

It shows every sign of joining the Rafferty debate as a semi-permanent feature of the province's political landscape.

Dam projects such as Rafferty often arouse heated emotions and debates — you just have look west to the fight over the Oldman Dam in Alberta.

Nitrogen fertilizer plants, on the other hand, aren't notorious for provoking strong feelings.

The Safarco debate might be a reflection of the Saskatchewan tendency to polarize and politicize the debate on everything to an extent unimagined in less politically inclined climes.

Sometimes, it seems the government can't float the most innocuous proposal without drawing a burst of vociferous criticism.

But not only does the Safarco plant arouse opposition from environmentalists, competitors and politicians (domestic and foreign).

The premier's commitment to the Safarco plant also seems to fly in the face of his own fundamental economic beliefs.

The province is providing a

playing field tilted in favor of certain players, instead of the level one advocated by free-market proponents, such as Devine.

After all, if it were economically viable to develop a nitrogen fertilizer megaproject in Saskatchewan, why would it have to be booyed up by massive government investment?

The government is providing a direct investment of \$64 million and \$304 million in loan guarantees to the Safarco plant.

Devine has some good arguments in favor of the plant. Why pay to transport nitrogen fertilizers into the province when we have the raw materials and the markets right here?

But if the argument is compelling, let the natural laws of market economics work their magic and someone, sooner or later, will take advantage of the opportunity.

Devine's vision of homegrown nitrogen fertilizers seems to have become an article of faith, an emotional commitment.

"I have said for years and years in Saskatchewan that we are going to produce fertilizer even if I have to do it myself," Devine said when making one of several announcements of the project back in February.

That determination has become so strong, it's overridden the free-market philosophy Devine claims determines his government's actions.

Ironically, the emotions involved seem similar to the kind of emotions that sustain the European agricultural subsidies the premier is so opposed to.

European countries have agricultural subsidies because they have an emotional commitment to the survival of their own farmers and farming industries — despite the fact they need government money to endure competitive pressure.

In the same way, Devine wants to see a local fertilizer industry even if it takes massive government intervention to get it off the ground.

It's an interesting reflection of the fact that emotions and economics aren't always as easy to disentangle as Devine and the rest of us would like them to be. Curren is the Leader-Post's provincial editor.

Rivals fight Cargill over plant

REPORT ON CANAD

Rivals' survey finds residents not happy about Cargill plant

Companies opposed to a planned \$435-million fertilizer plant near Regina have gone to the unusual length of sponsoring a public opinion poll on the controversial project.

Three fertilizer companies yesterday released the results of an Angus Reid poll on the Saferec plant being built at Belle Plaine by their competitor, Winnipeg-based Cargill Ltd.

Joe Fraser, president of Toronto-based Sherritt Gordon Ltd., said the survey suggests only 19 per cent of Saskatchewan residents think the plant, supported by huge loans from the province, is a good deal.

The survey indicated 31 per cent thought the deal was a bad one, while 35 per cent said it was an "okay" deal.

Sherritt Gordon, Cominco Fertilizer Ltd., a unit of Vancouver-

based Cominco Ltd., and Canadian Fertilizer Ltd. of Medicine Hat,

Alta., have been lobbying against the plant since the deal was announced last year.

The province is paying \$65-million for a half share in the plant and has issued \$305-million in loans and loan guarantees for the project.

Producers predict fertilizer glut

By Alan Price

SASKATOON — Three major Canadian fertilizer producers are trying to halt the Saskatchewan government's joint venture with Cargill Ltd. in a fertilizer plant near Regina.

Winnipeg-based Cargill is the Canadian subsidiary of giant Cargill Inc. of Minnetonka, Minn.

Sherritt Gordon Ltd. of Toronto, Cominco Fertilizer Ltd., a unit of Cominco Ltd. of Vancouver, and Canadian Fertilizer Ltd. of Medicine Hat, Alta., said production from the planned \$435-million plant will cause a glut in an already saturated market.

The disgruntled companies — calling themselves the Canadian Council of Nitrogen Producers — said they will release an Angus Reid poll today gauging the attitudes of Saskatchewan residents to the Cargill plant.

The province is matching Cargill's \$65-million equity investment and will guarantee another \$305-million in loans for the joint-venture company Saferec to build the plant.

Council president Joe Fraser of Sherritt Gordon said the producers object to the government's involvement in the plant. "Any time you have a mature industry such as the fertilizer business, and the government becomes involved, it just upsets the apple cart," he said.

Saskatchewan New Democrats have joined Cargill's competitors in arguing the government should stay out of the business and let Cargill go ahead on its own.

Bill Gibson, president of the Crown Management Board, fully expects the council survey to suggest that public opinion is against the plant.

"They wouldn't have a news conference for any other reason," he said. "It's a recognition on their part that we're serious competition for them and whatever they can do to make our life miserable, they seem to be prepared to do."

A group of U.S. fertilizer producers is lobbying U.S. senators and trade officials for anti-dumping action when the Saferec plant begins production in 1993.

OSGOODE HALL REPORT

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It (the Safarco plant) can't make money.

— Joe Fraser

By JIM KNISLEY
of The Leader-Post

Claiming support of the Saskatchewan public, a group of Canadian fertilizer manufacturers vowed Wednesday to continue to fight the construction of the Safarco nitrogen fertilizer plant at Belle Plaine.

A poll done for four fertilizer producers indicates that 16 per cent of Saskatchewan residents unconditionally support the project. A further 37 per cent would support the project if an environmental impact assessment is done and 31 per cent of Saskatchewan residents oppose the project.

The Angus Reid poll also shows 19 per cent of Saskatchewan residents believe construction of the plant, which is owned by the provincial government and Cargill Inc., is a good deal for Saskatchewan.

Meanwhile, 35 per cent of those polled said the deal is "not great, but OK" for Saskatchewan, while 31 per cent said it was a bad deal.

The poll was commissioned by the Canadian Council of Nitrogen Producers, which is composed of Cominco Fertilizer Ltd., Canadian Fertilizer Ltd., Sherritt Gordon and Stamplet.

These companies produce most of the nitrogen fertilizer made in Canada.

For the poll, Angus Reid, a Winnipeg-based company, asked 500 Saskatchewan residents a series of questions about the fertilizer project.

The poll was done by telephone June 14-18. The only requirement of the poll was that the respondent be 18 years of age or older.

Sixteen per cent of those polled were farmers and 84 per cent said they weren't involved in farming.

Gary Benzerovic, senior vice-president of Angus Reid, told a news conference Wednesday that the poll has an accuracy of plus or minus 4.4 per cent, 13 times out of 25.

While more than half those polled said they believe the Safarco plant is a good or OK deal for Saskatchewan, the public had a number of concerns.

According to Angus Reid, 68 per cent of Saskatchewan residents believe the deal is too one-sided in Cargill's favor.

A large majority — 71 per cent — also believe a full environmental impact study should be done before the project proceeds.

Almost as many — 71 per cent — want the project delayed until a full independent study is done to test the economic viability of the project.

John Van Brunt, vice-president of Cominco Fertilizer Ltd., said the companies commissioned the poll to find out where Saskatchewan people stand on the project.

The companies themselves believe it is a disaster in the making and intend to do whatever they can to stop it, he said.

While they haven't decided what they will do next, they could take legal action to assure full environmental studies are done before the plant proceeds or continue to try to drum up public opposition to the Safarco plant.

"We're not going to drop it and walk away," Van Brunt said.

While fertilizer council members said the poll bolstered their opposition to the Belle Plaine plant, Safarco said the poll shows Saskatchewan people support the project.

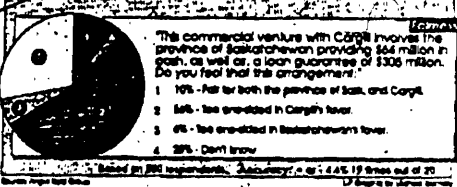
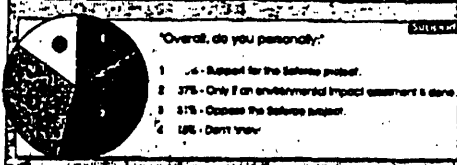
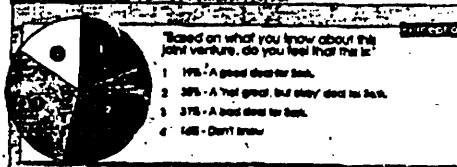
Safarco spokesman Joe Rakko said 34 per cent of those polled think the project is good or OK and believe it should go ahead.

The company is also doing an environmental impact study that should allay concerns, he said.

He pointed out that Safarco has complied with all the rules and didn't have to do an environmental impact study, but decided to do one, anyway.

This week, Safarco mailed out 70,000 information packages to rural households and independent

Angus Reid Poll: Cominco Fertilizer Project



Based on 500 respondents, January 20-22, 1985. 19 times out of 25.

fertilizer dealers in Saskatchewan. The company has also scheduled town hall meetings in Pense on Monday; Moose Jaw, Tuesday; Regina, Wednesday and Saskatoon, July 13.

Meanwhile, Rakko questioned parts of the survey that indicated people believed the Safarco deal favored Cargill over the provincial government.

One question pointed out that the government is investing \$64 million in the project and has provided the company with a \$30-million loan guarantee.

"I think the numbers would be different if they included all of the information in the question. They neglected to say that Cargill was investing \$65 million... It was a very slanted question," he said.

Other questions showed the same tendency for loaded preambles and fair questions would have received more representative responses, he said.

Safarco and the other fertilizer producers also disagree on the economics of the plant.

Joe Fraser, president of the council, said Saskatchewan people should be concerned that they will take a financial bath because of the government's investment in Safarco.

"If (the Safarco plant) can't make money," he said.

But that doesn't seem to matter because the government is involved.

"Anytime governments become involved in mature industries... common-sense economics no longer applies," he said.

Van Brunt said no one in the nitrogen fertilizer business believes Safarco makes sense. But they know that it will cost everyone, including Saskatchewan taxpayers, a lot of money.

"There will be a bloodbath," he said.

Making matters worse is that Cargill received a "sweetheart deal" involving marketing fees that guarantee them a profit even if Safarco is losing money, he said.

In response, Rakko said "This cartel of some nitrogen producers is doing anything to protect their hides without the benefit of farmers at heart. They're talking about the economics of their plants versus the pocketbooks of farmers."

The comments of the other companies, the survey and an earlier or companies' interpretation of it "is just another attack on farmers and our customers — it won't be said."

Politicians differ on poll results

It took only minutes for Saskatchewan politicians to turn a privately commissioned poll on the popularity of the Safarco fertilizer plant into a political football.

NDP finance critic Ned Shillington said the Angus Reid poll shows the public wants the government to release all the financial arrangements of the project and submit the plant to a full environmental review with formal hearings.

"This plant was to be a show-

piece for the government before the next election.

"It is apparent that without full disclosure and without some evidence that it isn't a sweetheart deal for Cargill, it's going to be quite the opposite," Shillington told reporters at a Regina news conference.

Meanwhile, Finance Minister Lorne Hepworth found comfort in the poll results, released Wednesday, that showed a majority thinks

the plant will be good or OK for Saskatchewan.

"Given all the controversy surrounding the project and all the work that's been done by the Opposition to discredit the project, I think the results were actually quite decent," he said.

Questions concerning the environmental soundness of the project will be largely put to rest by the announcement that there will be a full-fledged environmental

review, he said.

Hepworth said people should also take a hard look at who commissioned the poll.

The companies that paid for it will be competing with the new fertilizer plant, he said.

"One has to ask," Hepworth said, "what is the motive behind all of this? Is it that they're afraid that it is too good a deal for farmers?"

—KNISLEY

Province will pay Cargill to market

Times-Herald Staff and Canadian Press

The Saskatchewan government will pay Cargill Ltd. to market the fertilizer produced at its joint venture Belle Plaine plant, says Bill Gibson, president of the Crown Management Board.

The marketing fee has been the subject of industry speculation for months but until now the government has refused to confirm it.

Industry analysts and critics of the \$435-million project east of Moose Jaw — construction on which is supposed to begin this month — maintain such a fee is the only way Cargill can make any money in a depressed market.

Gibson refused to reveal how much the fee will be, except to say it will be based on the sale price of the

granular nitrogen fertilizer produced and the terms and conditions of sale.

MLA Glenn Hagel (NDP—Moose Jaw North) today called on the government to publicly reveal the terms of the marketing fee. "I think all Saskatchewan people have a right to know what the details are of any agreement between a government and the private sector — especially when there is risk involved for taxpayers," Hagel said.

The financing of the project calls, in part, for the government of Saskatchewan to guarantee about \$300 million worth of loans to be taken out by Safarco, the joint venture set up by the province and Safarco.

Deputy Premier Pat Sruhan, while refusing to table the agreement in the legislature, insisted the deal

"will be good for Saskatchewan".

Up to 1,000 jobs are forecast during the peak construction period, and municipal and business leaders are enthusiastic about the big economic dividends they say the plant will mean for Moose Jaw.

MLA Rick Swenson (PC—Thunder Creek) said even previous New Democratic governments withheld details of joint ventures, so as not to give competitors any possible advantage. "It's very seldom that all the details are released," he said.

The marketing deal has been examined by fertilizer industry experts and Gibson is confident it will be "commercially defensible". But seven large U.S. fertilizer companies already are saying the joint venture will receive unfair subsidies

and its products will be subject to some sort of trade action.

Swenson said he's confident the product will be able to pass American anti-dumping tribunals in the United States, saying it would have been "foolish" for the government to agree to a deal that might raise the ire of protectionist interests in the U.S.

In the legislature Monday, NDP energy critic John Solomon estimated the company will get \$2 to \$3 for each tonne of fertilizer produced, regardless of the sale price or even if the total production doesn't sell.

That would give Cargill \$7,000 to \$10,000 a ton, whether or not the plant makes money, said Solomon, an arrangement called a "sweetheart deal" by the NDP.

April 10/90 M.J. Econdes

Cargill to get fee for selling fertilizer

Canadian Press
SASKATOON

The Saskatchewan government will pay Cargill Ltd. of Winnipeg to market the fertilizer produced at their joint venture plant slated to begin construction this month, says Bill Gibson, president of the Crown Management Board.

The marketing fee has been the subject of industry speculation for months but until now the government has refused to confirm it.

Industry analysts and critics of the \$375-million project at Belle Plaine, Sask., maintain that such a fee is the only way Cargill can make any money in a depressed market.

Mr. Gibson refused to reveal how much the fee will be, except to say it will be based on the sale price of the granular nitrogen fertilizer produced and the terms and conditions of sale.

The deal has been stamped by fertilizer industry

experts and Mr. Gibson said he's confident it will be "commercially defensible."

Seven large U.S. fertilizer companies already are saying the joint venture will receive unfair subsidies and its products will be subject to some sort of trade action.

The provincial New Democratic Party maintains Cargill has made a "sweetheart deal" with guaranteed profits in the face of a falling market.

In the legislature, NDP energy critic John Solomon estimated the company will get \$3 to \$5 for each tonne of fertilizer produced, regardless of the sale price or even if the total production doesn't sell.

That would give Cargill \$7,000 to \$10,000 daily, whether or not the plant makes money, Mr. Solomon said.

The government refused to table the marketing agreement, but Deputy Premier Pat Smith said the deal will be "good for Saskatchewan."

More U.S. senators oppose Saferco plant

By SPARCE MCKILLAN
of The London-Post

Another 11 American senators have made known their opposition to the proposed Saferco fertilizer plant at Belle Plaine, slated to start construction this spring.

Sen. Quentin Burdick of North Dakota and 10 fellow senators have written a letter of complaint to U.S. trade representative Carla Hills alleging the Saferco plant would never be built if it wasn't for unfair subsidies from the Saskatchewan government.

They are also concerned that there hasn't been a "full public environmental impact assessment."

In March, eight other senators, led by Thomas Durdle of South Dakota, wrote a similar letter to Hills.

Saferco spokesmen have dismissed the criticisms as pure politics. They say they took pains in several years of planning to make sure their project would fit into the marketplace, not subsidize it.

Burdick's letter, which was made public May 24

"Not only are the environmental questions quite troubling, but the fair trade implications of Saferco are serious ones."

— Sen. Quentin Burdick

when he read it into the Congressional Record, the daily record of what is said in Congress, says the Saferco plant has "all the earmarks of political pork barrel."

"Not only are the environmental questions quite troubling, but the fair trade implications of Saferco are serious ones," the letter says.

"It has been suggested that the Saferco project is needed to replace the offshore exports into North America," the senators say.

Much of the offshore urea nitrogen coming into the

United States does so through Gulf Coast ports, it says.

"The Saferco plant will simply set us in a position, given transportation costs, to replace Gulf Coast imports."

Canadian and American markets that will be served by Saferco are already well-supplied by existing American and Canadian producers, it says.

"As a result, the additional Saferco supply will not reduce import levels, but serves to increase supply and necessarily depress prices."

The letter said Cargill's \$85-million investment in the plant is not evidence of its commercial viability. Indeed, Cargill's financial status is only 15 per cent of the total \$425 million cost of the plant, the letter notes.

"Indeed, it seems fairly clear to us that if the market required this supply, a private investor would undertake the venture without provincial equity participation, loan guarantees or incentives in the form of special marketing arrangements."

Burdick's letter also says that although the Saskatchewan government says the plant will meet envi-

ronmental standards, it has refused to make public any report of "its allegedly thorough internal environmental assessment of the plant."

Peter Hayward, Saferco project manager, couldn't be reached for comment Wednesday.

But he has said in the past it's difficult to count such criticism without giving away to its competitor the marketing plan it is going to use to compete against them.

Saferco has said it will export about half its 600,000 tonnes annual production of urea outside Canada the early years of its operation in the mid 1980s.

Some of that will go to the United States, but Saferco has self-imposed caps on its market share so as not to interfere with normal trade and prompt any fair trade action, Hayward has said.

Saferco also believes the growth in North America demand for urea nitrogen fertilizer, though modest, will be greater than its competitors say.

And if the North American market takes longer to improve than it thinks, Saferco says it can ship significant portions of its surplus production to markets such as China and still break even.

Consultant study proves fertilizer plant a dud: NDP

By Dave Traynor
of the Star-Phoenix

REGINA — A study which claims the proposed Saferco fertilizer plant will not make any money for at least 10 years is proof the project is a "white elephant," the NDP charged Friday.

But the findings of the study, conducted by a U.S. fertilizer consultant, are suspect because it was commissioned by Saferco's main U.S. competitors who are attempting to get the project stopped, said Finance Minister Lorne Hepworth.

"Does it surprise anyone that the competition to what's going to be a state-of-the-art fertilizer plant, built in Saskatchewan, should release a negative study? he asked.

He also said the study couldn't make a reasonable evaluation of the plant's prospects without knowing what economic indicators Saferco was using, which the government won't release.

Based on foreseeable market conditions in the fertilizer industry, the firm of Blue, Johnson and Associates predicts the \$435-million Saferco plant will lose \$64 million to \$132 million in its first decade of operation.

It blames the loss on the high initial capital cost of the plant

and says the cost of servicing the \$305-million debt will exceed cash flow in each of the first 10 years.

The study was commissioned by a group of eight American nitrogen fertilizer producers. They claim the plant is receiving unfair subsidies from the government, which is a joint-venture partner in the project with grain giant Cargill Limited.

In Friday's question period, NDP Leader Roy Romanow demanded that Hepworth table any studies he has that disprove the study's findings.

"If you dispute Blue, Johnson, why don't you put your studies on the table? What could be the reason for withholding them, other than the fact that Blue, Johnson might be right?" Romanow asked.

Hepworth said that while some say he might not be the brightest politician in the world — a point he said he wouldn't debate — he's not irresponsible.

"To table the business plan for Saferco would play right into the hands of its U.S. competitors who (the NDP) are standing behind," he told the house.

"The NDP wants to stand behind and help and support the U.S. competition, not stand behind Saskatchewan farmers,



ROY ROMANOW

... wants studies tabled

not stand behind the Saskatchewan fertilizer plant, not stand behind diversification of the economy and not stand behind Saskatchewan taxpayers."

Romanow pointed out that Blue, Johnson has also done work for the Potash Corporation of Saskatchewan, the Saskatchewan Department of Economic Development and Cargill itself.

Perhaps Cargill has already found out the future isn't that great and that's why the government had to guarantee a \$305-million loan to get the plant built, Romanow said.

But Hepworth said the deal with Cargill was a straight business deal and there are no subsidies involved.

Outside the house, Hepworth refused to reveal any details of Saferco's own studies, but he said they show the plant will make money in its first 10 years.

U.S. study paints bleak picture for Saferco plant

By MARK WYATT
of The Leader-Post

The proposed Saferco fertilizer plant will lose \$64 million to \$132 million in its first 10 years of operation, says a study commissioned by its American competitors.

The provincial government has touted its \$435-million joint venture with Cargill Ltd. as a viable investment that will offer farmers a "made in Saskatchewan" source of fertilizer.

But a leading firm of American fertilizer consultants has painted a bleak picture of Saferco's financial outlook.

Based on foreseeable market conditions in the fertilizer industry, the firm of Blue, Johnson and Associates predicts the plant will lose money in nearly every year of operations for its first decade.

Under the two most likely scenarios, Saferco would lose \$132 million or \$87 million, depending on the price it pays for natural gas — the primary input in fertilizer production.

A third scenario, which assumes a recovery in the price of urea fertilizer, would result in a \$64-million loss from the time the project comes on stream at Belle Plaine in 1983 until 2002.

"Blue, Johnson acknowledges that other outcomes are possible, but does not believe the project can show a significantly better financial outlook without a major and prolonged shift in the price relationships between natural gas, crops and fertilizers," the firm said in a summary of its findings.

"In Blue, Johnson's opinion, such a shift is not likely without

"I don't know how you could come up with numbers such as that without knowing the scenario inside the model we've created."

— Saferco spokesman

artificial (e.g. government) intervention."

The study was paid for by a group of eight American nitrogen fertilizer producers that is challenging the Saskatchewan government's involvement in the plant. They believe the province's 49-percent ownership in Saferco and further support from a government loan guarantee amount to an unfair subsidy.

The companies have been joined by a group of United States senators in asking American trade representative Carla Hills to investigate the terms of the government's partnership with Cargill.

Saferco spokesman Peter Hayward said the study's findings are totally unrealistic.

He noted Blue, Johnson and Associates aren't familiar with the actual market factors Saferco used in its own assessment.

"I don't know how you could come up with numbers such as that without knowing the scenario inside the model we've created."

Hayward said Saferco used "very realistic" market conditions in its own assessment and was still able to convince the provincial government, Cargill, and its lenders that the project is viable.

The company has repeatedly refused to release its own assessment publicly and denies there is any government subsidy involved.

Consultant Tom Blue said the biggest drawback to the Saferco project is the capital cost required to build the facility.

The cost of servicing a \$305-million debt will exceed cash flow in each of Cargill's first 10 years, the study says.

Any project is facing a market that's flat at best and possibly declining," Blue said in a telephone interview from Foster City, Calif.

An American firm recently paid substantially less money to buy a plant that produces twice Saferco's output, he noted.

Hayward argued the outcome of Blue's study is tainted by its sponsors.

"Good old Tom Blue sits down there and he's hired by a bunch of people who want to make it look bad for us and that's the results he comes up with."

Blue, Johnson's claims a clientele of 150 corporations and government departments including Cargill, the Potash Corp. of Saskatchewan, and the Saskatchewan Department of Economic Development and Trade.

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Fertilizer officials call for an inquiry

Producers of nitrogen fertilizer have called on the provincial government for an independent and impartial inquiry into the environmental and economic impacts of the new Saferco Products Inc. fertilizer plant to be built in Belle Plain.

In a letter to Premier Grant Devine, the Canadian Council of Nitrogen Producers, which represents four Alberta and Manitoba-based fertilizer manufacturers, says the Saferco plant threatens the future of the industry.

"The very future of our industry will be jeopardized because of the government's support of this uneconomic project," the letter said.

The group also repeated allegations that the project will be a financial disaster for Saskatchewan.

To clear the air, the fertilizer companies called for an inquiry that would include:

- A full examination of both environmental and economic impacts, including the impact on existing businesses.
- A full examination of the economics of the project.
- Participation of all affected parties.
- A suspension of further progress in constructing the plant until the review is complete.

"We are simply asking the Devine government not to railroad this project through and to allow the public to know the true facts," said John Van Brunt, vice-president of Cominco Fertilizers and chairman of the council.

Cargill terms remain silent

The provincial government will not introduce legislation outlining the terms of a loan guarantee for the Saskatchewan-Cargill Ltd. nitrogen fertilizer plant at Belle Plaine, Economic Diversification and

Trade Minister Grant Schmidt said Thursday.

Legislation isn't needed because the loan guarantee is a routine business transaction, he said.

In this case, an existing Crown

corporation is making an equity investment, he said in an interview.

"It's just doing ordinary business. Crown corporations were set up to build and buy things and this one is buying 49 per cent of a fertilizer plant," he said.

Cargill Canada will own 50 per cent of the project with an equity investment of \$85 million. The provincial Crown Management Board will have a 49-per-cent share with an investment of \$84 million and a financial institution investing \$1 million will have a one-per-cent interest.

The remaining \$305-million cost will be commercially financed, with the province guaranteeing the loan. In return, Sotefco will pay a premium of three-quarters of a percentage point above the government-guaranteed loan rate, which works

“It's just doing ordinary business. Crown corporations were set up to build and buy things.”

Grant Schmidt

out to about \$2 million annually, Schmidt said.

The government guarantee will allow the company to borrow internationally at better rates than it could on its own, he added.

Half of the product will be used on the Prairies and the other half will be exported.

Seven-letter word

Will the joint Cargill-Saskatchewan Safarco venture do for the fertilizer business what Cargill Foods did for beef packing?

Starting in the 1992-93 fertilizer year, the existing supply of ammonia fertilizers in western Canada will be supplemented by product from the Safarco fertilizer plant, construction of which is about to begin at Belle Plaine, Sask., midway between Regina and Moose Jaw. Assuming a 5% annual growth in western fertilizer use and production by existing plants at current levels, there could be more than a million tonnes of ammonia and almost two million tonnes of urea surplus to prairie needs. The plant will produce 1,500 tonnes a day of anhydrous ammonia, sales of which have declined in the west each year since 1985. Not surprisingly, much concern is building in the trade over the price and market consequences of this anticipated surplus.

A group of the leading U.S. fertilizer makers are worried enough to have taken preliminary steps to see if a countervail-duty case might be made against expected Safarco exports south of the border. The group has had meetings with officials of the Commerce department and the U.S. trade representative's office. Bids of such an action would be that Safarco is receiving unfair government subsidies in the form of financing and financing guarantees, particularly through a provincial guarantee of the plant's \$305 million debt. The Saskatchewan government contends that loan guarantees are not free: the province will receive a fee of 0.75% of the amount of its guarantee.

Another possibility is an anti-dumping action, which can be started in cases where the selling price to the U.S. market is below the producer's cost. A successful anti-dumping suit was launched in 1987 against Sas-

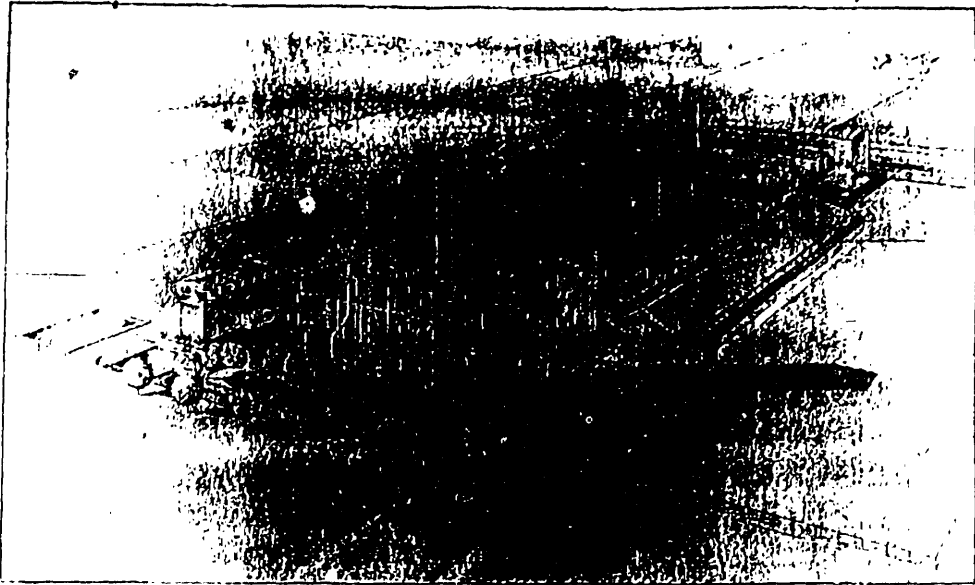
katchewan potash. Similar U.S. actions against fertilizer from East Germany and the Soviet Union were also sustained. Theoretically, an anti-dumping case could probably be made against other Canadian nitrogen fertilizer exports if existing plants are forced to cut their prices to match Safarco's. And if Safarco's production costs turn out to be as low as projected it is conceivable that existing Canadian plants whose costs are higher might be targets for anti-dumping actions even if Safarco is not.

Whether or not trade actions are successful, there is no doubt that competition will intensify dramatically as Safarco attempts to gain market share at the expense of existing producers. Fertilizer prices, especially in Saskatchewan, are likely to drop significantly and could be lower than corresponding U.S. and eastern Canadian levels for several years. The competition will extend right down to the retail trade level: Cargill elevators as well as independent dealers will probably increase their market share mostly at the expense of the prairie wheat pools, which are currently supplied by Basco Chemical's Redwater, Alberta plant. Some of the Safarco product might also be sent to south-western Ontario, where Cargill has expanded in both the grain-elevator and farm-supply sectors in the last few years.

Another effect could be the closure of one or more existing western fertilizer plants. The mothballed Western Co-op Fertilizers plant in Calgary, on which an option was taken a couple of years ago by Sherritt Gordon, is now likely valueless. Simplot Chemical's Brandon, Man. plant may be especially vulnerable because of its relatively small size, location and age. (Simplot has reportedly been talking with the Manitoba government about financing assistance to refurbish the plant, built in the 1960s).

Safarco says North American and offshore markets will readily absorb the plant's production. Cargill's worldwide sales network will be available to handle the surplus in offshore markets. Financial projections for the plant anticipated that 250,000 tonnes of urea, a third of its capacity, might have to be sold offshore in the first three years of operation.

It was confirmed last week that construction of the king-sized Cargill-Saskatchewan fertilizer plant at Belle Plaine, Sask. will proceed on schedule in the spring, the contract having been already awarded to a West German firm with special fertilizer expertise; the cost of the project has increased from the original \$380 million to \$435 million because of plant refinements and capitalization of \$55 million in interest expenses during construction. Ownership of Safarco Products Inc., the company that will own and operate the plant, will be 50% Cargill, 49% Province of Saskatchewan and 1% an unidentified financial institution. Financing will be \$130 million in equity by the partners and \$305 million in loans guaranteed by the province for a fee of 0.75% of outstanding debt. The plant will make 1,500 tonnes of anhydrous ammonia and 2,000 tonnes of granular urea daily starting in the fall of 1992.



Leader Post file photo

The fisheries minister has launched an environmental review of this proposed fertilizer plant

Ottawa to review Saferco plant

By DON CURREN
L-P Provincial Editor

The Saferco fertilizer plant is being subjected to an environmental review by the federal government, according to a letter from the federal fisheries minister.

"Please be assured that this proposal is being subjected to an environmental review pursuant to the EARP Guidelines Order," said the August 4 letter from Fisheries and Oceans Minister Bernard Valcourt to Rod MacDonald, a director of the Saskatchewan Action Foundation for the Environment (SAFE).

In light of the results of this review, I will decide whether to refer this project to the Minister of the Environment to establish a public review panel," the letter said.

Officials in Valcourt's office in Ottawa were not available for comment Thursday afternoon.

But a Winnipeg-based official confirmed that the department has initiated a review of the project under the EARP process.

Jeff Stein, head of the fisheries department's resource impact section, said the review of the Belle Plaine project is in its earliest stages.

The controversial Environmental Assessment Review Process (EARP) Guidelines Order was the federal legislation cited by the Ca-

"The whole point is to do it right this time."

— Rod MacDonald, a director of SAFE

nadian Wildlife Federation (CWF) in its legal actions against the Rafferty-Alameda dam project.

It outlines the review process used when environmental impacts might result from a federal project, or a project that has an impact on a federal area of responsibility.

The first stage of the process is an initial screening, when it is determined if the project will have any significant impacts.

Depending on what officials find, the project is allowed to proceed, submitted to further study, or referred to the kind of independent panel review currently under way in regards to Rafferty-Alameda.

Stein said the project will be screened for impacts, but it may be a matter of months before staff are able to do the review.

In a July 18 letter, MacDonald wrote to Valcourt that the proposed \$43-million fertilizer plant

and related operations may have adverse environmental effects on a number of areas of federal responsibility.

The plant, which will produce granular urea and anhydrous ammonia fertilizers from natural gas, is a joint venture of the provincial government and Cargill Ltd.

MacDonald's letter suggests the project, which will use water from Buffalo Pound Lake, may affect fisheries and fish habitat, an area of federal responsibility falling under the Fisheries Act.

MacDonald asks Valcourt to conduct a review of the plant under the EARP order and prevent any action from being taken on the project that may have an adverse effect on the environment.

He also asks that interested parties should be afforded "irrevocable decisions on construction, acquisitions, orders or contracts ought not to be made pending the EARP review."

"The whole thing is that the assessment take place before the decision is made. That's absolutely crucial," MacDonald said.

He said SAFE sent letters to various federal ministers whose jurisdictions could be affected by the project in an effort to avoid a situation such as occurred with Rafferty-Alameda, where substantial work was done on the project before it was submitted to the EARP process.

"The whole point is to do it right this time," he said.

The provincial government originally ruled that the project did not have to be reviewed under the province's Environmental Assessment Act.

In June it was announced the company would undergo a voluntary assessment under the provincial process, but that construction would be permitted to go ahead during the review.

Joe Raiko, spokesman for Saferco, said he was unaware of any additional review facing the project beyond the provincial one.

"To the best of my knowledge, I don't think this is something new," Raiko said.

The letter could reflect a "cross jurisdictional" exchange of information resulting from the provincial process, he said.

Opposition is mounting to \$435M plant near Regina

By Johanna Powell

Financial Post

EDMONTON — An effort by the Saskatchewan government to broaden the province's economy has run into a storm of controversy.

Environmentalists, industry groups and opposition politicians are up in arms about a \$435-million fertilizer plant being built outside Regina by Safarco Products Inc., a partnership of grain giant Cargill Ltd. and the provincial government.

Four of Western Canada's five fertilizer producers have formed a group to fight the plant, which will export fertilizer to other provinces and the U.S. And opposition politicians contend Saskatchewan will lose money on the deal.

Meanwhile, environmentalists have prompted the federal Fisheries Ministry to order a report on whether the plant will have a negative impact on nearby Buffalo Pound Lake, part of the South Saskatchewan River system. The plant is expected to require huge quantities of water from the shallow lake, the water source for Regina and Moose Jaw.

Depending on the report, the department could ask a panel to review the project.

The fertilizer plant is only now undergoing an environmental impact assessment (EIA), initiated by the company to allay public concerns.

Before construction started, the plant received all required approvals from the provincial environmental department. Environmentalists say an EIA was not ordered because the project was not deemed to be a "development" under provincial law.

This past week, a Saskatchewan environmental group announced it is applying to appeal a court decision denying it access to information on the plant, slated to open in 1992.

In response to the criticism, a company spokesman maintains the plant will be a good deal for farmers, provincial taxpayers and Safarco's shareholders.

Saskatchewan Finance Minister Lorne Hepworth said the plant is a commercial venture with short and long term economic benefits.

"From the government's standpoint, the driving force for entering into a project of this magnitude on behalf of the taxpayer is to diversify our economy. We want more manufacturing and processing."

The immediate benefits include job creation, revenue from royalties on the natural gas used to make nitrogen ferti-



Saskatchewan Finance Minister Lorne Hepworth sees short- and long-term economic benefits for the province

lizer and the sales tax on the structure itself.

In its court case, the Saskatchewan Action Foundation for the Environment is requesting more information about Safarco and three other projects. All four are funded at least in part by the province.

SAFE director and lawyer Rod Macdonald said in each of the four cases, there are "fundamental errors in the way in which the projects were assessed for environmental consequences."

Macdonald said SAFE is not necessarily trying to halt construction of Safarco, which has more than a third of its 2,250 concrete pilings poured. But he insisted more information should be provided so the public can judge the environmental safety. If information is not released under provincial law, it's time to change the law, he said.

Meanwhile, the position of SAFE appeared compromised after Macdonald admitted the organization had accepted technical expertise from fertilizer producers. Macdonald contends the support does not affect SAFE's argument that

the public should have access to information on environmental issues.

The Canadian Council of Nitrogen Producers — the group representing fertilizer producers — contends the plant is not economical.

"The plant never would have got off the ground if not for Saskatchewan government involvement," says Joe Fraser, CCNP president and a director of Sherritt Gordon Ltd.

Cargill is putting up \$65 million for the project; the Saskatchewan government, \$64 million; and an unnamed Canadian financial institution, \$1 million. Another \$305 million is being borrowed, based on loan guarantees from the Saskatchewan government.

In a brief outlining its objections, the CCNP said the government of Saskatchewan is "setting up market dynamics in the U.S. which could invite countervail and antidumping actions from competing U.S. producers... Such trade actions by the U.S. would disrupt all Canadian nitrogen producers and devastate the Safarco plant."

Nitrogen producers also have over-production concerns. Canada's fertilizer industry has been in a slump for several years. It hit bottom in April, 1989, and has only slowly been recovering price and market, making \$350 million in before-tax profits in 1989. "There isn't going to be enough market," Fraser says.

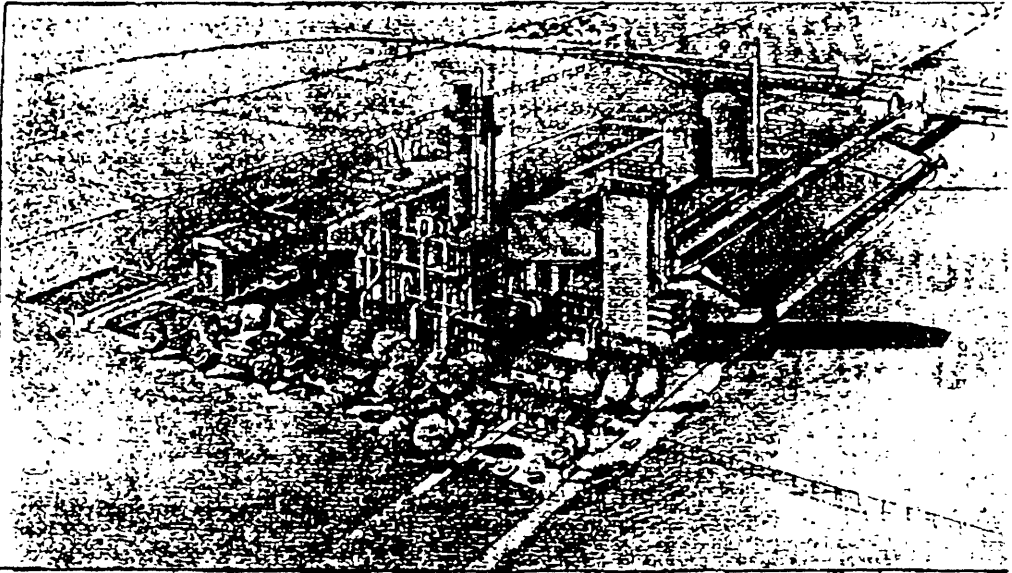
Saskatchewan opposition politicians have other objections.

"It's a sweetheart deal for Cargill and a bad deal for the taxpayers of Saskatchewan," says John Solomon, provincial NDP critic for energy, mines and Crown corporations. "Cargill will be obtaining 50% of the company for 15% of the cash up front."

Solomon alleges the contract between Cargill and the government includes a clause to the effect that the province will cover all future operating losses. He has called for all details to be made public, some have been withheld because Cargill is a private company.

Safarco spokesman Joe Raiko, hired to deflect the barrage of criticism, says the project has the full approval of the provincial environment department and the environmental impact assessment the company is carrying out is not required by law.

Raiko says Safarco Chairman Kerry Hawkins, also president of Winnipeg-based Cargill, and the province have made a written commitment that if any changes are required as result of the EIA, they will be made.



The proposed Safarco fertilizer plant has the NDP and environmental groups concerned

NDP wants to see 'secret' review

By Beverley Spencer
of The Leader-Post

The provincial government would release its internal environmental review of the Safarco fertilizer plant, the NDP said Monday. Questions remain about the impact of uncontrolled emissions of anhydrous ammonia from the plant and the fate of waste products, Ed Tchobrovski (NDP—Rural North East) said during question period.

"What is so secretive about (the internal studies) that (Environment Minister Grant Hodgins) issued a licence without making some studies public at the same time?" Tchobrovski later asked speakers.

His concerns were echoed by a member of an environmental group, who said the department couldn't let him see the review examining environmental concerns about the project.

Bob MacDonald, a member of the Saskatchewan Action Foundation for the Environment, said his quest for information about Safarco and three other projects was

turned down.

The staff agreed to get back to him after he pressed them, but never did, he said.

"Why is it secret? There is no reason for it," he said in a telephone interview from Radville.

However, Hodgins says he is satisfied with the 18-month review conducted by six government departments. He added it will be made public "subject to guidelines."

Although the minister said he has decided not to hold public information meetings about the project, he is willing to send someone out to answer questions.

"If local people still have concerns about the safety of the project in their immediate area, I would have no problem in having an environmental official go out to Belle Plaine and have a meeting," he said.

The community should be aware of the potential dangers and safeguards, Hodgins added.

But the project does not pose a great environmental concern because it uses proven technology

and will not dump effluent or sewage into the air or water systems, he said.

Approval has been granted to build the project — a joint venture of the province and Cargill Ltd. — but it still must meet other guidelines before it gets permission to operate, he added.

The government has not conducted a formal environmental impact study because the review by the environmental assessment branch found that, under its criteria, the plant isn't considered a development.

If it was, the proponent would have to conduct an environmental impact study, which would be available for public scrutiny before the project could be approved.

But the Saskatchewan Environmental Society says an environmental impact study still should be conducted.

Even though the impact assessment process is flawed, according to the group, alternatives to the project could be broached during a study, said society president Bert Weichel.

For example, instead of using the nitrogen fertilizer, farmers could rotate crops like sweet clover, which add nitrogen and organic material to the soil, he suggested.

"If you want to help the farmers, a fertilizer plant might not be the best way to go," he said.

The present impact assessment process is flawed, he added, because the assessment is done by the developer.

"You can imagine how often they produce an assessment that makes them look bad," Weichel said.

The NDP also criticized the government about rumors of a "sweetheart deal" with Cargill which would guarantee the company \$2 to \$3 for every tonne of fertilizer produced.

But Economic Diversification and Trade Minister Grant Loomis said such a deal would void trade agreements. The Opposition has been spreading "too many rumors and not enough facts," he charged.

BEST AVAILABLE COPY

Hodgins won't release report of review panel

REGINA — Environment Minister Grant Hodgins is satisfied with Saferco's 70-page report on the environmental impact of its Belle Plaine nitrogen fertilizer plant, but he won't make it public.

Seven provincial departments acting as an environmental review panel have looked at the report and approved the plant, according to Frederic Corrigan, president of Cargill's fertilizer division in the company's Minneapolis headquarters.

Corrigan was responding to concerns expressed by a group of eight American senators in a letter to U.S. Trade Representative Carla Hills.

They wrote to Hills on behalf of a group of American fertilizer companies lobbying against the Saferco project because they believe it will benefit from unfair government subsidies that could lead to anti-dumping action.

The senators also charge the Saskatchewan government "ignored sensitive environmental concerns" in approving the project, but Corrigan called that a "gross misrepresentation" in his own letter to Hills.

The NDP demanded Hodgins release the Saferco environmental study Tuesday but he refused.

He told reporters it could jeopardize sensitive engineering information that would give competitors an unfair advantage over Saferco.

—BURTON

Objections raised to Saferco project

PLANS by Saferco Products Inc., a joint venture between Cargill Ltd. and the province of Saskatchewan, to construct 1,500 tpd ammonia and 2,000 tpd granular urea plants near Belle Plaine, Saskatchewan by 1992 have run into considerable opposition, both from within Western Canada and in the United States. W. Canadian nitrogen producers are opposed to the project, noting that the area already produces well in excess of local nitrogen requirements and exports at profitable price levels will be problematical given the planned plant location. The US AdHoc Nitrogen Producers Committee, which represents the interests of seven US producers, believes the plant could, when completed, endanger the market share of individual producers as much of its output will flood into the US; these complaints have reportedly been passed on for investigation by the US Department of Commerce, the US trade protection law watchdog.

For its part, Cargill believes that, when the plant is scheduled to commence operations, nitrogen demand, both within Western Canada and on the world market, will have increased substantially and thus no infringement of US trade laws (including anti-dumping statutes) by Saferco will occur. Moreover, Cargill has dismissed claims that the government's loan guarantee constitutes a subsidy, stating that a fee, over and above the interest rate level on the loan, will be paid by Saferco.

Given the uncertainty resulting from the exchanges over the Saferco project, Canadian 88 Energy Corp. has delayed for a year its plans to build a complex near Rosetown, Saskatchewan. Construction work on the complex, to produce up to 74,000 tpa of urea, 132,000 tpa of ammonia and 248,000 tpa of UAN solutions, was scheduled to commence last autumn. □

S-P Opinions

Cancel Cargill fertilizer deal

It's not too late to cancel the province's interest in the Cargill fertilizer plant to be built near Belle Plaine.

Construction is slated to begin this month, but information revealed by the government earlier this week makes it clear the project has the potential to be the Sprung Greenhouse of Saskatchewan. And, like Newfoundland, this province runs the risk of needlessly wasting taxpayers' money on an oversupplied market.

The provincial government admitted it will pay Cargill a fee to sell fertilizer from the joint venture plant because that's the only way Cargill can make any money in a depressed market.

Forgive the cynicism, but just how are Saskatchewan taxpayers supposed to benefit from the government paying Cargill to make money? If producing fertilizer is not profitable, why is the province paying \$64 million for a 49-per-cent interest in the plant and giving a \$305-million loan guarantee?

In the meantime, the government-backed deal forced out smaller, private companies who were willing to take the risk themselves and finance their own fertilizer plants.

It has been argued Cargill cannot be expected to market the fertilizer from the joint venture Safarco plant for nothing. But Cargill owns 50 per cent of it, the controlling interest. Does this mean it pays itself fees for marketing the fertilizer from its other plants? Hardly likely.

Premier Grant Devine has adamantly maintained the plant will be good for Saskatchewan because it will create about 600 construction jobs, 130 permanent jobs, plus 500 indirect jobs. The price of fertilizer is also predicted to drop once it begins production. But what price will the province end up paying if the plant fails?

The facility will produce anhydrous ammonia and granular urea. However, experts predict demand for these two products will continue to decline, not grow. Anhydrous ammonia sales have decreased every year since 1965. No one else is willing to build new anhydrous/urea plants.

If Cargill manages to get more market share, it will be at the expense of its competitors. If it is able to control the market, fertilizer prices will rise. That may be good for Safarco, but how will it help the farmers whom Devine is so concerned about?

Perhaps the premier should have invited the Sprung Greenhouse to move here. There probably would have been a bigger market for cucumbers than there will be for fertilizer.

Fertilizer deal could sink Devine

Home
Quarter

JIM
KNISLEY



Grant Devine appears to have reached a dream.

Ever since he took over the promoter's chair in 1982, Devine has wanted Saskatchewan to be a worldwide producer of nitrogen fertilizer.

The way Devine sees it, it only makes sense.

Saskatchewan has the raw materials (natural gas), it has farmers to use the end product and the provincial economy is in dire need of diversification.

Despite these advantages getting a plant has not been easy.

According to people in the fertilizer industry, Saskatchewan has been shopping around for years, dishing increasingly large numbers of contracts to being in a partner.

Several years ago a French firm seemed to be on edge.

There was a splashy news conference and reception at the Hotel Saskatchewan. About all I can remember of the event is Grant Devine saying "It's a go," and one of the other partners in the project saying in an interview: "There's a lot of work to be done."

A year later that project was dead, never having gotten past the tentative agreement stage.

The current Cargill-Saskatchewan project is already further along than the previous one.

This time the agreement seems firm and final.

However a lot of questions are being asked.

The first is why is a government supposedly committed to free enterprise in using taxpayers' dollars to finance this venture?

Second, why does the world's largest privately held corporation - Cargill - need, or even want, the provincial government as a partner?

Third, does the project make economic sense?

A partial answer to the first question is that government involvement was essential for the fertilizer plant to be built.

Only Cargill knows the answer to the second question. However, one can speculate that Cargill got a deal that was just too good to pass up.

For \$60 million and a fee of three-quarters of a percentage point on the government guaranteed loan of \$200 million, they got 80 percent - the controlling interest - in a state-of-the-art, \$435 million fertilizer plant.

The answer to the third question will only be known over time.

The plant is expected to go into operation in 1983. By that time, fertilizer demand may skyrocket - particularly on the Canadian Prairies - and the plant may well be profitable.

In particular, Cargill and Devine seem to be counting on a dramatic increase in fertilizer use in Saskatchewan.

Saskatchewan farmers use only half as much nitrogen as farmers elsewhere. If, however, grain prices stay weak or for other reasons there isn't a dramatic jump in nitrogen use on the Prairies, then a large amount of the plant's production will have to be exported.

According to Comco, a fertilizer producer with plants near Calgary and Hiel River, the math is Cargill and the provincial government talk about don't exist.

Comco's comments could be sour grapes - the last thing any business wants is more competition. But they are worth noting.

John Van Brunt, vice president of operations for Comco Fertilizers,

the makers of Elephant brand products, says the Cargill-Saskatchewan plant will give Western Canadian nitrogen fertilizer plants three million tonnes of surplus capacity.

Even under an optimistic forecast of a five-percent annual increase in consumption on the Canadian Prairies there will be more than a million tonnes of surplus ammonia and two million tonnes of surplus urea produced in Western Canada. Cargill argues its worldwide sales surge will be able to sell it.

But Van Brunt says: "That's a bunch of bull."

He says that OPEC plants use waste natural gas from their oilfields as a free feedstock making offshore exports of Canadian nitrogen fertilizer unprofitable.

The only readily available market in the United States and it is already well-supplied.

"There is going to be a bloodbath," he said.

And he warns the bloodbath could include antidumping and countervail actions by the United States.

That does seem likely. People who watch the U.S. and world fertilizer industry say U.S. companies already have their lawyers going over the Cargill-Saskatchewan agreement and are busy preparing a case to be put before U.S. trade officials in 1983 when the Ruhr Rhein plant starts producing.

But all this lies in the future.

Of more immediate importance and something that should concern the provincial government is the political impact of the deal.

Already word is filtering back that the deal is very unpopular in rural Saskatchewan.

It is seen as a sweetheart deal for Cargill and not the best use of scarce Saskatchewan tax dollars.

If that sentiment spreads, it could cut the ground out from under Devine and his rural-based vision and Devine's dream could prove his political undoing.

Saferco debate still continues

By MARK WYATT
of The Leader-Post

Cargill wouldn't invest \$65 million in a fertilizer project that stands to lose twice that amount in its first 10 years of operation, says an economist for the giant grain company.

An American consultant released a study Thursday showing the Saferco fertilizer plant proposed for Belle Plaine will lose between \$64 and \$132 million by 2002.

But that study was based on an unrealistic set of assumptions about the urea fertilizer market, according to Michael Rahm, economist for Cargill's fertilizer division.

"We came up with a significantly higher forecast for urea prices," Rahm explained in an interview from Minneapolis, Minn.

The study conducted by Blue, Johnson and Associates shows urea fertilizer prices will drop steadily in the 1990s as a result of low crop prices.

Saferco's revenues would suffer as a result and the project would lose money in each of its first 10 years.

The Saferco plant, 50-per-cent owned by Cargill and 49-per-cent owned by the Saskatchewan government, is expected to produce 2,000 tonnes of urea per day.

But Rahm said the Blue, Johnson study fails to take into account the impact increasing natural gas prices will have on the price of urea fertilizer.

Natural gas accounts for 75 to 85 per cent of the production cost of urea fertilizer.

The Blue, Johnson report shows the price of gas will climb steadily from \$1.79 per million btu in 1983 to \$2.57 per million btu by 2002.

"A significant relationship exists between gas prices and nitrogen prices and that's where I would flat-out disagree with Tom (Blue)," Rahm said.

Tom Blue, a partner in Blue, Johnson and Associates, said in an interview earlier this week that crop prices are the primary force driving urea prices.

If Blue's gloomy forecast of fertilizer prices holds true, the entire industry would be in jeopardy, Rahm argued.

The Blue, Johnson study was paid for by a group of eight American fertilizer producers challenging the Saskatchewan government's involvement in the project. They believe the province's ownership in Saferco and further support from a government loan guarantee amount to an unfair subsidy.

Cargill and the provincial government have repeatedly refused to release the feasibility study that was conducted prior to announcing the project in February.

In the legislature Friday, the NDP used the release of the Blue, Johnson study to demand that the government table its own assessments in the legislature.

"Isn't it a fact the reason you're not tabling your internal studies is because Blue, Johnson is dead right, this is a giveaway to Cargill at the taxpayers expense (and) we've got a white elephant on your hands?" NDP leader Roy Romanow asked in question period.



Isn't it a fact the reason you're not tabling your internal studies is because Blue, Johnson is dead right . . . ?

—Roy Romanow

Finance Minister Lorne Hepworth said it would be irresponsible to release confidential details about Saferco to the public and the firm's competitors.

"Some in the opposition might suggest I'm not the brightest politician in the world, and I won't even debate that one, Mr Speaker," Hepworth told the legislature.

"But I will never be accused of being irresponsible and to table the business plan for the Saskatchewan fertilizer company would play right into the hands of the U.S. competitors the (NDP) are standing behind."

APPENDIX C

April 17, 1990

Mr. Upshall: — Now, Mr. Minister, the interest rate now stands, Mr. Minister, the interest rate now stands almost as high as it's been in the last decade. And you talk about protecting farmers from high interest rates, but the fact is that the Farm Credit Corporation rates are going up higher — faster — than the prime rate. In four months the rate's gone up 2 per cent or more.

Mr. Minister, you claim to be so closely aligned with the federal government. Can you tell this House why you are unable to understand or to get them to understand the fact that farmers don't need, in your case, more debt, and in the case of the federal government, higher interest rates? Can you tell us why you are unable to explain that to the federal government?

Some Hon. Members: Hear, hear!

Hon. Mr. Devine: — Mr. Speaker, I will say with the greatest respect to the hon. member from Humboldt that his leader wrote me a letter recently on agriculture, and the second point in the letter was as following:

If the provincial government can find nearly \$600 million for loan guarantees for Cargill and Weyerhaeuser, then you can come forward with the spring seeding operating loan program of \$500 million.

Now this is recommended by the NDP leader, a spring seeding loan program backed by the provincial government, put out there as the second point that he sent to me.

Now the opposition ag critic stands up and says that he's against loans because it's more debt. Well, it's recommended by your leader.

Now you can't have it both ways. I know outside the legislature the Leader of the NDP says this to the NFU (National Farmers Union): well, I'll forgive your production loan. We can have a five-year moratorium. We will have the provincial government pay cash instead of the federal government.

Well, Mr. Speaker, I just have to draw them back to their word here. They recommended the federal government pay the money, and we said that. Secondly, they said we should have a loan program from the province of Saskatchewan for \$500 million. We've done that. And third, we should stay to our guns and stick to them and have the federal government pay and not cave in as some people do and forgive the production loan program or forgive other programs.

Well, Mr. Speaker, I'll just say this. They had better get it together out there because it's just a tad confusing for the agriculture and the public community at large when it comes to agriculture from that side of the House.

Some Hon. Members: Hear, hear!

Mr. Upshall: — New question, Mr. Speaker, to the same minister. Mr. Minister, it is obvious now that ... We know there's chaos in agriculture in Saskatchewan and we

obviously know there's chaos in the Government of Saskatchewan and the Government of Canada.

Some Hon. Members: Hear, hear!

Mr. Upshall: — When you rant and rave about something that's totally off the issue ... The issue is interest rates — Farm Credit Corporation jumping their interest rates, you foreclosing on farmers, giving them more loans at repayment terms they can't come to grips with. This is the height of hypocrisy.

Now, Mr. Minister, if you are sincere, if you are sincere about the interest rate problem in this country, will you assure this House today that you will request that the federal government reduce its Farm Credit Corporation interest rates to 8 per cent?

Some Hon. Members: Hear, hear!

Hon. Mr. Devine: — Mr. Speaker, I have to point out to you and to the media and to the general public that the opposition has not only shown that they've got divisions within their party, but now they've got divisions inside the legislature and outside.

And now they've really bankrupt themselves of ideas. Now they're saying, well would you guarantee, Mr. Premier, that the federal government will lower interest rates? That's all they've got left, Mr. Speaker. Or the fact that I shouldn't go to Ottawa any more because the federal government operates as a federal government.

Mr. Speaker, it's pathetic. We come up with programs after programs after programs for people, endorsed by the members opposite when we ask them for a consensus, and they endorse it in here, asking for a loan program, asking the federal government to make the federal payment. And then they go outside and say something completely different.

Mr. Speaker, I will just say to hon. member, when he gets a consensus on that side of the House with respect to agriculture, then he can put it down on paper and he can send me another letter so we'll all know what he's talking about.

Some Hon. Members: Hear, hear!

Marketing Agreement with Cargill and Safarco

Mr. Sukman: — Thank you, Mr. Speaker. My questions to the Premier, Mr. Premier, on Monday, April 9, about eight days ago, your Deputy Premier took notice of a request from the opposition to table with this House the marketing agreement with Cargill and Safarco. She also took notice, Mr. Premier, of a request to table the full agreement of the Cargill plant. This was reiterated last Thursday, April 10, by your Minister of Economic Diversification and Trade.

I ask you today, Mr. Premier: are you prepared to table the marketing agreement and the full agreement with Cargill-Safarco?

Hon. Mr. Devine: — Again, Mr. Speaker, I'll come back

and say to the hon. members that they have certainly given agricultural and rural community short shrift when it comes to this question period in this session when it's such a difficult economic time for them. I'll say to the hon. members that the Deputy Premier took notice of the question and she'll be prepared to respond accordingly.

Mr. Solomon: — Mr. Speaker, a new question to the Premier. Mr. Premier, the questions with respect to Cargill are very important, not only to farmers in this province but to working people and to every taxpayer that lives in this province.

Some Hon. Members: Hear, hear!

Mr. Solomon: — Everything your government has said to date about this project has been found to be wrong, Mr. Premier. The cost of the project, the government's involvement, and now the marketing agreement with Cargill. There's only one reason that you won't table the agreements with Cargill, and that's because they'll even prove to be more embarrassing than the plant already is.

We say, Mr. Premier, this plant is a sweetheart deal for Cargill and a bad deal for the taxpayers of Saskatchewan. You say it's a good deal all around. Here's your chance to prove one of us wrong.

Will you table the agreement, Mr. Premier, and let the people of Saskatchewan decide whether it's a good deal for them? And will you table the agreement to let the people of Saskatchewan decide whether it's a good deal or a bad deal?

Some Hon. Members: Hear, hear!

Hon. Mr. Devine: — Mr. Speaker, the NDP have already made the decision that they're against diversification, and it has nothing to do with documents. I mean, we introduced paper making in Saskatchewan and they were against it. We tabled all the documents on Weyerhaeuser. They're against upgraders. They're against processing. They're against manufacturing. They're against processing of natural gas. And it has nothing to do with documents; they're against it in principle, in theory. I mean, this goes right back to the basic socialist heart; they have to have the government do it — not joint ventures, not processing and manufacturing.

At one point they'll stand and say, well the children are leaving, why don't you create diversification? If you have a new paper mill, they're against the paper mill. They say, why don't you do something with oil and gas and other things? If you build upgraders, you do a joint venture with Husky Oil, they're against it.

If you process natural gas... how do you process natural gas? Do you know what you do? You make fertilizer, Mr. Speaker. They've been against processing natural gas since the inception. They would have never built the paper mill, they wouldn't build a processing plant, and they wouldn't build a fertilizer plant.

Mr. Speaker, they're against it in principle, and it has nothing at all to do with documents. Let's have the facts.

Some Hon. Members: Hear, hear!

Mr. Solomon: — Well, Mr. Speaker, a new question to the Premier. Mr. Premier, we asked the Deputy Premier, she said the minister responsible for the Crov investment corporation would come back and bring the deal to this House. Since that time the minister responsible has resigned. Why don't you have the courage today to table that agreement and show the people of Saskatchewan who was right on this deal and who was wrong?

Hon. Mr. Devine: — Mr. Speaker, we tabled the documents on Weyerhaeuser and they still think it's wrong. Right? It doesn't make any difference, and you know that as well as I do. They'll go around Prince Albert and northern Saskatchewan, a brand new paper mill 1,000 people working at Weyerhaeuser — they still say it's wrong. It doesn't matter, Mr. Speaker. And the Deputy Premier can't do it and we can table documents and they'll be against every processing project, every one of them that we've done.

Mr. Speaker, that's a classic difference between the NDP and the old socialist attitude, and what we'll do here. We'll do joint ventures with co-operatives, joint ventures with Husky, joint ventures with Weyerhaeuser, joint ventures in fertilizer projects with Saffero and Cargill, because they won't do it, Mr. Speaker. They can't do it because philosophically they're against it, Mr. Speaker. That's why you see a 600 per cent increase in diversification in this province in the last five years.

Some Hon. Members: Hear, hear!

Mr. Solomon: — Mr. Speaker, a new question to the Premier. Mr. Premier you're attempting to defend the indefensible on the Cargill project.

Some Hon. Members: Hear, hear!

Mr. Solomon: — My question, Mr. Premier, in addition to those I've already asked, is it true that another aspect of the sweetheart deal with Cargill is a long-term contract between SaskEnergy and Cargill-Saffero which provides natural gas to the Cargill-Saffero plant at a reduced price, at a subsidized price far below its real market value? If this is true, Premier, this is just one more secret subsidy by Saskatchewan taxpayers. And if you deny this today in this House, then provide the proof. Table the deal, the full deal, in this House, between SaskEnergy and Cargill.

Some Hon. Members: Hear, hear!

Hon. Mr. Devine: — Mr. Speaker, do you recall that word "sweetheart"? They said it was sweetheart with Husky. We're going to do a joint venture making an upgrader, and here is a very large multinational company, but it's a sweetheart deal because we're doing a joint venture with it. Equity partnership, equity from Saskatchewan people, equity from Alberta people, and equity from Canadians to process heavy oil here, and what do they call it? — they call it a sweetheart deal. They never got one done. They couldn't build it with the Co-op. They couldn't build it with Husky. They couldn't build it with anybody else, Mr. Speaker. And it's the same argument, it's the same

right — the same lines I've heard them for 40 years in this province.

Well I'll tell you what, Mr. Speaker, the point is well laid out here. Saskatchewan is behind because by chance, Mr. Speaker, they had an NDP administration for years and years and years that would not build, and all they can do is point fingers. Look at them, Mr. Speaker, they point fingers and say, don't you do a sweetheart deal; the private sector might be there. Somebody might make some money if you profit and build it. I say hogwash to them, Mr. Speaker, hogwash to the whole bunch.

Some Hon. Members: Hear, hear!

Environmental Implications of Saferco

Mr. Tchorzewski: — Mr. Speaker, I have a question to the Premier as well. Mr. Premier, last Monday the Minister of the Environment reported to this House that before approving the Cargill fertilizer plant at Belle Plaine, the government had done internal studies on the environmental implications and other implications of this project.

Now, Mr. Premier, in view of the fact that you made a commitment in the throne speech to a new and open government, and in view of the fact that in a court judgement involving the files of the Saskatchewan Water Corporation, the Saskatchewan Court of Queen's Bench Judge said the following, and I quote to you, sir:

A reading of The Water Corporation Act satisfies me that the legislature's intention on setting up the corporation was to provide a mechanism to protect Saskatchewan's share of one of nature's most precious commodities. Because the subject matter is so important to the public, it seems obvious to me . . .

Mr. Speaker, I'm concluding. It went on to say:

. . . it seems obvious to me that section 31 was included to ensure that in some areas of the corporation's activities, the public, for whom all the corporation's activities were being performed, would be able to find out exactly what was happening.

Now, Mr. Premier, that . . . (inaudible interjection) . . . Well the members opposite laugh, Mr. Speaker . . .

The Speaker: — Order, order. The hon. member will have the opportunity to put the question.

Mr. Tchorzewski: — Mr. Premier, in view of that court judgement, and in view of the fact that section 7 of the Environmental Assessment Act requires you to make all information public when public requests, will you make a commitment today to this legislature to uphold that ruling in section 7 of The Environmental Assessment Act and undertake to take all of the documents and files relative to this project and make them public when the public should request that they be made public, Mr. Premier?

Hon. Mr. Daerle: — Mr. Speaker, the hon. member should go through the Moose Jaw community — and I don't know why the members from Moose Jaw don't ask the questions — and tell the people of Moose Jaw that they're against the project; tell the people in Moose Jaw and areas that they're against the project. Because facts don't matter, it's a sweetheart deal, it's a diversification project, and it's for the city of Moose Jaw and the people there, and not the Moose Jaw MLA asks questions about it.

What does that tell you? It tells you that they say one thing in the House, one thing outside the House; one thing in the city and another thing in the country. They've been doing it for years, Mr. Speaker.

I'll say to the hon. member: this project is a very, very good diversification project, it's a very, very good project environmentally, and, Mr. Speaker, will live up to every, every specific detail in the environmental process. They know it and I know it, but they're against it out of principle, Mr. Speaker. And that's precisely why they're over there, Mr. Speaker, and they should stay over there.

Some Hon. Members: Hear, hear!

MOTION UNDER RULE 39

Interest Rates in respect to Farmers

Mr. Upshall: — Thank you, Mr. Speaker. Mr. Speaker, before orders of the day, with leave I would like to move a motion of urgent and pressing necessity, especially in light of the Premier's answers. This deals with interest rates and as it relates to farmers.

I think the minister said today that he was concerned about interest rates, as we are. So in light of the fact that farmers are very hard pressed, with leave, I would like to move:

That this Assembly condemns the Government of Canada for its high interest rate policy which is causing great hardship for Saskatchewan farmers, and further, that this Assembly urges the Government of Canada to rewrite Farm Credit Corporation farm debt to reflect realistic land values and to ensure that the FCC interest rate be no more than 8 per cent on that farm debt.

I so move, seconded by the member from Carleton Place.

Leave not granted.

ORDERS OF THE DAY

The Speaker: — I'll ask members on both sides of the House to calm down and relax, take it easy. There are some private motions here which we have to continue with. And everybody's going to agree on the private motions so we're going to motions now.

MOTIONS

May 22, 1990

Studies on Economic Impact of Cargill Plant

Mr. Romanow: — Thank you very much, Mr. Speaker. My question today in the absence of the Premier is to the Deputy Premier. And, Mr. Speaker, I have in front of me a copy of today's Regina Leader-Post and therein is a major story on page A3 quoting a leading United States fertilizer consulting firm, Blue, Johnson and Associates as saying that the Cargill fertilizer project, which the government opposite, of course, is boosting and pushing very much at Belle Plaine — and I might add largely financed at financial expense of the taxpayers of Saskatchewan — according to Blue, Johnson is going to lose money in each of its first 10 years of operation, Mr. Speaker.

Mr. Speaker, my question to the Deputy Premier is this. In light of this serious research study carried out by a responsible group of consultants, will you today produce for the legislature a detailed study that your government has which will refute the allegations of Blue, Johnson, and will assure the taxpayers of Saskatchewan that we're not going to get stuck with yet another white elephant.

Some Hon. Members: Hear, hear!

Hon. Mr. Hepworth: — Certainly, Mr. Speaker, we don't accept the reports of the reports of a study. What the hon. member hasn't pointed out is the study was commissioned by the U.S. competition to Safarco, Mr. Speaker. Does it surprise anyone that the competition to what's going to be the state of the art fertilizer plant, the Saskatchewan fertilizer plant built for Saskatchewan farmers . . . We have more farmers in the whole country, Mr. Speaker, than anywhere else, Mr. Speaker. They use \$300 million in fertilizer a year. Mr. Speaker, this is a good project for Saskatchewan farmers, Saskatchewan farm communities, and the province of Saskatchewan's taxpayers, Mr. Speaker.

Mr. Romanow: — Mr. Speaker, I have a new question. I guess it's to the Minister of Finance, who has undertaken the responsibility of answering this morning.

Mr. Speaker, this study by Blue, Johnson and Associates of the United States says that an American competitor recently in the United States paid substantially less money for an American fertilizer plant . . . or leased another fertilizer company with twice the output of Safarco.

If true, that means that the taxpayers of the province of Saskatchewan are committing the farmers' money, the taxpayers' money, to what could be a very serious additional drain to the resources of the province of Saskatchewan, already over-drained, thanks to the mismanagement of the people opposite.

My question, Mr. Speaker, to the Minister of Finance is as follows. If you say that Blue, Johnson is not a reliable study — and I'll ask a question too about that in a moment — if you dispute Blue, Johnson, why then don't you put your government studies on the Table? Why don't you put your government's on the Table? What could be the reason for holding back on your studies to refute Blue, Johnson other than perhaps the fact that Blue, Johnson's analysis might be just right?

Some Hon. Members: Hear, hear!

Hon. Mr. Hepworth: — Well some in the opposition, Mr. Speaker, might suggest I'm not the brightest politician in the world . . .

Some Hon. Members: Hear, hear!

Hon. Mr. Hepworth: — And I won't even debate that one, Mr. Speaker. But I will not — I will not — be ever . . . be accused of being irresponsible.

Mr. Speaker, to table the business plan for the Saskatchewan fertilizer company would play right into the hands of the U.S. competitors who they are standing behind, Mr. Speaker. That's what they would like to do. They are defending the U.S. competitors. They are going to go behind the U.S. competitors, Mr. Speaker, as opposed to the Saskatchewan farmers. They want to stand behind, the NDP want to stand behind and help and support the U.S. competition, not stand behind Saskatchewan farmers, not stand behind the Saskatchewan fertilizer plant, not stand behind diversification of the Saskatchewan economy, not stand behind Saskatchewan taxpayers, Mr. Speaker.

Some Hon. Members: Hear, hear!

Mr. Romanow: — Mr. Speaker, I have a new question for the Minister of Finance. And I want to tell the Minister of Finance that if his idea is standing behind the Saskatchewan taxpayers, a deficit of \$14 billion thanks to this government opposite, I don't want to have anything to do with his defence of the Saskatchewan taxpayer, nothing whatsoever.

Some Hon. Members: Hear, hear!

Mr. Romanow: — Mr. Speaker, this is a very serious and important matter. Blue, Johnson is a company that has been used by the gentlemen and the ladies of the government opposite. It's been used by the department of economic development; it's been used by the Potash Corporation of Saskatchewan. Blue, Johnson and Associates is a firm used to advise this government on economic projects.

How is it, Mr. Speaker — my question to the Minister of Finance — that they can object Blue, Johnson when it meets their convenience to do so, namely to support a boondoggle like Cargill, and yet accept Blue, Johnson in circumstances when it suits their cause to do it? How do you explain that?

Some Hon. Members: Hear, hear!

Hon. Mr. Hepworth: — Mr. Speaker, is anyone really surprised that the report commissioned by the opposition, the U.S. opposition . . .

The Speaker: — Order, order. I'm afraid there are members on both sides of the House who wish to usurp the time of the minister for answering the question.

Hon. Mr. Hepworth: — Mr. Speaker, is anybody really

May 23, 1990

surprised that a report commissioned by the U.S. fertilizer competition would try and cast aspersions and doubts on the economic viability of the Saskatchewan fertilizer plant? Is anybody that naive, Mr. Speaker, in this legislature, other than the NDP who continue to be against Saskatchewan farmers, against economic diversification of this province, against jobs and opportunities for our young people, against help and jobs for people in communities like Belle Plaine and Pense and Moose Jaw. And why don't the members from Moose Jaw come clean and tell the public where they really stand on this issue?

Some Hon. Members: Hear, hear!

Mr. Romanow: — Well, Mr. Speaker, I tell you if this matter wasn't so serious it would really be a joke, the Minister of Finance's answer, because we've got a report here by a responsible American consulting firm that you people have engaged at various times, that says this plant is going to lose money for each of 10 years.

I don't think it's good enough for the Minister of Finance to get up in this House and simply give us rhetoric in response. It is the responsibility of the Minister of Finance to table the studies which he says the government has to refuse Blue, Johnson.

My question, Mr. Speaker, therefore to the Minister of Finance is simple. If you've got the studies which say that Blue, Johnson is wrong, if you've got the studies that say that this isn't going to be a boondoggle, if you've got the studies which say that it isn't going to add to our debt, I want you to table them today. Will you table them today so that we can get to the facts?

Some Hon. Members: Hear, hear!

Hon. Mr. Hegworth: — Mr. Speaker, it would be highly unusual and totally irresponsible to show the competition your numbers, Mr. Speaker. That would be irresponsible in terms of my duties to the taxpayers of this province. I will not do that, Mr. Speaker. That's been past practice, whether it's this administration or that administration, Mr. Speaker, and that's as it should be in deals like this, Mr. Speaker.

Some Hon. Members: Hear, hear!

Mr. Romanow: — Mr. Speaker, I have a new question to the Minister of Finance and I guess at this stage in the game, after eight long years-plus of this government, we're used to the fact that the government refuses to be open with the public of Saskatchewan and is stonewalling and hiding behind these kinds of answers that the minister has given us. Mr. Speaker . . .

The Speaker: — Order, order.

Mr. Romanow: — Thank you, Mr. Speaker. This same newspaper report upon which I'm basing my questions, and I know that the former minister of Finance thinks he can answer better than the Minister of Finance. I doubt that given the fact that he was so far off on his deficit expectations of 1986.

Some Hon. Members: Hear, hear!

Mr. Romanow: — But nevertheless, Mr. Speaker, if I may get the question out.

The Speaker: — Order, order. Now this is the second time I've had to call the hon. members to order and I simply ask them to allow the Leader of the Opposition to put the question.

Mr. Romanow: — Mr. Speaker . . .

The Speaker: — Order. Now I'm not sure who the hon. member over on this side is. Somebody in one of the . . . near the back rows, but I ask you, I ask you, whoever you are, to allow the Leader of the Opposition to put the question. Now this is the third time I've had to ask.

Mr. Romanow: — Thank you very much, Mr. Speaker. Mr. Speaker, I can realize why the Minister of Finance and the government opposite does not want these questions asked. But I want to tell you that I am going to ask these questions until we get an answer.

Mr. Speaker, the Leader-~~Opp~~ says that this study by Blue, Johnson says the following, quote:

The cost of servicing a \$303 million debt will exceed cash flow (Get this, Mr. Speaker.) in each of Cargill's first ten years, the study says.

Now that means that we've got a financial major boondoggle on our hands if that's true. You, sir, Mr. Minister of Finance, have an obligation to refuse that by a study. I ask you again for the fourth or the fifth time: table the study which refutes the report of Blue, Johnson. Assure the people of the province of Saskatchewan that you're not leading us down the path of even yet more debt. How about doing that today?

Some Hon. Members: Hear, hear!

Hon. Mr. Hegworth: — Mr. Speaker, what we do know, on the basis for Saskatchewan, the Saskatchewan government entertaining this joint venture, what we do know is this: number one, we were able to attract a major, global, agri-food partner who was prepared to invest, and invest heavily, in this joint venture Saskatchewan fertilizer plant. What they know and what we know and what the hon. opposition members will refuse to acknowledge is that we have 60 to 70,000 farmers here in Saskatchewan. We're placed very, very nicely in the middle of a very, very large market-place that exceeds by far the 50 million acres of arable land that we have. That's point number one.

Point number two, Mr. Speaker: we know that under the administration of this government we've been able to develop one of our very, very precious and valuable resources — natural gas — which is a major component of fertilizer. We do know, Mr. Speaker, that the numbers show that over time, urea fertilizer as opposed to anhydrous ammonia, quite frankly, that uptake and that market is increasing, Mr. Speaker. We do know that we have a government on this side, a party on this side, that's interested in economic diversification, building our

May 25, 1990

communities, jobs for our young people, Mr. Speaker. That combination led to the Saskatchewan fertilizer plant, Mr. Speaker.

And I guess I would just echo what Peter Hayward, a spokesperson for the Saskatchewan fertilizer plant said, relative to the Blue, Johnson study: how could they come up with their numbers when they don't even know what model they were working under or what scenario they were using, Mr. Speaker. It's a study done by the U.S. competition. Does it surprise us, Mr. Speaker?

We're going to stand behind Saskatchewan farmers, Saskatchewan young people, and economic diversification in this province, Mr. Speaker.

Some Hon. Members: Hear, hear!

Mr. Romanow: — Mr. Speaker, I have a new question for the Minister of Finance. The Minister of Finance says that out of this project, according to Blue, Johnson, somehow we're going to do the following: we're going to have a fertilizer plant which is going to lose money for each of the first 10 years, up to the extent of possibly \$132 million. On top of the loss, it's going to provide cheaper fertilizer somehow for the province's farmers, as the Minister opposite promises.

Who does he think these farming people are that they can be so easily duped in the face of this kind of an economic study? They know the situation better and they know that Cargill's not going to give anything away for nothing. Cargill is going to take them for every cent they can take them.

Some Hon. Members: Hear, hear!

Mr. Romanow: — Now look, we've got a debt of \$14 billion, and I say, sir, that it's incumbent upon you to table those studies.

My question, which can be answered by a simple yes or no: are you going to table those studies, yes or no? And if the answer is no, then I want you to tell me why we cannot conclude — why the farmers should not conclude — that you're not tabling them because your studies confirm what Blue, Johnson says, namely, you're subsidizing Cargill at our expense and at our risk!

Some Hon. Members: Hear, hear!

Hon. Mr. Hepworth: — Mr. Speaker, I can only repeat what Peter Hayward said when he noted that Blue, Johnson and Associates aren't familiar with the actual market factor Saterco used in its own assessment. And I quote, Mr. Speaker, if indeed the Leader-Post quote is accurate: "I don't know how you could come up with numbers such as that without knowing the scenario inside the model we've created."

Mr. Speaker, maybe the headline in this paper should have read, maybe the responsible headline in this paper should have read: U.S. competition afraid of the Saskatchewan fertilizer plant. Because that's the bottom line, Mr. Speaker.

The NDP don't stand behind the farmers. The U.S. competition doesn't like it. We do, and the Saskatchewan farmers do too, Mr. Speaker.

Some Hon. Members: Hear, hear!

Mr. Romanow: — Mr. Speaker, I have a new question for the Minister of Finance. Mr. Speaker, in this newspaper report it says that Blue, Johnson also has, among its list of clients, Cargill. Blue, Johnson also has Cargill as its client.

And my question to the Minister of Finance is this. We've been trying to figure out why it is that the Government of Saskatchewan entered into a deal where it subsidizes Cargill. Is it because Cargill knows itself that the economics of this Belle Plaine project are no good and they're into it because the province of Saskatchewan has sunk all of the taxpayers' money to ensure a profit for Cargill at our expense? Is that why they're into it?

Some Hon. Members: Hear, hear!

Hon. Mr. Hepworth: — That is wrong, Mr. Speaker. I can only use one word to describe that — wrong. Mr. Speaker, this project . . . why are we doing this project? I can only reiterate again, Mr. Speaker, we have several tens of thousands of farmers in this province. We have a natural gas resource, Mr. Speaker. We have 50 million acres of arable farm land in this province. Our farmers use \$300 million plus a year of fertilizer, Mr. Speaker. We want to diversify this economy. We want the communities of Ponse and Belle Plaine and Moose Jaw and Regina to prosper, to grow, to have jobs for their young people, Mr. Speaker, to have a way of life, to have some breadth and depth in our economy.

And, Mr. Speaker, the real question that the Leader of the Opposition should ask himself and stare into his soul, Mr. Speaker, is why — given all of that, because none of those factors has changed, Mr. Speaker, the arable acres, the numbers of farmers, the use of fertilizer, those were all factors in this province 10 years ago. The real question, Mr. Speaker, in this debate is why was there no fertilizer plant built under the NDP years, Mr. Speaker? Why no plant?

Some Hon. Members: Hear, hear!

Hon. Mr. Hepworth: — Why, Mr. Speaker? Because they didn't believe in decreasing farmers input costs. What did they do with their double . . .

The Speaker: — Order, order.

Mr. Romanow: — Mr. Speaker, the Minister of Finance is not going to get off that lightly with the farmers in the province of Saskatchewan. If this deal is so good, if this deal is so economically viable, why in the world is the richest province of Saskatchewan underwriting the richest privately held corporation in the world? Why isn't Saterco, why isn't Cargill looking after this expense by itself? Tell us why are we underwriting them to the extent of \$132 million plus?

Some Hon. Members: Hear, hear!

May 28, 1990

Hon. Mr. Hegwerth: — Mr. Speaker, there is no subsidy here. This is a straightforward commercial agreement. This is a joint venture, Mr. Speaker. We were able to link hands, we are able to join hands with a . . . I know this hurts the NDP opposition, Mr. Speaker. This hurts the opposition. They can't stand that we've joined hands with this vertically integrated multinational company to bring a fertilizer plant, a Saskatchewan fertilizer plant, here for Saskatchewan farmers, Saskatchewan people, and Saskatchewan communities, Mr. Speaker. This is going to be a good deal for the people of Saskatchewan and the farmers of Saskatchewan, Mr. Speaker.

Some Hon. Members: Hear, hear!

Mr. Romanow: — Mr. Speaker, we have had yet another new definition of what a joint venture is, thanks to the PCs. A joint venture, thanks to the PCs in this province of Saskatchewan, means this: we the taxpayers put up all the money; the American corporations take all the profit and all the benefits back home.

Some Hon. Members: Hear, hear!

Mr. Romanow: — That's a joint venture. That is a joint venture and Blue, Johnson says it. And in the absence of any studies to deny it, I make that allegation.

Mr. Speaker, my question to the ministers opposite. It's ironic that today when the Premier is announcing a program of community development bonds — something which is long overdue to develop to help local communities — he is now squaring, he is now squaring that circle with an expenditure of \$370 million for Cargill and United States multinationals.

Mr. Speaker, my question to the Minister of Finance is: how in the world can the government talk out of both sides of its mouth, pump the money to the multinational corporations, and pretend it's doing something for the local communities of Saskatchewan?

Some Hon. Members: Hear, hear!

Hon. Mr. Hegwerth: — Mr. Speaker, I think there's a clear trend establishing here. The NDP opposition slowly but surely have come around and seen the light on Weyerhaeuser. They've come around and seen the light on the benefits of Saskoil and gas, Mr. Speaker. They now acknowledge the promise and opportunity afforded Saskatchewan people by the community bond program, Mr. Speaker. And I predict they will too see the light and come around and support the Saskatchewan fertilizer plant, Mr. Speaker.

Right now, though, we are faced with a situation where I think I'd like to correct the headline in the paper one more time. And it should read: the U.S. competition and the NDP afraid of a Saskatchewan fertilizer plant, Mr. Speaker.

Some Hon. Members: Hear, hear!

Mr. Romanow: — Mr. Speaker, the government opposite tries to argue that this is a good financial deal. I say, Mr. Speaker, that if it's a good financial deal, the document

should be tabled.

There have been questions about the environment; nothing tabled. There have been questions about the marketing fees; nothing tabled. Now there's this condemning report by Blue, Johnson which says we're going to lose money each of 10 years because of this government's mismanagement opposite.

He says we're against the fertilizer plant; I say we're against the sweetheart deal by Cargill and for Cargill that this government opposite knows is the case.

I say to the Minister of Finance, the question is this. Yes, the question is this. Minister of Finance, you table the reports. You show us the documentation. Don't give us the PC rhetoric. Show us the reports that rebut Blue, Johnson. Prove it. Give us the evidence.

Some Hon. Members: Hear, hear!

Hon. Mr. Hegwerth: — Mr. Speaker, the hon. member probably enjoys the theatre associated with the politics of this issue. But if we stand back and try and look at our jobs in a reasonable and responsible fashion, the response that I would give about tabling the business plan for the Saskatchewan fertilizer company is the same response that that member, Mr. Speaker, gave to this legislature when he was minister responsible for then what was coming to be the Potash Corporation of Saskatchewan, not tabling the documents because of the commercial nature of the deal, Mr. Speaker.

He knows in his heart, he knows as a lawyer, Mr. Speaker, he knows as an hon. member of this legislature that that is in fact the responsible practice, Mr. Speaker. And if it isn't, why did he say one thing 10 years ago when he was minister responsible for the potash corporation, and now today, ask for something different?

Is this not really a question of the hon. member's credibility and that he's really interested in politics, not the economics, Mr. Speaker? Isn't that the reality?

Some Hon. Members: Hear, hear!

Mr. Romanow: — Mr. Speaker, I have a new question to the Minister of Finance. And I want to tell the Minister of Finance, he refers 10 years ago . . .

The Speaker: — Order, order.

Mr. Romanow: — Mr. Speaker, the Minister of Finance wants to know why it's different now. I'll tell him why it's different now. Because we didn't have 10 years ago . . .

The Speaker: — I think we're crossing the bounds of courtesy. The hon. member hardly rises and he's being hollered down. Allow him to put the question. —

Mr. Romanow: — Mr. Speaker, thank you very much. But I know now why they're afraid of me asking these questions. They're afraid of me and the farmers asking these questions because they have absolutely no answers. They know that their silence is a condemnation of this deal.

May 23, 1970

Some Hon. Members: Hear, hear!

Mr. Romanow: — My question, Mr. Speaker, to the Minister of Finance is simply this: in light of the fact that the entire question period has been used by your stonewalling, by your cover-up, yes, by your refusal to give any kinds of reports, isn't it a fact that the reason that you're not tabling your internal studies is because Blue, Johnson is dead right, this is a give-away to Cargill at the taxpayers' expense. We've got a white elephant on our hands. Isn't that the reason why you're hiding behind the tabling of those reports?

Some Hon. Members: Hear, hear!

Hon. Mr. Megaworth: — Mr. Speaker, I can only iterate why we're doing this project. We have the resource; we have the farmers; we believe in economic diversification; we believe in our communities; we believe in our young people. We want our young people to have good jobs, Mr. Speaker, so we can maintain that standard of living.

Mr. Speaker, we try and put this debate back in some reasoned context. It's absolutely normal practice not to divulge deals at the commercial ... the relevant facts and details of commercial deals, Mr. Speaker. It was the case when he was a minister and had a similar responsibility.

And, Mr. Speaker, the other thing that amazes me here is on alternate weeks they condemn Richardson Greenhields and somehow they have no credibility in doing valuations, and yet today if it suits his purpose he'll pick an example, especially if it backs up the U.S. competition, Mr. Speaker. That's who they're behind. They don't support the Saskatchewan farmers, Mr. Speaker. We do.

Some Hon. Members: Hear, hear!

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APPENDIX D

Transcript of Documentary on Saferco
Canadian Broadcasting Company - "Venture"
July 29, 1990

Announcer: Forty kilometers from Regina - Belle Plaine, Saskatchewan - deep holes are being drilled in the dusty prairie. Tons of cement being poured. This is the beginning of a megaproject in the North American fertilizer industry that the Saskatchewan government is determined to build, and to do it is to jump into bed with one of the world's most feared agri-giants.

Devine: We've got a partner.

Announcer: A deal cooked up by Grant Devine that critics say has pitted government against industry, province against province, and Canada against the United States. Here's what's involved: the fertilizer plant will cost 435 million dollars; the Saskatchewan government is throwing in 64 million dollars and will guarantee another 300 million in bank loans for its share of the profits; Cargill tosses in 65 million and controls the plant and its distribution.

Ralko: The issue of flooding the market, I think, is a red herring.

Announcer: Thus, Joe Ralko, a spokesman for the Saskatchewan government and Cargill at a town meeting in Regina. Besides 130 new jobs, he says farmers will no longer be at the mercy of fertilizer plants outside Saskatchewan.

Ralko: It's gonna benefit Saskatchewan farmers, who are now getting ripped off.

Announcer: But while Cargill and the Saskatchewan government tout the jobs and the benefits to farmers, their opponents angrily say there's not enough room for them on the playing field. In the past three years, nine plants have shut down in Canada. Cargill says it's because they were inefficient. Their owners say it's because there's too much fertilizer in the market and they weren't needed. Now those same owners are predicting more shutdowns and job losses when the Cargill plant opens in 1993. One province that's really worried is Manitoba and its city of Brandon, 400 kilometers from the new plant.

-2-

Simplot Fertilizer, the city's biggest employer, is threatened.

Anderson: In our situation, we've got two choices; we can say to hell with it, fold her down and go. Or, we can do something about it.

Announcer: And that means Ken Anderson, the president of Simplot, has to find 200 million dollars to fix up his old plant. Arguing that Cargill, which is tough enough to compete with on its own, has a government partner, Simplot decided to get a little government help of its own. It's told the Manitoba government it had better be prepared to spend, or face the consequences.

Anderson: The worst case scenario is 230 jobs . . . that we lose 230 jobs.

Announcer: Simplot isn't the only one threatened - the whole industry is up in arms.

Van Brunt: It's a loser. It doesn't make any sense, and consequently . . .

Announcer: John Van Brunt, a spokesman for the Canadian producers, said the Saskatchewan government was so eager to deal with Cargill, it gave away the farm.

Van Brunt: Cargill has come along, got a sweetheart deal. I mean, there's no question when you can get 50% of the uh . . . the uh . . . proceeds from a plant and controlling interest, if you will, in terms of operating control and marketing control for 15% of the equity, I'd say it's a good deal.

Announcer: So how does an American company most Canadians know very little about crack such a sweet deal? Power. On trading floors, Cargill controls a whopping 25% of the world grain trade. Last year, 42 billion dollars in sales, 400 million in profit. Headquartered inside this French chateau in Minnesota, Cargill has a market information system that rivals the C.I.A. and a powerful distribution network that has a history of cornering markets.

Hawkins: It's been an amazing year of growth for us. We bought a . . .

Announcer: Kerry Hawkins is Cargill's boss in Canada. He knows that when Saskatchewan proposed marriage,

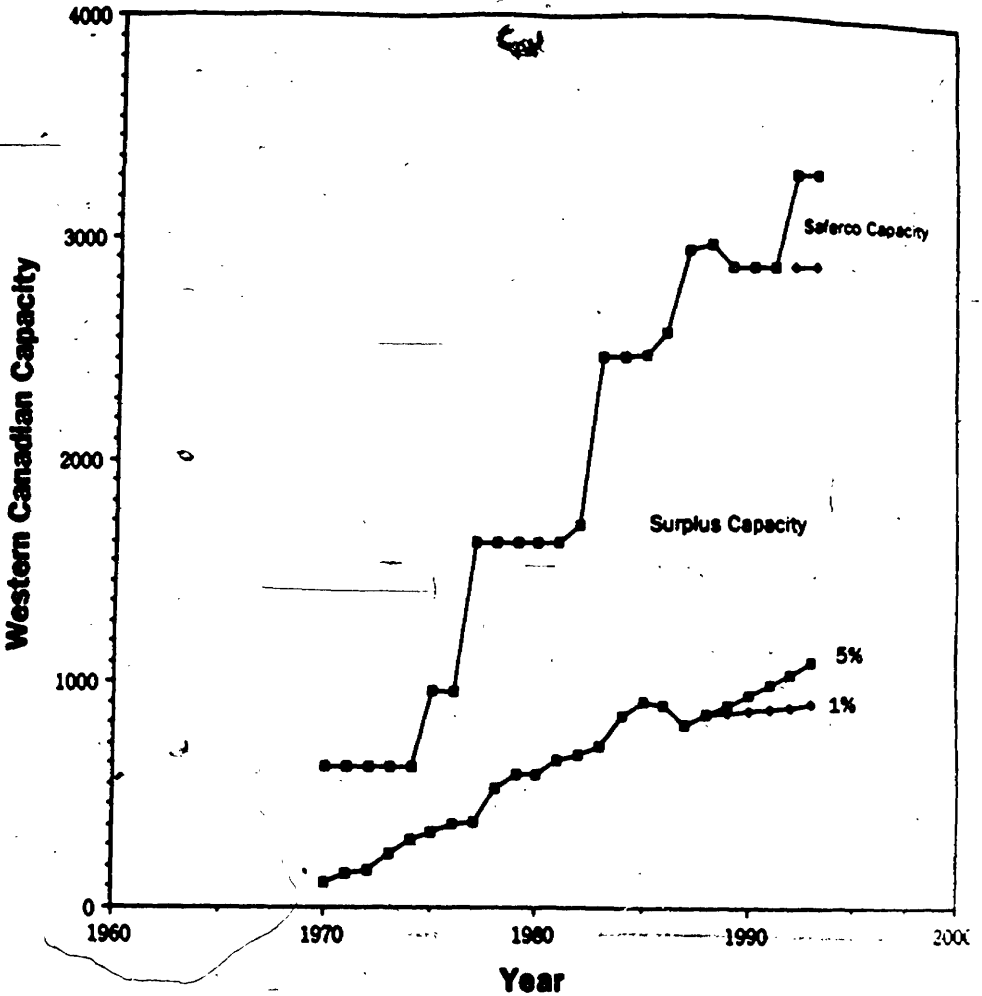
-3-

it was his calling card to break into the world fertilizer market. He dismisses his opponents.

- Hawkins: It seems to me that people who are really good business people should not spend their time whining and complaining but rather should spend their time looking at the potential opportunities in the marketplace.
- Announcer: But American politicians are also upset, and to find out why, you'd have to go back to Belle Plaine. Behind Chubby's convenience store, you'll find this: a railway line that starts here and ends in Minnesota. Waiting at the other end are people like Bob Liuzzi.
- Liuzzi: There will be a pricing bloodbath in the marketplace. I'm convinced of that.
- Announcer: Backed by 20 American fertilizer plants and 24 angry senators he says he's signed up, Liuzzi is spearheading opposition to the plant - - a plant that Americans are convinced has to have a subsidy in it somewhere if the government's involved. From the huge amount of natural gas it will need to make fertilizer to that loan guarantee.
- Liuzzi: The producers in the United States will not sit still. They will fight in the marketplace in front of the International Trade Commission, in terms of countervailing duty actions or anti-dumping actions.
- Announcer: Premier Grant Devine says that's nonsense.
- Devine: Isn't it interesting that poor little America's concerned about this fertilizer company growing up in the middle of Saskatchewan in Western Canada? I mean . . . they don't want the competition. Tell it as it is.
- Announcer: The mudslinging is going to continue, but so is the construction of the plant. Its real impact won't be known until it opens in 1993, and while that will signal jobs and prosperity for little Belle Plaine, it will also signal the beginning of a nasty shakedown in the marketplace. For Venture, I'm Ross Rutherford .

APPENDIX E

Western Canadian Nitrogen Capacity vs. Western Canadian Demand



Western Canadian Capacity
 Western Canadian Consumption

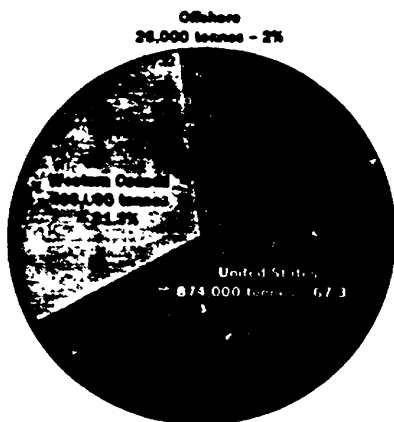
Sources: Blue & Johnson and Associates, Agriculture Canada

We have provided two estimates of future market growth in Western Canada. We believe 5% is optimistic but we have used it to provide the benefit of the doubt to the Safarco Project. We believe actual growth could be as low as 1%.

In Relation to available domestic markets, surplus capacity is growing too fast!

BEST AVAILABLE COPY

1987-88 Western Canada Ammonia Balance



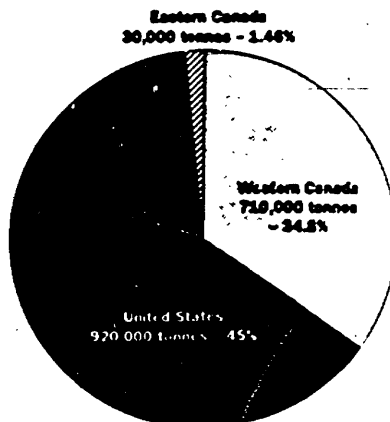
SALES BY REGION

Gross Capacity	*3,350
Estimated Production	2,975
Operating Rate	89%
<hr/>	
Net Ammonia Available for Sale	1,298
<hr/>	
Western Canada Consumption	406
Less Imports	8
Subtotal	398
<hr/>	
Available for Export	
U.S.A	874
Offshore	26

*thousands of tonnes

Sources: Cominco, Statistics Canada

1987-88 Western Canada Urea Balance



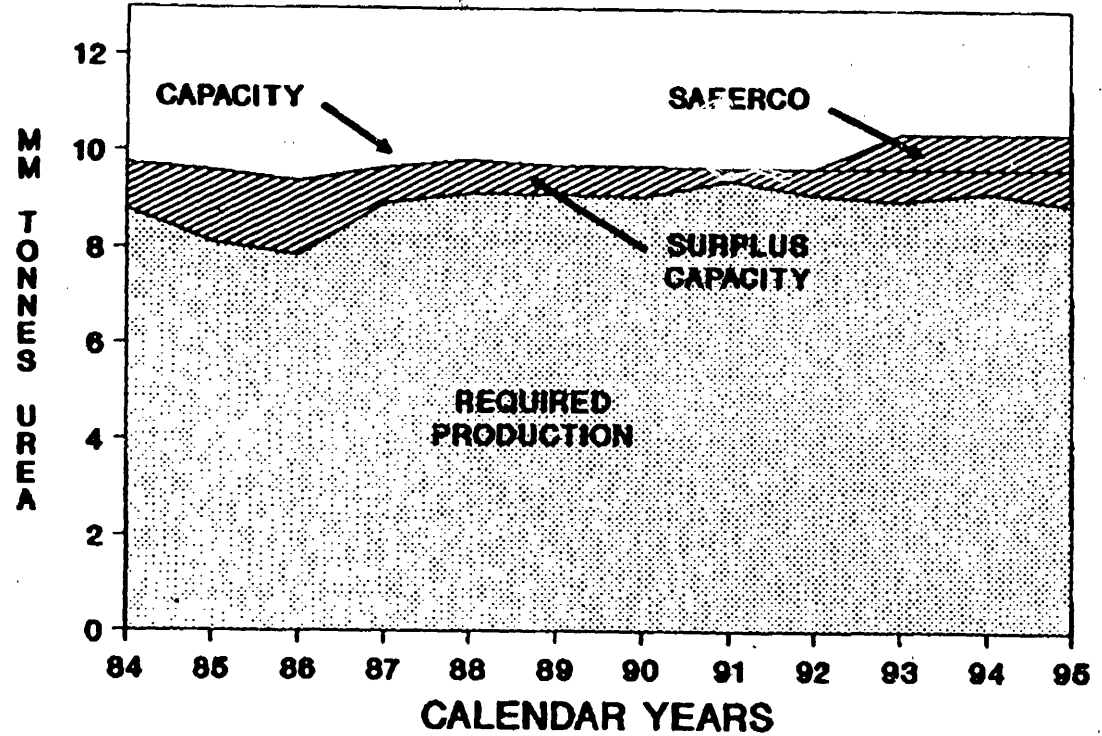
SALES BY REGION

Gross Urea Capacity	*2,195
Estimated Production	2,075
Operating Rate	95%
<hr/>	
Net Urea Available for Sale	2,043
<hr/>	
Western Canada Consumption (Less Imports)	710
Eastern Canada	30
<hr/>	
Available for Export	1,303
United States	920
Offshore	383

*thousands of tonnes

These Pie Charts Illustrate the Western Industry's Dependence on the U.S. Market

NORTH AMERICAN UREA BALANCE



... Published by Blue, Johnson & Associates, NPKS Markets Report, January, 1990, Ammonia-Urea: World Supply-Demand-Trade, Outlook to 1995.

APPENDIX F

ICF CONSULTING ASSOCIATES

1850 K STREET NW
 SUITE 1000
 WASHINGTON DC 20006
 202 862 1100
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ECONOMETRIC ANALYSIS OF THE IMPACT OF THE SAFERCO UREA PLANT
 ON U.S. UREA PRICE AND SUPPLY

MARCH 20, 1990

SUMMARY OF RESULTS

Our econometric model predicts that the proposed Saferco urea plant could have a substantial price and/or quantity impact on the U.S. urea market. We estimate that during the three year period beginning in 1993, when the Saferco plant is scheduled to come on stream, additional imports of Canadian urea would have the following effects:

- U.S. urea prices will decline by 12 to 17 percent
- U.S. producers' shipments will decline by 4 to 6 percent

PROJECT OBJECTIVE

ICF Consulting Associates was asked by the Ad Hoc Committee of Domestic Nitrogen Producers to update the econometric model developed for the injury part of the antidumping investigations of urea from the Soviet Union, Romania, and East Germany and to use that model to estimate the impact of the proposed Saferco plant on the U.S. urea market. Our objective was to estimate the impact on U.S. price and supply assuming different quantities of Canadian product will be exported to the U.S. beginning in January 1993. We note that the increase in Canadian exports may not all be of Saferco product, but may include other Canadian production displaced by new Saferco output.

METHODOLOGY

Using an extensive and detailed database of key agricultural and production related variables, ICF performed a three step analysis:¹

- | | |
|--------|---|
| Step 1 | Estimation of the historical (1983 - 1989) relationship in the U.S. market between supply and demand. |
| Step 2 | Estimation of future (1993 - 1995) U.S. urea consumption and likely displacement in Canada resulting in additional exports of Canadian urea to the U.S. |
| Step 3 | Using the results of Steps 1 and 2, estimation of the price and supply effect of additional Canadian shipments to the U.S. |

¹ The sources of data used in this analysis are listed in Attachment 1.

In Step 1, we used historical data on the U.S. urea market to derive econometric estimates of supply and demand behavior. Our estimates took into account changes in key variables, such as acres planted and the price of natural gas, that affect the U.S. market-clearing price and quantity. A two-equation model, supply and demand, was used to estimate the historical interaction between the different variables affecting the U.S. market. The two fundamental results indicated by our model are that, historically, (1) quantity demanded is extremely unresponsive to changes in price (price inelastic) and (2) supply is quite responsive to price changes (price elastic). Quantity demanded is determined primarily by crop variables such as acres planted while the price of urea is determined by factors such as the prices of natural gas and ammonia.

In Step 2, we used estimates of forecasted U.S. solid urea consumption and likely displacement of Canadian urea for the period 1993 - 1995. The U.S. estimates were developed from individual forecasts of key variables affecting urea consumption. These variables include agricultural factors such as acres planted and application rates, non-agricultural and industrial uses such as livestock feed, and various macroeconomic factors such as GNP. The urea consumption forecast also assumes a continued movement by farmers away from anhydrous ammonia to urea and UAN. The forecasts indicate solid urea consumption will increase from 2,821,000 nutrient tons in 1993 to 2,924,000 nutrient tons in 1995.

We assessed the impact of the Saferco production and the displacement of Canadian urea under two scenarios:

- | | |
|--------|--|
| Case 1 | 400,000 product tons of urea (184,000 nutrient tons) out of Saferco's planned output of 720,000 product tons is exported to the U.S. This estimate was derived from industry estimates of urea consumption in Western Canada, Saferco's projected market area based on freight and estimated delivered costs, and Saferco achieving a 50 percent share in that marketing area. |
| Case 2 | The displacement caused by Saferco shipments is split between the U.S. and Canada based on the relative sizes of the two markets in 1989. Thus, if the U.S. market is four times greater than the Canadian one, then 80 percent of Saferco production (additional available product) was assumed to be exported to the U.S. |

We note that the potential impact of the Saferco production and displacement can be estimated under other scenarios. For this analysis, we have focused on the two Cases described above as reasonable scenarios given forecasted market conditions in the U.S. and Canada.

In Step 3, we estimated the impact of the additional exports to the U.S. under Cases 1 and 2. These estimates were derived using the supply and demand characteristics established in Step 1 and the estimated size of the U.S. urea market determined in Step 2. These estimates are shown in Table 1. In Case 1, prices decline by 12 percent while U.S. shipments fall by 4 percent. In Case 2, prices decline by 17 percent and shipments fall by approximately 6 percent. In either case, we would also expect to see a decline in U.S. ammonia prices which may have a multiplying downward impact on urea prices. Further analysis of the ammonia market would be necessary to predict accurately the effect on the ammonia price, but the extent of the decline would vary directly with the share of ammonia production that is used to produce urea. We note that lower production levels would also have a substantial cost-driven impact on U.S. producers' profitability.

Our predictions are premised on the predicted events being within, or at least not too far beyond, the range of historical observations. The supply response estimate used in this analysis is based on the most recent sudden increase in supply, the surge in imports from the Soviet Union, Romania, and East Germany from 1985 to 1986. During that period, U.S. producers' total shipments fell by 5 percent, similar to the projected declines shown in Table 1.

TABLE 1

EFFECT OF SAFERCO SHIPMENTS ON U.S. PRICE AND SHIPMENTS

CASE 1: ADDITIONAL CANADIAN SHIPMENTS OF 184,000 NUTRIENT TONS

	BASE US MARKET 000 N TONS	% CHANGE IN US PRODUCTION	% CHANGE IN US PRICE
1993	2821	-4.39%	-12.35%
1994	2877	-4.30%	-12.12%
1995	2924	-4.23%	-11.93%

CASE 2: ADDITIONAL CANADIAN SHIPMENTS OF 259,660 NUTRIENT TONS

	BASE US MARKET 000 N TONS	% CHANGE IN US PRODUCTION	% CHANGE IN US PRICE
1993	2821	-6.24%	-17.14%
1994	2877	-6.11%	-16.82%
1995	2924	-6.01%	-16.57%

ATTACHMENT 1

Sources of Data:

U.S. urea production, inventory, exports

Bureau of the Census, Inorganic Fertilizer Materials and Related Products, Report M28-B, various issues

U.S. urea imports

Department of Commerce, Report IM-146, various issues

Urea and Ammonia prices

Green Markets, various issues

Agricultural variables

USDA: Crop Production Survey, Imports Outlook and Situation Report, World Supply & Demand Estimates, various issues

Natural Gas prices

Department of Energy, Monthly Energy Review, various issues

APPENDIX G

Congressional Record

SASKATCHEWAN FERTILIZER PLANT

Mr. COCHRAN. Mr. President, the Canadian Province of Saskatchewan is making plans to subsidize the construction and operation of a world-scale nitrogen fertilizer plant. This is causing great concern in the fertilizer industry in the United States and should be a concern of the administration and the Congress.

On February 7 of this year, the Saskatchewan government announced its plans to invest \$64 million of the province's funds and guarantee an additional \$305 million in loans to finance the construction of a project known as "Saferco," which will produce nitrogen fertilizers, including anhydrous ammonia and urea. This project is being pursued ostensibly to promote the provincial economy.

I am concerned that the volume of fertilizer which is projected to be produced by this plant will seriously harm the market in the United States for these products by causing a price-depressing oversupply. I am certainly not opposed to competition, but I have been told there is evidence that this plant could not be competitive were it not for the Government subsidy. This seems to be in conflict with the recent United States-Canada Free Trade Agreement.

There are other concerns with this plant, including the fact that Saskatchewan has waived the requirement for an environmental impact statement. These concerns have been included in a letter addressed to U.S. Trade Representative Carla Hills and signed by eight Senators. I ask unanimous consent that a copy of this letter be placed in the Record.

There being no objection, the letter was ordered to be printed in the Record, as follows:

U.S. SENATE,

Washington, DC, March 6, 1986.

HON. CARLA HILLS,

U.S. Trade Representative, Washington, DC.
DEAR AMBASSADOR HILLS: We are writing to request your assistance with regard to a matter of very grave concern to us. The Canadian province of Saskatchewan is committed to expanding its industrial base, but un-

fortunately has historically ignored commercial realities in attempting to accomplish this political goal. Its newest industrial expansion project, announced on February 7, 1986, is a world-scale nitrogen fertilizer plant. This project, like others before it, will be an ill-conceived, quasi-governmental enterprise that can survive only by reason of subsidies and preferential treatment.

The plant is a massive undertaking and will require a \$64 million equity investment from the Province as well as a provincial loan guarantee for the \$305 million in debt required for the project. A private company has agreed to make a \$64 million investment in the plant in exchange for exclusive marketing rights. This project, known as "Saferco," is of very urgent concern to us for three reasons.

First, Saskatchewan has approved construction of this plant and has waived a requirement for a Provincial environmental review. By waiving such a review, the plant will be built without the benefit of objective scientific review or public hearings to consider critical environmental issues. We find this disregard for environmental concerns appalling. Congress is currently in the midst of considering new clean air legislation and, along with U.S. industry, we are grappling with very difficult issues presented by the effort to protect our global environment. These issues impact the nitrogen fertilizer sector as well as many other industries nationwide.

Given Canada's commitment to address environmental issues such as acid rain and ozone depletion, and the historic criticism by Canada of the U.S. on these issues, we are dismayed by Saskatchewan's decision to essentially ignore sensitive environmental concerns in its haste to construct this huge chemical plant. Its failure to assess the environmental impact of the plant raises concerns not only about this impact, but also about the competitive advantage that the Province appears to be intentionally creating for its venture by "exempting" it from an environmental impact statement.

Second, based on information available to us, we believe that the Saferco plant would not be built without the significant involvement of the Province. Current and projected market conditions render the addition of this capacity an obvious political move designed to achieve certain social and political goals of current Provincial leaders. Industry sources have supplied us with information that indicates that the plant would not be built by a commercially-motivated investor. Financing could only be possible for this very questionable venture by reason of the loan guarantee to be provided by the Province for all of the debt to be incurred. In light of the spirit of the CFTA and Can-

ada's obligations thereunder, we are alarmed by this new Provincial subsidy.

Third, based on information made available to us, it appears quite certain that if the Saferco plant is completed and brought on-stream, it will have a serious and negative impact on U.S. producers of nitrogen fertilizers. The plant's enormous production will necessarily enter the U.S. market and/or displace into the U.S. other Canadian production which currently serves Saskatchewan. Industry experts predict that the large increase in supply will severely depress prices.

We have been assured that the U.S. industry will not hesitate to fully utilize all available legal remedies to address the effects of the unfair trade that is certain to result from this project. However, given the serious issues raised from an environmental as well as a fair trade standpoint, it would be most beneficial to all concerned if the matter could be addressed before the need arises for the pursuit of unfair trade litigation.

We would greatly appreciate your assistance in looking into this matter and providing to us, under the terms of 19 U.S.C. 5 3418, with information concerning this plant and the involvement of the Province in the project. We have enclosed some information about the plant that may be of interest to you. Given the commitment of both the U.S. and Canada to a clean and healthy environment and to free and fair trade, the U.S. should not be silent as a major Canadian project is undertaken without concern for either.

We look forward to hearing from you shortly.

Sincerely,

Thomas A. Darchie, Thad Cochran,
Alan J. Dixon, David Pryor, David L.
Boren, James A. McClure, Trent Lott,
Steve Symms.

BEST AVAILABLE COPY

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20508

MAY 25 1980

The Honorable Thad Cochran
United States Senate
Washington, D. C. 20510

Dear Senator Cochran:

Thank you for your letter of March 8 in which you and your colleagues conveyed your concerns regarding the proposed fertilizer plant near Regina, Saskatchewan, in Canada. I regret the delay in answering.

You expressed the views that this project enjoys the financial support of the Provincial Government of Saskatchewan and that, once the plant commences production, it threatens major pricing problems and market disruption in the United States. You also expressed concern that this project is proceeding without proper environmental review. In addition, you made a request pursuant to 19 U.S.C. 2418 for information concerning the project and the Province of Saskatchewan's involvement in it.

The United States-Canada Free-Trade Agreement (FTA), in addressing the issue of industrial subsidies, provides for negotiations over a five- to seven-year period to develop more effective rules and disciplines on the use of government subsidies. These negotiations are in progress in the Subsidies Working Group, which I jointly established last March with the Canadian Minister for International Trade, John Crosbie.

In the interim, of course, the United States is continuing to apply our existing anti-dumping and countervailing duty laws to goods imported from Canada. Your letter mentions specifically loan guarantees, which may be found to be countervailable subsidies under U.S. countervailing duty law under certain circumstances. A countervailing duty would be imposed on imports from Canada if the administering authorities determined that (a) the product imported into the United States benefits from a countervailable subsidy and (b) a domestic industry within the United States has been materially injured, or threatened with material injury, by reason of the subsidized imports.

The Department of Commerce is responsible for the administration of the countervailing duty law. The Office of Investigations, Import Administration, which is part of the International Trade Administration at Commerce, would be able to answer any questions concerning initiation of a countervailing duty investigation.

Concerning your request for information under 19 U.S.C. 2418, my staff is in the process of compiling this information and will provide it to you as soon as it is available. In a larger context, I will be pleased to have my staff raise the issue of the proposed Saskatchewan fertilizer plant with the Canadian Government.

Sincerely,


Carla A. Mills

CAM:ET

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Congressional Record

CONCERN IN THE U.S. FERTILIZER INDUSTRY

Mr. BURDICK. Mr. President, I have learned recently that the Canadian Province of Saskatchewan is involved with the construction of a major nitrogen fertilizer facility in Belle Plaine, SK. For reasons I will outline below, this project is causing a great deal of concern in the U.S. fertilizer industry and has begun to attract the attention of many Members of the Senate.

Earlier this year, the Provincial government of Saskatchewan announced its planned investment of \$64 million in a \$435 million project—known as "Saferco". The Province also intends to guarantee \$305 million in loans for the project and a private company also has agreed to invest \$65 million in return for exclusive marketing rights. From the information I have received, it appears that the project can go forward only with massive government involvement because the project is not commercially viable without substantial government assistance.

The Provincial government intends to create jobs through this project, and no one can fault that effort. However, the volume of fertilizer that is projected to be produced by this plant cannot be absorbed sufficiently by the Canadian market and invariably would find its way into the United States market, displacing much of the United States product. The jobs created by this project would come at the expense of many U.S. workers and would be the result of government-subsidized production, not true competition.

I have other concerns about this project, specifically the fact that the government of Saskatchewan apparently has waived the requirement for an environmental impact statement for this project. Since I represent a State that shares a common border with Canada, I am concerned about the precedent that would be set by this decision.

These and other concerns have been included in a letter to Ambassador Carla Hills, U.S. Trade Representative, that was signed by myself and 10 of my colleagues. I ask unanimous consent that a copy of this letter be inserted in the Record.

There being no objection, the letter was ordered to be printed in the Record, as follows:

U.S. SENATE

Washington, DC, May 14, 1990.

Hon. CARLA HILLS,

U.S. Trade Representative, Washington, DC.

DEAR AMBASSADOR HILLS: On March 8 a letter was forwarded to you from a number of our Senate colleagues expressing concern about the massive nitrogen fertilizer facility to be constructed in Belle Plaine, Saskatchewan with the heavy financial involvement of the Province.¹ We are writing to add our expression of concern to those already registered, and to respectfully request that you address this very troubling matter in discussions with your Canadian counterparts.

The United States boasts a modern and efficient nitrogen fertilizer industry which provides a very high quality product to farmers throughout the nation. U.S. producers of nitrogen fertilizer operate without subsidies or government assistance of any kind. We are proud of the contribution of this industry to the agricultural economy of our nation. Information has recently come to our attention, however, concerning the planned world scale nitrogen fertilizer facility—"Saferco"—to be built in Saskatchewan, Canada. We are extremely concerned that this Provincial project is proceeding without consideration of economic realities or environmental concerns. The economic impact on U.S. producers promises to be quite serious. The environmental impacts are simply unknown.

With respect to the environmental assessment of the Saferco plant, Saskatchewan claims that the plant will meet environmental standards and that it has conducted necessary reviews. The simple fact is, however, that the project has not been subject to a full public environmental impact assessment. Furthermore, the Provincial government—which is not a neutral party—has refused to release to the public any report of

its allegedly thorough internal environmental assessment of the plant. The approach, particularly where it is part of a broader program to provide support for a production facility that is not commercially justified and has all the earmarks of political pork barrel. We respectfully request that our concern about the lack of a full environmental review of this huge chemical complex be raised in the Provincial legislature.

Not only are the environmental questions quite troubling, but the fair trade implications of Saferco are serious ones. Information provided by our constituents, reported in one Canadian press and raised in the Canadian Parliament presents a very convincing case that the Saferco venture is not commercially sound. This information presents grave questions about the impact of the facility on U.S. markets. Neither existing U.S. producers nor respected industry analysts perceive a need for a new world-scale nitrogen facility in Saskatchewan. Currently, the U.S. nitrogen market is weaker than it has been in several years. Ammonia and urea prices are well below the expected spring "peak" and U.S. industry profitability has declined. Indeed, as proponents of the plant concede, some U.S. nitrogen capacity has been closed in recent years. These plant closures and the absence of new investment were a direct response to market conditions. Low-priced imports from other sources are already an important factor in this market. It has been suggested, nonetheless, that the Saferco project is needed to replace the offshore imports into North America. When the situation is examined in terms of the United States market, the misleading nature of this argument is obvious.

Of the 1.0 to 1.2 million tons of urea (the intended principal Saferco product) imported into the U.S. in 1988 and 1989, more than half was produced in Canada. Of the remaining imported tonnage, 85-75% entered at U.S. Gulf Coast ports. The Saferco plant will simply not be in a position, given transportation costs, to replace Gulf Coast imports. The truth is that the Canadian and U.S. markets that will be served by Saferco are currently well-supplied by existing U.S. and Canadian producers, with only a very small percentage coming from offshore material. As a result, the additional Saferco supply will not reduce import levels, but serve to increase supply and, necessarily, depress prices.

Given the market situation, there is simply no "economic need" for the Saferco plant. Indeed, it seems fairly clear to us that if the market required this supply, a private investor would undertake the venture without Provincial equity participation, loan guarantees or incentives in the form of special marketing arrangements. It has also been rumored that the project may receive preferential treatment in terms of its supplies of natural gas, the input which typically accounts for well over 70% of the cost for producing nitrogen fertilizer. Such preferences, while not confirmed at this time, would not be necessary were the enterprise commercially viable.

Further, the limited participation of a private company in the project does not prove that a commercially-motivated entity would invest in Saferco. Private sector involvement in this project is limited to a \$65 million investment—a mere 15% of the total \$435 million cost of the plant. The private sector will neither incur nor guarantee the huge debt required for the project. In return, the lone private participant will receive exclusive marketing rights for Saferco's production.

It is reported that the private company involved has been guaranteed a per ton commission or mark-up on the tons it will distribute, assuring it a return on its relatively small investment even if the plant is not profitable. It should be noted that Saskatchewan has refused to make public the details of this marketing agreement. It is clear, however, that limited private participation in the project, given the separate incentives provided, is no evidence of the plant's commercial viability.

It has also been argued that Saferco's cost of borrowing (including the guarantee fee) will be higher than the interest rate available to either the private participant or the Province. One must question, in the case, why neither party would choose to borrow directly and take advantage of such allegedly lower rates. Perhaps the private "investor" chose not to assume the risk of such heavy debt on this project or, equally as likely, no lender would make \$305 million available for Saferco without a government guarantee.

Rhetoric notwithstanding, we have seen enough to be convinced that this project is a major new subsidy which is exceptionally ill-conceived. It promises major disruption to U.S. markets. U.S. producers are extremely alarmed over the prospect of this additional unnecessary and subsidized capacity. Our review of the facts available suggests that they are alarmed for good reason.

We respectfully request, therefore, that you seek a review of the Saferco project by your Canadian counterparts, from both the environmental and unfair trade perspectives. It should be made quite clear to our Canadian trading partners that these practices are not taken lightly by the United States. Free, fair and responsible trade leaves no room for such practices.

We would appreciate hearing from you at your earliest convenience concerning your intended actions with regard to this matter.

Sincerely,

Quentin N. Burdick, John B. Breaux,
Frank H. Murkowski, Pete Wilson,
Kent Conrad, Dale Bumpers, Charles
S. Robb, Conrad Burns, John W.
Warner, Dan Coats, Ted Stevens.

¹The March 8 letter was signed by Senators Daschle, Cochran, Dixon, Pryor, Boren, McClure, Lott, and Symms.

OFFICE OF THE UNITED STATES
 TRADE REPRESENTATIVE
 EXECUTIVE OFFICE OF THE PRESIDENT
 WASHINGTON
 20506

July 12, 1990

Senator Thomas A. Daschle
 United States Senate
 Washington, D.C. 20510

Dear Senator Daschle:

As indicated in her letter to you dated May 25, Ambassador Hills has asked me to respond to your March 8, 1990 request, pursuant to section 308 of the Trade Act of 1974, as amended, for information concerning "Safaroc," Saskatchewan's nitrogen fertilizer project.

The following is a summary of the information gathered in response to your request:

The Project: The plant, under construction near Belle Plaine, Saskatchewan, 25 miles west of Regina, will be the result of a joint venture between Crown Management Board (CMB) of Saskatchewan and Cargill Ltd. of Winnipeg. The partners have formed a company known as Safaroc Products Inc. to build and operate the plant.

Production is scheduled to begin in 1993. Daily production capacity is expected to reach 1,500 metric tons of anhydrous ammonia and 2,000 metric tons of granular urea. Company officials plan to use up to 1,100 tons of the ammonia daily to produce the urea, leaving about 350 tons of anhydrous ammonia for direct sale.

Financing: The project will cost C\$435 million, financed with C\$130 million in equity and C\$305 million in guaranteed commercial debt. Cargill is providing C\$65 million for a 50 percent share in the project; the Provincial Government of Saskatchewan (PGOS), C\$64 million for a 49 percent share; and an unspecified financial institution, C\$1 million for the balance.

According to company officials, the PGOS will guarantee the full C\$305 million worth of commercial debt, charging Safaroc a guarantee fee based on commercial rates. The debt issue is reportedly being handled by Merrill Lynch.

The Canadian government has assured us that the PGOS is not providing any tax incentives or infrastructure support to the project, and that the financing of the project will be consistent with commercial terms.

Distribution: Cargill is expected to be the sole marketer of Saferco's output. Although the exact terms of the exclusive marketing arrangement have not been disclosed, the PGOS will pay Cargill a fee for marketing the product, which, according to CMS officials, will be a commercial rate based upon the terms and conditions of sale.

The opposition political party has publicly alleged that the arrangement will guarantee Cargill \$2 to \$3 per ton of fertilizer, regardless of the market price or the profitability of the plant. However, the government has firmly denied this charge and we have seen no evidence to that effect.

Environment: The environmental assessment branch of the PGOS originally determined that the project did not require an environmental impact assessment and approved construction of the plant without such a review. However, following public and political outcry at this decision, the PGOS recently agreed to conduct a formal environmental review, complete with public meetings. Construction of the project will be allowed to proceed while the company prepares an environmental impact statement.

Once completed, the plant will also be required to comply with the licensing requirements of the Clean Air Act, the Environmental Management and Protection Act, and the Occupational Health and Safety Act.

Supply/Construction Contracts: The West German firm of UHDE GmbH, a subsidiary of Hoechst, has been awarded the design and equipment contract for C\$379 million.

Saferco is negotiating with a SaskEnergy, a provincial crown corporation, for an annual supply of approximately 18 billion cubic feet of natural gas, the principal raw material used in the manufacture of nitrogen fertilizers. The opposition political party has publicly speculated that Saferco may receive the gas at subsidised rates. However, the government has firmly denied this charge and we have seen no evidence to that effect.

According to Saferco officials, Saskatchewan Water Corporation, a crown corporation which reportedly has a monopoly on the construction of water pipelines, will build a 10-mile pipeline for use by Saferco. Company officials

state that the cost of this pipeline will be paid back on terms consistent with any regular commercial deal.

Expected Markets: Saferco expects to market its products primarily in western Canada, Ontario, the midwestern United States, and overseas.

Local Competition: According to the Canadian press, the J.R. Simplot Company of Idaho which operates a 20-year old plant at Brandon, Manitoba is negotiating with the Provincial Government of Manitoba for assistance in upgrading that facility in order to compete with Saferco.

Local Economic Impact: Saferco expects plant construction to add an average of 600 jobs and approximately C\$600 million in new activity to the Saskatchewan economy. Once operational, the plant is projected to directly employ 130 people, while the ongoing purchase of goods and services would generate 500 additional jobs and approximately C\$300 million in new economic activity.

I have enclosed some letters, reports and press clippings which may be of interest to you. I hope you find this information helpful.

Sincerely,



Joshua B. Bolten
General Counsel



PREPARED STATEMENT OF E.E. MORTENSEN

CANADIAN MEAT PRODUCT INSPECTION REPORT

Mr. Chairman: for the record, I am E.E. Mortensen, Chief, Meat Inspection Bureau, Montana Department of Livestock, Helena, Montana.

I speak for the Montana Board of Livestock, Capital Station, Helena, Montana 59620 and The Montana stockgrowers Association, 420 N. California, Helena, Montana 59601.

On July 6 & 7, 1990 this Department conducted a review of the meat re-inspection procedures of Canadian meat products entering the United States at Sweetgrass, Montana.

Those present were Mr. Mark Man is, Director, Import Inspection Division, USDA FSIS, Washington D.C.; Mr. Niles Nay, Import Field Office Supervisor, Import Inspection Division, USDA FSIS, Tacoma, Washington; Mr. Bill Lehman, USDA FSIS Import Inspection Division Inspector at both Sweetgrass inspection facilities; Dr. Hal Sheets, Montana Department of Livestock, Helena, Montana; and I.

We had the opportunity to tour both facilities which have been constructed within approximately the past three (3) years. These buildings are of suitable size and construction for their intended purposes. Floors, walls, and ceilings in each facility are constructed to be easy to clean and in good repair.

We viewed some twenty-five (25) samples of defects that Mr. Lehman had collected, frozen, and held from approximately January 1, 1990 to the present. These defect samples consisted of both beef and pork products. We agreed with Mr. Lehman's calls on all defect samples he showed to us.

We had the opportunity to observe the inspection of six (6) shipments of Canadian product during the two (2) day visit.

Import Inspection Policy

The inspection of randomly selected samples of imported meat and poultry products as they arrive at ports of entry helps to assure that the inspection systems of the foreign exporting countries meet requirements like those of the domestic meat and poultry inspection program and that products that are unwholesome, adulterated, or misbranded do not enter U.S. commerce. To these ends, imported products may be subjected to appropriate types of inspection, as assigned by the Automated Import Inspection System (AIIS) or initiated by an inspector, which may include a product examination, an inspection of the condition of rigid containers, the incubation of shelf-stable products, a determination of the accuracy of net weight statements and other label claims on the labels of retail products, and other types of inspections conducted by inspectors in the field.

General Inspection Procedures

The inspector receives or obtains an inspection assignment from the Automated Import Information System (computer) for each lot presented for inspection. This will indicate the type of inspection to be performed, the status of the foreign establishment, and the random numbers to be used for sample selection.

The import inspection establishment shall present the lot for inspection in such a manner so that the inspector may count cartons, observe and read display panels and labels identifying product, country of origin, foreign establishment number, and lot identification marks. The inspector examines lots for general condition, proper labeling, accuracy of information of required forms, foreign inspection documents, and check containers for transportation damage.

Product Examination Policy

Product examination is an organoleptic type of inspection in which an inspector feels, smells, and visually examines exposed product samples to discover defects such as blood clots, bruises, bone fragments, ingesta, extraneous materials (wood, glass, chemicals, insects, etc.), hair/wool, hide, stains, pathologic lesions, and off condition. The defects are classified as minor, major, or critical, and the totals of each category are compared with statistically sound sampling plans to determine the disposition of the lot.

Sampling and Inspection Procedure

Sampling cartons are sequentially numbered. Sample units of boneless manufacturing meat is completely defrosted and other cuts shall be sufficiently defrosted to allow the inspector to determine the condition of the product.

Carcass samples are identified by numbered tags, selecting both the forequarter and the matching hindquarter for the assigned sample. Carcass sides are examined

according to a prescribed routine starting at the inside forequarter to the outside forequarter, inside hindquarter to the outside hindquarter.

There are a number of sampling plans and defect criteria tables for carcasses and other type product. An example of defect criteria for red meat carcasses and pork carcasses, wholesale and retail cuts, and boneless manufacturing meat is attached.

Prior to January 1, 1989 import inspection procedures required that every shipment of meat/poultry product entering the United States be unloaded at an approved import inspection facility for routine visual inspection (i.e. general condition, proper certification, and labeling).

If the Automated Import Inspection System assigned a further inspection, the USDA import inspector would obtain the necessary samples and perform the inspection. After the inspection is completed, the import inspector supervises the stamping of the product (i.e. U.S. Inspected & Passed or U.S. Refused Entry).

Since January 1, 1989, USDA has implemented streamlined import inspection procedures for Canadian product as a result of the Canadian Free Trade Agreement. If the Automated Import Inspection System assigns an inspection, the Ag. Canada inspector obtains the samples at the Canadian plant and puts the samples on the rear of the truck. Upon arrival at the approved import inspection establishment at the U.S. border, the USDA inspector will not off load the entire load, only the selected samples at the rear of the truck. After completion of inspection, the product is not stamped. If the Automated Import Inspection System does not assign an inspection, the shipment moves directly into U.S. commerce without stopping at a U.S. import inspection facility.

There is an intensified inspection program for plants that fail the streamlined inspection system, whereby the entire contents are off loaded and the USDA inspector selects the samples.

REPORT OF THE SECRETARY OF AGRICULTURE TO THE U.S. CONGRESS ON MEAT & POULTRY INSPECTION

1989—Meat and Poultry

Canada: total pounds passed for entry for all products = 703,380,447 and total pounds refused entry for all products = 7,210,379, or approximately 1% refused.

Australia: total pounds passed for entry for all products = 658,321,160 and total pounds refused entry for all products = 2,278,902 or approximately .35% refused.

New Zealand: total pounds passed for entry for all products = 505,590,550 and total pounds refused entry for all products = 916,365 or approximately .18% refused.

Denmark: total pounds passed for entry for all products = 195,527,398 and total pounds refused entry for all products = 827,975 or approximately .42% refused.

USDA FSIS STATISTICAL SUMMARY

[Meat and poultry inspection—fiscal year 1989]

	Passed	Refused	Percent refused
Canada.....	690,760,076	5,985,584	.87
Australia.....	606,951,573	2,051,926	.34
New Zealand.....	517,549,070	842,732	.16
Denmark.....	228,323,290	894,224	.39

Canada is the leading importer of meat product into the United States. It will be noted that the refused entry rate for Canada is over two (2) to four (4) times higher than that of the next three (3) leading countries that export meat product into the United States.

USDA FSIS STATISTICAL SUMMARY

[Meat and poultry inspection—fiscal year 1989]

Meat Products Exported to Canada = 209,040,132 pounds. (includes lard and rendered pork fat—10,107,692) (and other edible fats and oils—16,136,808)

Poultry Products Exported to Canada = 78,234,881 pounds.

Total Meat and Poultry Exported to Canada = 287,275,013 pounds.

The purpose of the Federal Meat Inspection Act is to protect the health and welfare of consumers by assuring that meat and meat food products are wholesome, not adulterated, and properly marked, labeled, and packaged.

The Federal Meat Inspection Act

With regard to imported meat, no carcasses or meat may be imported into the U.S. unless livestock from which they were produced was slaughtered and handled in accordance with the Federal Meat Inspection Act and further provides that all carcasses, meat, and meat food products capable of human consumption, offered for importation into the U.S. "shall be subject to the inspection sanitary quality, species verification, and residue standards applied to products produced in the United States".

GAO concluded that USDA had insufficient data to conclude that the Canadian inspection system is equivalent to U.S. inspection.

It does not appear that process for statutory changes set forth in the U.S.-Canada agreement have been followed and it appears that proposed rules which suspend meat import inspections for Canadian product are in conflict with the Federal Meat Inspection Act.

The Office of Inspector General reports prior to 1989 indicate the Import Inspection Divisions control over the importation of meat products needed improvement. One (1) of which would require foreign meat products entering the United States be inspected by the Import Inspection Division only at the point of first arrival.

Summary

It is our view that the present inspectors that we have had contact with, are doing a fair and competent job of reinspecting meat products coming from Canada.

We feel that import inspection is an additional tool available to industry and inspection person i.e., to evaluate and identify problems within the system at the plant level.

The level of defects and refused entry from Canada that have been detected since January 1, 1989 to the present time, suggests to us that it certainly is not in the best interest of consumers to further reduce the level of inspection.

The report of the Secretary of Agriculture to the U.S. Congress on Meat and Poultry Inspection, tells us that Canada is the leading exporter of meat product into the United States for calendar year 1989. It will be noted that the refused entry rate for Canada was two (2) to four (4) times greater than that of the next three (3) leading countries that export meat product into the United States.

The Government Accounting Office report dated July 1990 states that FSIS does not have adequate documentation to conclude that the Canadian inspection system is equivalent to U.S. inspection.

It appears that proposed rules which will suspend import meat re-inspection for Canadian product, are in conflict with the Federal Meat Inspection Act. They also may be in conflict with the Canadian Free Trade Agreement.

We believe that Canadian plants that export meat product to the United States should be reviewed by FSIS personnel.

There has been recent disagreement between U.S. officials and Agriculture Canada on a sampling program for listeria. We need to be sure that ready to eat product is free of listeria, an organism that can cause serious illness, even death.

There has been a great deal of opposition to the proposed rule for the one (1) year open border—no inspection proposal on Canadian meat product coming into the United States.

We believe that all meat product should be imported into the United States through a statistically based inspection system but reinspection should certainly not be eliminated on Canadian product. USDA should maintain strict product testing, refusal, recall, and delisting criteria for dangerous organisms such as listeria and salmonella as well as drug, hormone, and pesticide residues.

We believe that the facilities constructed and used at U.S. ports of entry for Canadian meat products should continue to be used for their recommended and intended purpose.

The purpose of the Federal Meat Inspection Act is to protect the health and welfare of consumers by assuring that meat and meat food products are wholesome, not adulterated, and properly marked, labeled, and packaged and with regard to imported meat food products, capable of human consumption, offered for importation into the United States "shall be subject to the inspection, sanitary quality, species verification, and residue standards applied to products produced in the United States."

We request that if further official testimony is taken concerning Canadian meat imports, that USDA import inspectors from the locations with the high refused entry rates, be subpoenaed or official sworn written statements taken from them concerning refused entry product at their respective assigned facilities during 1989.

It is our opinion that should there ever be a serious consumer health problem attributed to unwholesome meat product, it would damage not only the health of the individual(s) involved but could also be damaging to the economics of the livestock and meat industries. In other words, a loss of consumer confidence in our meat product.

Attachment.

TABLE D1 - - DEFECT CRITERIA FOR PORK CARCASSES, WHOLESALE AND
RETAIL CUTS, AND BONELESS MANUFACTURING MEAT

TYPE	DESCRIPTION	CLASSIFI- CATION
BLOOD CLOTS (CODE 301)	One or more of a number or size seriously affecting product usability	CRITICAL
	More than 6" greatest dimension, or numerous (over 5) minor blood clots in one sample unit (1/), not seriously affecting product usability	MAJOR
	1 1/2" to 6" in greatest dimension	MINOR
	Less than 1 1/2" in greatest dimension	DO NOT SCORE
BRUISES (CODE 331)	One or more of a number or size seriously affecting product usability	CRITICAL
	More than 2 1/2" in greatest dimension or more than 1" deep, or numerous (over 5) minor bruises in one sample unit (1/) not seriously affecting product usability	MAJOR
	1" to 2 1/2" in greatest dimension or 1/2" to 1" deep	MINOR
	Less than one inch in greatest dimension and less than 1/2" deep	DO NOT SCORE
BONE FRAGMENTS (CODE 304)	One or more of a number or size seriously affecting product usability	CRITICAL
	Bone fragments 1 1/2" or more in greatest dimension, or numerous (over 5) minor fragments in one sample unit (1/), not seriously affecting product usability.	MAJOR
	(1) Bone fragments less than 1 1/2" in greatest dimension; (2) bone slivers (from rib) less than 3" long and less than 1/4" wide; (3) Flexible bone chip from a rib end more than 3/4" in greatest dimension that is thin and crumbles easily, and with or without attached muscle tissue.	MINOR
	(1) Thin bone scrapings less than 1/32" thick by 1/8" wide by 3" long attached to	

muscle tissue.

(2) Thin flexible bone slivers, either attached to or detached from muscle tissue, less than 1/4" wide and 3/4" long.

(3) Thin bone fragments or chips either attached to or detached from muscle tissue that crumble easily and are less than 3/4" in greatest dimension

DO
NOT
SCORE

DETACHED CARTILAGE (CODE 307)	Defects of a number seriously affecting product usability	CRITICAL
	Numerous (over 5) minor defects in one sample unit (1/) not seriously affecting product usability	MAJOR
	1" or more long and free of muscle tissue	MINOR
	Less than 1" long	DO NOT SCORE
INGESTA (CODE 310)	Amount equal to area of a circle more than 1/2 inch in diameter	CRITICAL
	Amount equal to area of a circle 1/2 inch or less in diameter	MAJOR
HARMFUL EXTRA- NEOUS MATERIAL (CODE 313)	Any substance causing injury or illness (poisonous or toxic chemicals,, sharp pieces of metal, glass, hard plastic, etc.); large insects, insects associated with insanitation, or any material of a number or size seriously affecting product usability	CRITICAL
	(1) Blunt piece of wood 1" or more long;	
	(2) Paper or plastic over 7 square inches;	
	(3) Single piece of material covering an area greater than that of a circle with a diameter exceeding 1/2";	
	(4) Any substance causing minor bodily irritation or discomfort (chemicals, hard objects, etc.)	MAJOR
HARMLESS EXTRANEIOUS MATERIAL (CODE 316)	(1) Small insects without insanitation;	
	(2) Numerous (over 5) minor defects in one sample unit (1/), not seriously affecting product	MAJOR
	(1) Paper or plastic wraps 1/2" to 7 square inches;	

(2) A single piece of material covering an area equal to that of circle 1/8" to 1/2" in diameter;

(3) A wild oat or other grass beard over 3/8" long or 3 or more pieces of wild oats or grass beards 1/8" to 3/8" long on one meat piece and without inflammation

MINOR

(1) Minute specks or dust. If affecting product appearance or usability, score them under code 331.

DO NOT
SCORE

(2) Pieces of plastic or paper wraps or any soft material less than 1/2".

HAIR, HAIR ROOTS, SKIN (CODE 319)	Hair, skin, or visible hair roots seriously affecting product usability	CRITICAL
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Skin with or without hair or visible hair roots individually or in the aggregate over 3 square inches or numerous (over 13) single strands of hair in one sample unit (1/), not seriously affecting product usability

MAJOR

(1) Skin with or without hair or visible hair roots individually, or in the aggregate 1 square inch to 3 square inches

(2) A total of 2 or 3 single strands of hair or 5 to 10 visible hair roots. Total the number of hairs or visible hair roots in samples, divide by 3 for hairs or 10 for visible hair roots and round off to nearest whole number. (When a second step is necessary, total the hair or visible hair roots from both steps and divide as above.)

(3) a cluster of hair or visible hair roots (strands too numerous to count in one area).

MINOR

Skin, with or without hair or visible hair roots, individually or in the aggregate less than 1 square inch.

DO NOT
SCORE

OFF CONDITION (CODE 322)		CRITICAL
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CRITICAL

PATHOLOGIC LESIONS (CODE 325)	Any lesion which would have been evident on post-mortem inspection or seriously affects product acceptability.	CRITICAL
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CRITICAL

	Any lesion which would not have been evident on post-mortem inspection and does not seriously affect product acceptability.	MAJOR
STAINS, DISCOLORED AREAS (CODE 328)	Minor or major areas of a number seriously affecting product usability.	CRITICAL
	Stain equal to the area of circle greater than 1 1/2" in diameter; numerous (Over 5) stains in one sample unit (12 pounds) (1/) not seriously usability.	MAJOR
	Stain equal to the area of a circle 1/2 inch to 1 1/2".	MINOR
	Very light stains of any size or stains covering an area less than that of a circle 1/2 inch in diameter.	DO NOT SCORE
OTHER (CODE 331)	(1) Defect that individually or in the aggregate seriously affects the appearance or usability of the product. (2) Lung tissue in any amount	CRITICAL
	(1) Defects that individually or in the aggregate materially affects product usability. (2) Any sample unit containing tooth or teeth, ear canal(s), lip with or without teeth marks, or piece(s) of kidney or liver.	MAJOR
	Defect that individually or in the aggregate affects product appearance but not its usability.	MINOR
	1/ Do not score as minor also.	

TABLE D2 - - DEFECT CRITERIA FOR RED MEAT CARCASSES
OTHER THAN LAMB, MUTTON, PORK, AND GOAT

TYPE	DESCRIPTION	CLASSIFICATION
BLOOD CLOTS (CODE 301)	Large clots in stick wound, etc.	MINOR
HAIR OR HIDE (CODE 319)	(1) Five or more clusters (numerous hairs in a 5-inch area or too numerous to count over the entire carcass side, including the hock area); (2) 51 or more hairs on carcass side (other than hocks); (3) hide over 3 inches	CRITICAL
	(1) 3 to 4 clusters of hair; (2) 26 to 50 hairs on carcass side (other than hocks); (3) hide 1/2 inches to 3 inches	MAJOR
	(1) 1 to 2 clusters of hair; (2) 11 to 25 hairs on carcass side (other than hocks); (3) 11 to 25 hairs on the hock area only; (4) hide less than 1/2 inch	MINOR
	(1) 10 or less hairs on carcass side (other than hocks); (2) 10 or less loose hairs	DO NOT SCORE
PATHOLOGICAL (CODE 325)	4 or more grubs ----- 2 to 3 grubs ----- 1 grub ----- Pathology other than broken ribs or grubs-----	CRITICAL MAJOR MINOR DO NOT SCORE
STAINS (CODE 328)	Oil, stains, or grease of more than 2 inches----- Oil, stains, or grease less than 2 inches -----	MAJOR MINOR
OTHER (CODE 331)	<u>Dressing defects:</u> Over 4 inches ----- Over 2 to 4 inches ----- 1/4 inch to 2 inches -----	CRITICAL MAJOR MINOR
	<u>Bruises:</u> More than 2 inches wide and more than 1 inch deep ----- More than 2 inches wide and 1 inch or less deep; 2 inches or less wide and more than 1 inch deep-----	MAJOR MINOR
	<u>Rail dust and similar specks including dressing defects less than 1/4 inch:</u> 26 or more ----- 11 to 25 ----- 10 or less -----	MAJOR MINOR DO NOT SCORE
	<u>Improper trim:</u> Pieces of organs, etc.-----	MINOR

PREPARED STATEMENT OF CHARLES E. ROH, JR.

Mr. Chairman and members of the Subcommittee, I am pleased to testify before you today on the implementation of the U.S.-Canada Free-Trade Agreement, or FTA. The FTA, which entered into force on January 1, 1989, is a unique and comprehensive undertaking offering significant benefits and opportunities for a wide spectrum of U.S. economic interests. This Committee was instrumental in the creation of the FTA, and we have continued close consultations in the implementation of the Agreement. I know of your keen personal interest in the FTA, Mr. Chairman, and I enjoyed the opportunity in April to visit Great Falls, Montana, in a conference you led regarding opportunities for Montanans opened by the FTA.

Mr. Chairman, the implementation of the U.S.-Canada Free-Trade Agreement continues to work well. Traders and investors on both sides of the border have moved to take advantage of the many opportunities opened by the reduction and elimination of trade and investment barriers. We look for further growth as the phased removal of impediments continues during the ten-year, phase-in period.

The U.S.-Canada trade relationship is the world's largest. Let me point out just a few statistics. In 1989, over \$200 billion of goods and services flowed across our borders. In that year, U.S. merchandise exports to Canada were \$79 billion, an increase of 10 percent over 1988, accounting for nearly 22 percent of global U.S. exports. Our exports to Canada far surpassed our exports of \$45 billion to Japan in 1989, our second largest market, and approached the level of our *total* exports to all the EC countries.

Though much was achieved in the FTA, inevitably, neither country obtained all it sought. Recognizing this, the agreement established a number of important mechanisms for addressing unresolved or future trade problems.

TRADE COMMISSION

The central bilateral oversight body for the FTA is the U.S.-Canada Trade Commission, chaired jointly by Ambassador Hills and the Canadian Minister for International Trade, John Crosbie. Under the FTA, the Commission has responsibility for dispute settlement, and for overseeing implementation and further negotiation and elaboration of the agreement. For both sides, FTA-created institutions are helping to manage and resolve disputes and provide a forum for negotiating further, mutually advantageous liberalization of the bilateral economic relationship.

The Commission has convened two times since its first meeting in March of 1989, and is scheduled to meet again on October 11 of this year. These initial meetings have been constructive and successful. The Commission established a number of working groups to consider ways to further facilitate implementation of the agreement. Much of the work of these groups is quite technical, such as the groups examining agricultural standards, customs administration and rules of origin. But those issues are extremely important in facilitating trade. In fact, as we saw at the conference in Great Falls, the business community is keenly interested in such "nuts and bolts" issues, which enable them to turn trade agreements into business profits.

TARIFFS

The FTA Commission also created a Tariff Working Group in response to one of the most welcome developments in the implementation period. On both sides of the border, many industries have been seeking an *acceleration* of the scheduled elimination of particular duties, for example, by reducing the period for the phasing out of a duty from ten years or five years to immediate elimination. Our implementing legislation allows the President to proclaim expedited elimination of duties that may be agreed with Canada. Before proclaiming such accelerated duty elimination, the President must obtain the advice of the International Trade Commission (ITC) and our private sector Advisory Committees. Further, this Committee and the House Ways and Means Committee have an extensive opportunity to scrutinize the proposed Presidential actions.

Earlier this year, the President, under this program, proclaimed acceleration of the elimination of tariffs on over 400 items covering approximately 56 billion in bilateral trade. Now, we are in the midst of our second cycle of tariff acceleration negotiations, with strong private sector support in both countries, as was the case last year. We anticipate publication shortly in both countries of the list of tariff items to be considered for negotiation for this round. Following publication, we will commence in this country our public comment and advice period, which will extend until the end of the year. Negotiations with Canada are expected to start in the beginning of next year, to be followed by the statutory 60-day layover and consultation

period with the Congress. At this point, we are projecting a target deadline for implementation of the agreed tariff accelerations of mid-year 1991.

MANAGING TRADE DISPUTES

As you know, Mr. Chairman, the FTA provides two basic dispute settlement mechanisms: Chapter Nineteen, which provides for review by binational panels of national countervailing and antidumping final determinations, in place of review by national courts; and Chapter Eighteen, which provides for binational panel review of disputes arising under provisions of the FTA other than financial services and matters covered by Chapter Nineteen.

There have been two Chapter Eighteen panels to date, the first convened at our request to review Canada's West Coast landing requirements for unprocessed salmon and herring, and the second convened at Canada's request to consider a U.S. law, H.R. 1668, which amended the Fishery Conservation and Management Act to prohibit the marketing in interstate or foreign commerce of lobsters below a Federal minimum size requirement.

The first panel decision concerning salmon and herring was handed down on October 16, 1989. The panel ruled against a Canadian measure that required salmon and herring caught off Canada's West Coast to be landed in Canada before it could be exported. Taking into account the recommendations of the panel, the U.S. and Canada reached an interim solution to the dispute in February of this year. This solution provides that Canada must allow 20 to 25 percent of unprocessed West Coast salmon and herring to be exported directly by sea. We will carefully monitor the implementation of this agreement to ensure that the access negotiated for our industry is not impeded.

The Lobster panel delivered its report under Chapter 18 in mid-May of this year, agreeing with the U.S. position that U.S. minimum size requirements do not constitute an illegal import quota under GATT or the FTA. Since that time, we have been discussing a broader range of issues in lobster trade between Canada and the United States, with a view to finding a better coordinated approach to the management and commercial problems of lobster fisheries.

With regard to the Chapter 19 panels, thirteen cases have been filed to date, eleven of which have been decided. The majority of panel decisions have been unanimous, although individual panelists have written dissenting opinions in two recent cases. A number of disinterested observers from the private sector have commented favorably to me on the quality and objectivity of the panel reports under Chapter 19.

As is inevitable in a 200 billion dollar-a-year relationship, each side has various complaints about practices of the other, in addition to the issues that have gone to FTA dispute panels. We have pursued or are pursuing some of these issues in the GATT, including our complaints about beer, ice cream and yogurt, and Canada's complaint about pork. In other cases, we have been able to ease tensions or reach accommodations through bilateral consultations, working in concert with concerned private sector interests.

We would not claim that all irritants are solved or that we are satisfied in all respects with Canadian measures affecting our trade. But the fact of our economic interdependence with Canada, and the rich array of institutions for cooperation between our countries has helped us keep down the number of disputes and lowered the temperature of those disputes that exist.

THE UNFINISHED NEGOTIATING AGENDA

At the time the FTA was approved and implemented, both Executive Branch officials and many members of Congress noted that we did not achieve all our objectives in the FTA. In fact, both sides have an unfinished negotiating agenda. The Subsidies issue is an obvious example, and we have a Binational Working Group addressing this matter, as my Commerce Department colleagues will discuss.

There are other issues on the unfinished agenda. In many cases, there are binational working groups of governmental or private sector experts working on the issues. For example, we have private sector committees on plywood standards and on automotive trade issues. The automotive group recently recommended amendment of the automotive Rule of Origin in the FTA to require increased North American content as a condition of preferential tariff treatment for automotive products under the FTA. We are taking up that recommendation in our approaches to the Canadian Government. The Binational Committee on Plywood Standards has been making progress toward the development of a common industry standard. After joint standards are sufficiently incorporated in building codes in both countries, we

will implement tariff reductions in accordance with our law and Statement of Administrative Action.

There are intergovernmental groups on issues from Agriculture to Services. In addition, like Canada, we have been pursuing many of our negotiating objectives in the Uruguay Round of multilateral trade negotiations. For example, we believe agricultural reform is best achieved in the Uruguay Round forum to ensure that all the important players share the same rules, not just the United States and Canada.

CONCLUSION

Mr. Chairman, let me return in conclusion to my original premise. Overall, we have a vast and excellent trading relationship with Canada. With a shared commitment to the FTA and with continued hard work, the U.S. and Canada stand to improve further upon our already substantial and mutually beneficial relationship.

I would be pleased to respond to any questions you may have.

RESPONSES BY CHARLES E. ROH, JR. TO QUESTIONS SUBMITTED BY SENATOR BRAUX

Question. Has the USTR addressed the Saferco problem with Canadian officials directly involved in the plant? Has the Federal Government of Canada provided assistance in addressing this provincial subsidy problem?

Answer. USTR officials have raised the matter of the Saferco plant with their counterparts in the Department of External Affairs and International Trade in Ottawa as well as conveyed the concerns expressed by members of Congress to the appropriate provincial officials through the offices of the United States Embassy in Ottawa and Consulate General in Calgary. On trade issues involving sub-Federal political jurisdictions of either the United States or Canada, the primary lines of communication are between Federal officials in Washington and Ottawa. These respective Federal officials then convey the relevant information to the appropriate provincial or state officials.

Ambassador Carla Hills has also raised the issue with the Minister for International Trade, John Crosbie, at the latest meeting of the U.S.-Canada Trade Commission in October of 1990. Ambassador Hills pointed out to Minister Crosbie the numerous expressions of concern that had been received from members of Congress and the U.S. industry regarding the Saferco project. She also noted the possibility that eventual exports from the Saferco plant to the U.S. might be subject to a countervailing duty investigation. Minister Crosbie acknowledged these points but noted that loan guarantees are not prohibited by the FTA and that some states also offer benefits to new investment.

The Canadian Federal Government, through the Department of External Affairs and International Trade and its Embassy in Washington, D.C., has provided assistance in answering questions concerning the Saferco project.

Question. The Government of Canada appears to be committed on a Federal level to encouraging open and fair trade between our two countries. However, the Canadian provinces seem to be on a somewhat different track. Saskatchewan's funding of a huge nitrogen fertilizer project that will be disastrous for U.S. producers is the latest example. What steps are we taking to ensure that Canada complies with Free Trade Agreement and GATT principles on the provincial level as well as on the Federal level?

Answer. The U.S. Government is committed to monitoring and seeking the compliance of the Government of Canada and its political subdivisions, such as the provinces, with the terms of the FTA. The FTA did not preclude either country from granting domestic subsidies, but we can impose countervailing duties if subsidized imports injure our domestic industry. Thus, the financial arrangements involved in the Saferco project do not appear to constitute a violation of the provisions of the FTA though these financial arrangements may be actionable under United States countervailing duty law when the products resulting from this project are offered for sale in the United States.

Question. Canada apparently seeks to participate in the process of negotiating a Free Trade Agreement with Mexico. Is it appropriate to consider a three-way agreement when Canada's provinces continue to demonstrate their disregard for fair trade in markets such as that for nitrogen fertilizer, in which no tariff barriers currently exist?

Answer. The decision to pursue trilateral negotiations with Canada and Mexico is based in part on the understanding that the U.S.-Canada FTA establishes a floor for commitments between the United States and Canada. A trilateral negotiation pro-

vides an opportunity to expand on the trade disciplines contained in that agreement.

PREPARED STATEMENT OF EMIL ROMAGNOLI

I am Emil Romagnoli, Director of Government Affairs of ASARCO Incorporated. I am pleased to be able to testify today on behalf of the Non-Ferrous Metals Producers Committee (NFMPC) regarding the implementation of the U.S.-Canada Free-Trade Agreement (FTA). Our organization is an association of U.S. producers of primary copper, lead, and zinc.¹ The member companies of the NFMPC have operations in Montana, Missouri, Arizona, Texas, Idaho, and Tennessee. The NFMPC has been active in expressing its views to both the Executive Branch and the Congress about the important public policy issues that have arisen in the negotiation of the FTA and in its implementation.

Let me begin by expressing the appreciation of our industry to you, Mr. Chairman, and to other members of the Subcommittee, such as Senator Danforth, for the leadership that you have provided since early in the FTA negotiations on behalf of the non-ferrous metals and minerals industry in the effort to achieve some form of relief from the competitive effects of Canadian domestic subsidy practices.

As you know, domestic subsidies provided by foreign governments have an especially important impact on the U.S. copper, lead, and zinc mining and processing industry, because of the importance of relative costs in the overall competitive position of U.S. producers in the world and because we have no control over metal prices which are established on international commodity markets. Direct or indirect government assistance distorts competition and provides a potentially crucial cost advantage to the subsidized producer. When a metal price cycle turns down, a subsidized producer benefiting from this cost advantage survives and continues in production, while U.S. facilities, which must operate in a subsidy-free environment, may be forced to close down operations.

When the FTA negotiators were unable to reach substantive agreement on the issue of subsidies discipline in the negotiations, the Congress incorporated section 409(b)—otherwise known as the Baucus/Danforth Amendment—into the FTA Implementation Act to address the unique impact of subsidy practices on industries like ours. Section 409(b) was intended to be a supplement to the subsidies Working Group that was established in the FTA to negotiate an agreement on subsidies discipline during the next five to years. Section 409(b) both provided for the gathering of information about subsidy practices affecting the industry and presented an avenue for relief utilizing U.S. trade law if there was the likelihood of injury to the U.S. industry resulting from those practices.

The NFMPC, in cooperation with non-member companies in our industry, has been working with the Executive Branch to gather information about Canadian subsidy practices that we believe will be very useful to the U.S. negotiations in the Working Group. We sought and were granted the necessary eligibility by USTR under Section 409(b), and we began working with USTR to gather the needed information. That process is continuing, and we appreciate the cooperation that we have received from USTR. We also appreciate the sensitivity with which USTR has handled the issue of the acceleration of tariffs under the FTA. USTR has consulted very closely with U.S. industry on this issue.

It is our understanding that the Working Group has not been vigorously pursuing subsidy negotiations, pending the completion of the concurrent GATT subsidy negotiations in the Uruguay Round. We hope that next spring, the Working Group will commence negotiations in earnest, particularly since two of the original five years allowed for this effort will have already elapsed.

I would like to make a brief comment concerning the current Uruguay Round subsidy negotiations since the FTA subsidies Working Group will probably begin its negotiations where any GATT subsidy agreement leaves off. Our industry had undergone a very difficult restructuring since the mid-1980s that has reduced our production costs significantly. We are proud of this achievement and intend to continue our cost reduction efforts. Today, the U.S. non-ferrous metal industry is cost-competitive with most other producers in the world. However, it is clear to us that foreign government subsidization can give foreign producers an important advantage against which it is very difficult for a free-market firm to compete. We have urged the Executive Branch to ensure that the GATT subsidy negotiations result in

¹ The member companies of the NFMPC are ASARCO Incorporated, the Doe Run Company, and Magma Copper Company.

strengthened discipline on subsidies—not less discipline. In particular, we have urged that no so-called “green-light” exemptions be made for pollution control and regional development subsidies since such assistance can confer competitive benefits that are especially important to mining and metals industries. This is especially important to the U.S. industry since in this country environmental control costs are borne by the producers on the basis of the “polluter-pays” principle.

Let me conclude, Mr. Chairman, by saying that while the members of the NFMPC are satisfied with the support that we have received from USTR in implementing the Baucus/Danforth Amendment, it is important to note that the existence of subsidies in Canada remains an important difference between the U.S. and Canadian economic systems. For example, I would point out to the Committee that Mr. Gordon Ritchie, a trade consultant who was Canada’s Deputy Chief Negotiator in the FTA negotiations, was quoted just this week (Sept. 25, 1990) in the *Wall Street Journal* as questioning a direct Canadian participation in the U.S.-Mexico bilateral free trade talks, arguing that the price for Canada “may be unacceptably high, given the modest economic benefits to be gained.” Mr. Ritchie also noted that the United States may be seeking objectives in the talks with Mexico that it was unable to achieve in the U.S.-Canada FTA, such as guarantees against subsidized trade. This comment appears to be a concession by a former Canadian official that continued and undisciplined subsidies are likely to remain a contentious issue between the United States and Canada.

We certainly hope that the end result of both the GATT and FTA Working Group negotiations will be a world trading system that is far more free of the wasteful and distorting effects of government subsidization. I thank the Subcommittee both for the opportunity to provide testimony on the implementation of the FTA and for your continued oversight of the effects of the FTA upon the U.S. copper, lead, and zinc industries.

PREPARED STATEMENT OF JO ANN SMITH

Mr. Chairman and Members of the Subcommittee, I appreciate having this opportunity to testify before you today on USDA’s plans for implementing the U.S.-Canada “Open Border” agreement for meat and poultry.

Before discussing the specifics of the Open Border agreement for meat and poultry, I would like to discuss the pact that fostered the meat and poultry agreement—the U.S.-Canada Free-Trade Agreement. As you know, President Reagan and Canadian Prime Minister Brian Mulroney signed an agreement on January 2, 1988 to end virtually all tariffs and most other restrictions on trade between the United States and Canada by 1998.

U.S.-Canada Free-Trade Agreement could not be implemented until both the U.S. Congress and the Canadian Parliament approved the pact and passed legislation bringing a large number of domestic laws into conformity with the Agreement. As you know, Congress and Parliament both had lengthy debates over provisions of the agreement, but approval was ultimately granted before the agreement went into effect on January 1, 1989.

It is important to keep in mind the goal of the U.S.-Canada Free-Trade Agreement—to promote economic growth in both the United States and Canada. By opening markets, our economies will prosper and our goods will become more competitive internationally.

It is also important to remember that the Free Trade Agreement operates for the benefit of both the U.S. and Canada. While Canadians will be able to export more products to the United States with fewer regulatory and tariff burdens, U.S. manufacturers and producers will also be able to export more products to Canada with the same lessening of restrictions and tariffs.

Most Americans support the concept of the Free-Trade Agreement with Canada, our largest trading partner. However, implementing the Agreement provides some challenges to both countries. The opening of our borders with Canada with respect to the importation and exportation of meat and poultry products will increase competition on both sides of the border, and it is certain there will be a period of adjustment before trade between the two countries reaches an ideal level.

OPEN BORDER AGREEMENT FOR MEAT AND POULTRY

As a result of the Free-Trade Agreement, the United States and Canada have the opportunity to develop freer and greater trade between the two countries. The intent of the Free Trade Agreement is to reduce the barriers to trade between the United States and Canada. We have the authority in our meat and poultry laws to

honor the spirit of the Free-Trade Agreement. This Open Border Agreement for meat and poultry is one of the first tests of whether the reality of the Free Trade Agreement can, in fact, match the rhetoric of those who say they support free trade.

USDA and Agriculture Canada agreed in February 1990 to implement on a one-year basis, an experimental open border agreement with regard to meat and poultry trade. Pursuant to notice and comment rule making, we are proposing that Canadian products to be imported into the United States will be inspected by Agriculture Canada and certified for export. Those products may then be imported into the United States without further reinspection by USDA.

The same is true for U.S. products. They will be inspected by USDA and certified for export to Canada. Agriculture Canada will not reinspect U.S. imports. USDA and Agriculture Canada have equivalent inspection systems, registration, sanitation and label requirements, as well as residue testing programs.

An evaluation of this experiment will take place by the Meat, Poultry, and Egg Inspection Working Group, which was established by the Free Trade Agreement. The evaluation will determine whether the open border experiment should be made permanent under the applicable law and the Free-Trade Agreement.

CANADIAN INSPECTION SYSTEM

It is important to note that neither the United States nor Canada will continue to maintain border inspection facilities.

The one-year experiment for meat and poultry is feasible because the Canadian meat and poultry inspection system operated by Agriculture Canada is equivalent to the U.S. meat inspection system operated by the U.S. Department of Agriculture's Food Safety and Inspection Service (FSIS). The two inspection systems also produce equivalent degrees of health benefits. Both programs are comprehensive and mandatory, and have been in existence since the early 1900's.

Registration

Canadian and U.S. slaughter and processing plants must register with Agriculture Canada or USDA if they ship products between provinces or states. Canadian and U.S. plants must also apply to Agriculture Canada or USDA if product is to be shipped out of the country.

Canadian meat plants that do not ship product outside of their province may be inspected under provincial programs. Requirements for plant licensing vary between provinces. The United States has a similar program for its States.

Sanitation

As part of the Canadian registration program, Agriculture Canada ensures that their federally inspected plants meet standards for plant layout and design, site selection, equipment, and sanitation programs. Agriculture Canada also approves all materials used in Federal plants, from construction materials to sanitizers, as well as new equipment and plant renovations. USDA also requires approval of its federally inspected plants' facilities, equipment, and procedures to make sure the operation will be sanitary.

Inspection

Agriculture Canada inspects all its federally registered meat and poultry plants. There are 1,400 qualified veterinarians and specially trained inspectors located in more than 800 slaughter, processing and storage facilities across Canada. In the United States, there are more than 7,700 Federal inspectors, food technologists and veterinarians who carry out Federal inspection laws in some 6,700 meat and poultry slaughtering and processing plants.

Federally inspected slaughter plants in both the United States and Canada are required to have a veterinarian or inspector on site during plant operation to inspect every animal and carcass. Animals are observed on arrival at the plant and are inspected again within 24 hours before slaughter, or in the United States, they must be inspected on the day of slaughter. If veterinarians identify animals suspected of disease or unwholesomeness, those animals are segregated and laboratory tests may be conducted to verify their condition. If results indicate the entire animal is diseased or that violative levels of contaminants are present, the animal is condemned. Again, this is true under both the United States and the Canadian inspection systems.

Following slaughter, the carcass, internal organs and glands are separated and further tested. Diseased or contaminated meat is destroyed or sent to a rendering plant that produces inedible products. Meat carcasses passing inspection are

stamped with an inspection symbol containing the word "Canada," or, in the case of the United States, "USDA inspected and passed."

Processing inspection in both countries is conducted on the basis of scientific evidence. Agriculture Canada and USDA monitor sanitary conditions and the critical steps in the processing operation. If the products or plant conditions do not meet established standards, the inspector may condemn or retain any or all products within a plant. If retained, meat or meat products will only be released for shipment once it has been verified that the meat is wholesome and otherwise not adulterated.

Label Approval

Agriculture Canada must approve labels for all foods containing meat and poultry from federally registered plants and imports. All labels must include the name of the product, its weight and ingredients, the name and address of the processor and any refrigeration and handling instructions that might be required. The USDA label approval process and labeling requirements are essentially identical.

Residue Testing

Both USDA and Agriculture Canada have comprehensive residue testing programs for meat and poultry. In Canada, Health and Welfare Canada must approve all pharmaceutically based drugs used on animals. The Canadian Bureau of Veterinary Drugs evaluates results of toxicity, residue, pharmacological and clinical studies to determine a drug's safety and efficacy. It also sets guidelines for drug use, withdrawal periods, and tolerance levels for residues in foods. The Food and Drug Administration fulfills this role in the United States.

Agriculture Canada then monitors meat and poultry products for bacterial, drug, and chemical contaminants, just as USDA does. The presence of certain contaminants initiates follow-up procedures, which may include testing of feed, or other animals in the herd. The results of Agriculture Canada's residue testing are published annually by the Agri-food Safety Division.

Internal Review

Both the United States and Canada maintain internal review programs to ensure that meat and poultry products intended for export meet the laws and regulations of the respective countries. Both countries also review plants in the other country to ensure standards are maintained. If the standards are met, each country certifies individual plants as eligible to export to the other country. On occasion, plants have been reviewed that did not meet the reviewing country's standards. These plants have been delisted and are therefore prohibited from exporting product to the reviewing country. The inspection service in the reviewed country then takes action to correct the problem areas. If the problems are corrected the plant may then be re-certified for exporting.

Since both the United States and Canada have essentially identical procedures for reviewing their plants and for correcting problems, the new proposed rule will permit each country to deal with its own problems and, when necessary, prohibit exports without using the delistment process.

PROPOSED RULE

The one-year open border experiment is presently embodied only in a proposed rule—not a final rule. The proposed rule was published in the Federal Register on Friday, June 29, 1990. The comment period ran 30 days and was reopened in August for another 30 days. Approximately 2,400 comments have been received, and we are in the process of reviewing each of those comments.

The proposed rule is a result of the unique and special relationship between the United States and Canada. This unique relationship is based on several factors—the fact that the countries are contiguous to each other; that open border policies have been in effect for many years; and that there are no significant differences in animal health practices and the production and processing of meat and poultry products.

I would also like to note that even if the open border experiment becomes reality, much of the meat and poultry entering the United States from Canada will still be reinspected. Approximately 75 to 80 percent of product exported from Canada is fresh and is processed into other meat and poultry products. Therefore, when that fresh Canadian product is further processed, the end product will again be subject to inspection in a U.S. plant.

For a foreign country to export meat and poultry products into the United States, USDA requires that the foreign country's inspection system be "at least equal to"

all of the provisions applicable to our inspection system and the production of domestic meat and poultry in the United States.

Unlike the majority of other countries' inspection systems, both Canada and the United States apply only one standard of inspection to products intended for domestic consumption and export. Most other countries provide one standard of inspection for domestic product and one for product intended for export.

Before issuing the proposed rule in June 1990, FSIS had published an interim rule on January 5, 1989, that exempted all Canadian product imported into the United States from being stamped with the official USDA mark of inspection. In addition, the interim rule authorized new "streamlined" reinspection procedures for product from Canadian establishments that wished to participate in the streamlined inspection program. FSIS inspection officials had determined that streamlined inspection procedures could be offered and marking requirements could be eliminated without compromising product wholesomeness. Such procedures were considered to be consistent with the provisions of applicable law and the Free-Trade Agreement, and are discussed in greater detail later in my testimony.

The proposed rule issued by FSIS would amend the Federal meat and poultry products inspection regulations by exempting Canadian meat and poultry products intended to be imported into the United States requirements contained in Parts 327 and 381 of Title 9 of the Code of Federal Regulations, including the requirement that imported product be subject to reinspection by United States import inspectors. FSIS is also proposing to amend Parts 327 and 381 to exempt the Canadian inspection system from various requirements applicable to other foreign countries desiring to obtain and/or maintain their eligibility to export product to the United States and to relieve USDA officials from conducting certain review activities.

Part 312 of FSIS regulations would also be amended by the proposed rule. Under that section, the proposed rule would add a new export stamp to be applied at U.S. establishments to product intended for export to Canada. Part 322 would also be amended by waiving the requirement that an export certificate be issued and accompany product intended for export to Canada and by providing for the use of the new export stamp on product intended for export to Canada.

Lastly, FSIS is proposing to amend Parts 322, 327 and 381 to provide new procedures applicable to U.S. establishments exporting product to Canada and to Canadian establishments exporting product to the United States.

All of these proposed provisions, if made final, would be considered experimental and would be evaluated during and at the end of the experimental period to determine what form of permanent change in procedures may be appropriate. The experimental provisions would not be used for more than one year. Once the evaluation is complete, further notice and comment rulemaking would be undertaken to reflect any permanent change in the regulations.

AUTHORITY FOR EXPERIMENT

The Secretary of Agriculture has adequate statutory authority under the Federal Meat Inspection Act (FMIA) and the Poultry Products Inspection Act (PPIA) to implement the U.S.-Canada Open Border Agreement. Section 20 of the FMIA, as amended in December 1981, and Section 17 of the PPIA, as amended in December 1985, require that all imported meat and poultry products be subject to the inspection, sanitary, quality, species verification, and residue standards applied to products produced in the United States.

The Secretary is required to enforce these requirements through the imposition of random inspection for species verification and residues, and random sampling and testing of internal organs and fat of the carcasses for residues at the point of slaughter by the exporting country, in accordance with methods approved by the Secretary. The Acts do not require the Secretary to conduct these random inspections and testing; the Secretary is only required to enforce the import requirements through these means.

The random sampling and testing of internal organs and fat of carcasses for residues at the point of slaughter must be conducted by the exporting country. The statutes so mandate. However, the Secretary has the discretion to determine whether the exporting or the importing country is to conduct the random inspections for species verification and residues.

In the case of Canada, the Secretary has determined that the inspection system of Canada not only meets the standard of "at least equal to" the inspection system of the United States, but also that the Canadian meat and poultry inspection system is virtually identical to that of the United States. Based on that determination, the Secretary, in his discretion, may delegate the random inspection or species verification and residues to Canadian inspection personnel.

The proposed regulation, therefore, provides for the inspection and reinspection of imported product from Canada by Canadian inspection personnel, and the inspection and reinspection of U.S. product to be exported to Canada by USDA inspection personnel. This inspection procedure, would, in effect, open the border between our two countries with respect to the importation and exportation of meat and poultry products.

The U.S.-Canada Open Border Agreement furthers one of the goals of the U.S.-Canada Free-Trade Agreement found in Article 708(1)(d)—“to utilize each other’s personnel for testing and inspection of agricultural, food, beverage, and certain related goods.”

The Open Border Agreement is also consistent with Schedule 10 of the Free-Trade Agreement, which specifically relates to meat, poultry and egg inspection. Schedule 10 states that the United States and Canada should work toward making their inspection systems equivalent, and where those systems are equivalent, each country should accept the equivalence of the other.

CURRENT REINSPECTION

The United States will continue to reinspect Canadian products at the border during the rulemaking proceeding. On any given day, inspection in a Canadian meat or poultry plant is the same as in any federally inspected U.S. plant. As was discussed before, Canada does not have a different standard for its domestic products than for products exported to the United States. Like the United States, it has a single standard of inspection for all products.

Since January 1, 1989, all reinspection of Canadian product occurs at border locations in approved import inspection facilities and is performed by trained import specialists. Today, there are 16 approved import inspection facilities at: Buffalo, Gaspport, Holley and Champlain, New York; Swanton, Vermont; Caribou, Maine; Detroit, Michigan; Pembina, North Dakota; Sweetgrass, Montana; Eastport, Idaho; and Blaine, Washington.

Following is a description of what happens currently when Canadian meat or poultry products are imported into the United States under the streamlined” reinspection procedures. Whenever a Canadian shipment is destined for the United States, a representative of the Canadian meat inspection system contacts one of three FSIS Import Field Offices serving the northern border states. These offices are located at Tacoma, Washington; Boston, Massachusetts; and Detroit, Michigan.

FSIS import officials enter the information describing the Canadian consignment into our Automated Import Information System (AIIS). The AIIS is a computer system that drives import reinspections, regardless of the country-of-origin. The computer randomly selects consignments for reinspection. Once selected, a consignment of Canadian product is subject to all of the applicable examinations. Our import inspectors reinspect products using the same statistically based sampling plans that FSIS uses on domestic products.

If the consignment is not selected for reinspection, the product is loaded onto the truck and proceeds to the border and through U.S. Customs controls. Keep in mind that these Canadian products have already been inspected and certified for export by Agriculture Canada. The product then moves to a U.S. establishment for further processing or into distribution channels. Although no formal reinspection is required at the U.S. plant, FSIS in-plant inspectors routinely observe products moving through plants and take appropriate actions to ensure that unsatisfactory product is not used.

If the consignment is selected for reinspection, FSIS informs the Canadian representative of the quantity and specific random numbers of the samples required. The Canadian representative then selects the specific samples, identifies them, and puts them in an easily accessible area of the truck. The truck then proceeds to an official import inspection establishment at the border. An FSIS import inspector then removes the identified samples and proceeds to perform the various inspection procedures that are appropriate for the consignment. These procedures eliminate the need to unload the entire vehicle but still ensure that appropriate reinspection occurs.

There are more than 100 different types of inspections that can be assigned to the variety of products that are imported into the United States. Many of these inspections are unique to specific processed products.

INSPECTION UNDER PROPOSED RULE

Under the proposed rule, some of the current procedures would change. Once U.S. product is ready for export to Canada, the U.S. establishment would be required to

telephone or fax information to FSIS in Washington, including the type of product to be shipped, the number of boxes or carcasses to be shipped, the weight of the product, and the Canadian label registration number. An authorization number would be issued to the exporting establishment by FSIS. The exporting establishment would then use this number when stamping the boxes or attaching the number to the carcasses for export. The information noted above and the authorization number would be recorded on a joint form developed for use by both Canada and the United States. This joint form would accompany the product to the border.

When the product reaches the border, the Canadian inspector would check the joint form and would consult the Canadian Import Control System (ICS) to verify issuance of the authorization number. If the authorization number is valid, the product will enter Canadian commerce. If the number appears not to be valid, the Canadian inspector would contact Agriculture Canada for more information. Agriculture Canada would then consult with FSIS officials. If it is determined that the number is not valid, the shipment would not be permitted to enter Canadian commerce. The joint form and the authorization number will allow any product to be traced should problems later arise.

In short, any federally inspected U.S. establishment could ship product to any place within Canada without being subject to Canadian reinspection procedures and requirements. Neither an export certificate nor a health certificate would be issued. Instead, the boxes or carcasses would be marked with a special, newly developed export stamp containing the authorization number discussed above.

The exportation of Canadian products to the United States would follow the same procedures. For example, once Canadian product is ready for export to the United States, Agriculture Canada officials would be required to contact one of the three FSIS Import Field Offices located in Tacoma, WA; Boston, MA; or Detroit, MI. Agriculture Canada would inform FSIS of the type of product to be shipped, the number of boxes or carcasses to be shipped, the weight of the product, the U.S. label approval number, and the Canadian export inspection number that will be stamped on the boxes or attached to the carcasses. This information would be recorded on the joint form that would accompany the product to the border.

Just as with U.S. exports to Canada, any federally inspected Canadian establishment could ship product to any place within the United States without applying for or having the product be subject to reinspection by U.S. import inspectors. Reinspection of Canadian product and U.S. product is to be done by each respective country before exporting to the other country.

I would like to mention again a point I made earlier about reinspection. Seventy-five to 80 percent of all Canadian product entering the United States is fresh. That fresh product is subject to reinspection by U.S. inspectors when it is reprocessed in the United States.

FOOD SAFETY

This one-year experiment is proposed because USDA is confident of the safety and wholesomeness assurances within the Canadian inspection system. The same is true for the Canadians about the U.S. system.

Food safety is a big issue on both sides of the border. Just as we are hearing food safety concerns about Canadian products, there are many concerns being expressed by Canadians about U.S. products, as well. It is difficult to respond to some of these food safety complaints, especially in the super-heated environment of the increased competition that will result from the Free Trade Agreement.

We understand the concerns, but the bottom line is that we do not believe food safety is a problem. The Canadian meat and poultry inspection system is virtually identical to the U.S. inspection system and has the same goals—to ensure that meat and poultry products are safe, wholesome, and accurately labeled. We believe Canadian meat and poultry products meet those goals.

SUMMARY

Mr. Chairman, we recognize that implementing an open border policy for meat and poultry will not be easy or noncontroversial. But we believe the open border agreement will facilitate and improve trade of meat and poultry products between the U.S. and Canada. It broadens the market opportunities for the U.S. meat and poultry industry, U.S. livestock producers, enjoying beef and pork prices at record highs, can use their strong position to make the most of the Free Trade Agreement.

Some U.S. producers and manufacturers are concerned their Canadian counterparts will "intrude" on the U.S. market. But as with any trade agreement, it's a

two-way street. We will see Canadian product move to the United States, just as we will increasingly market and sell U.S. products to Canadian consumers.

This open border agreement truly represents free trade. It is an important step in moving forward with the Free Trade Agreement. It is shaping our support for free trade into reality.

Mr. Chairman, that concludes my testimony. Again, I appreciate having this opportunity to testify on this very important issue, and I would be happy to answer any questions you or other Senators may have.

RESPONSES OF JO ANN SMITH TO QUESTIONS SUBMITTED BY SENATOR DASCHLE

Question No. 1. In your statement, you mention that USDA and Agriculture Canada have comprehensive and apparently equivalent residue control programs. If that is the case, how do you explain that Dimetridazole was removed from the U.S. market several years ago while it continues to be used with a short withdrawal period in Canada?

Answer. As you know, the GAO has recommended that FSIS further document the equivalence of the inspection systems in Canada and the United States. We intend to fully comply with that recommendation.

Our decisions about the equivalence of residue control programs in eligible exporting countries have not been made on the basis of requiring those countries to have animal compound approval lists that match that of the United States. We do require that effective controls be in place.

Question No. 2. In your statement, the description of internal review activities is at odds with the GAO report, pp. 18-19. You state that plant reviews are conducted by each country in the other's plants and that delistments occur. You told the GAO this system changed in 1989. Which is the true statement?

Answer. Since January 1989, each country has used its own internal auditors to perform reviews of specific exporting plants. The internal auditors developed and use a common review form, exchange review results, and conduct at least one joint review in each country per year.

Question No. 3. In your statement, you imply that a substantial portion of meat from Canada is inspected in U.S. plants by stating "the end product will again be subject to inspection in a U.S. plant." Surely, you are not suggesting that these inspections are the same, or similar, to reinspections conducted at the border. How often are such end-product reinspections conducted at U.S. plants? How much time is spent by domestic inspectors on these reinspections? How much time is spent by import inspectors on import inspection of Canadian product? Please provide a list of all differences between reinspections at the border of product entering the U.S. from Canada, and end-product reinspections at U.S. processing plants.

Answer. All meat products manufactured in U.S. plants are subject to "end product inspection." These inspections include: *Listeria* and *Salmonella* testing, species testing, and testing for compliance with product standards.

Import inspection is applied at ports of entry to all product arriving from foreign countries. Import inspection tasks and their frequency are directed by the Automated Import Information System (AIIS). Import inspectors take 45 minutes to 1 hour to reinspect Canadian product. Import inspectors use computer generated assignments that specify the types of reinspections that must be completed. The assignment contains the detailed sampling plan; each type of reinspection has detailed accept/reject criteria.

Question No. 4. Isn't it true that many of the potential health problems that have been detected in Canadian meat and poultry products have been found in products processed in Canada, such as *Listeria* in hot dogs and sausage? Under the Open Border agreement, would United States inspectors conduct any reinspections of ready-to-eat products processed in Canada?

Answer. No. 4. *Listeria* contamination is an international concern. During 1990, there have been instances in which *Listeria monocytogenes* has been detected in products processed in Canada and intended for retail distribution in the United States. In two instances product recalls were undertaken; in another instance a Canadian establishment was denied the privilege of exporting finished product to the U.S. for a period of time.

The proposed rule does not contemplate any reinspection at the border of meat and poultry products from Canada.

Question No. 5. Mr. Golden suggested that the legal basis for this rule depended on amendments made in the 1981 Farm Bill. Please provide information on the FSIS implementation of this statute.

Answer. We are enclosing the final regulation which implemented the 1981 Farm Bill provisions.

Question No. 6. You and other representatives of USDA repeatedly assert that the Secretary has discretion to determine whether the exporting or importing country is to conduct random inspections for species verification and residues. Does either the meat or poultry inspection law expressly grant such discretion? Is USDA's position on this issue based on inference? Does the legislative history suggest that Congress intended to authorize such discretion to the Secretary? In fact, doesn't the legislative history suggest quite the opposite interpretation? Please cite any precedent(s) for this interpretation of U.S. law.

Answer. The discretion of the Secretary of Agriculture to determine whether the exporting or importing country is to conduct random inspections for species verification and residues is based on a rational interpretation of the Federal Meat Inspection Act (FMIA) and the Poultry Products Inspection Act (PPIA). These Acts do not expressly grant the Secretary this discretion.

The legislative history of the FMIA and PPIA is inconclusive on the issue of whether the exporting or importing country is to conduct random inspections for species verification and residues. The interpretation of these statutes by the Department which would allow the Secretary to delegate these inspections to inspection officials of the exporting country is a rational one. An interpretation made by the agency charged with the administration of a particular statute will be upheld if that interpretation is rational. *Young v. Community Nutrition Institute*, 476 U.S. 974 (1986), citing, *Chevron U.S.A. Inc. v. Natural Resource Defense Council, Inc.*, 467 U.S. 837 (1984).

Question No. 7. In his press release announcing this agreement, Secretary Yeutter suggested that it was a cornerstone of the U.S. position in the GATT on harmonization. Please explain how this would be the case.

Answer. Under the GATT, the U.S. is moving to harmonize sanitary and phytosanitary standards with other countries in order to prevent nontariff trade barriers based on public health concerns. This involves harmonizing rules, tests, residue tolerances and other standards. The proposed Open Border Experiment with Canada is an effort to accomplish this harmonization bilaterally even as we move to harmonize multilaterally through the GATT.

Attachments.

9 CFR Part 327**[Docket No. 82-005F]****Requirements for Imported Products****AGENCY:** Food Safety and Inspection Service, USDA.**ACTION:** Final rule.

SUMMARY: This final rule implements the provisions of the Agriculture and Food Act of 1981 that amended the Federal Meat Inspection Act. This rule amends the Federal meat inspection regulations to clarify that the inspection, sanitation, quality, species verification and residue standards applied to products (*i.e.*, carcasses, parts of carcasses, and meat and meat food products of cattle, sheep, swine, goats, horses, mules and other species capable of use as human food) offered for importation into the United States must be at least "equal to" the standards applied to such domestic products produced in the United States. This final rule also requires that all countries that wish to establish or maintain eligibility to export products to the United States implement a residue testing program. Residue testing must be conducted on the internal organs and fat, as appropriate, for the detection of residues in the carcasses of meat and meat food products being offered for importation into the United States.

EFFECTIVE DATE: March 14, 1983.

FOR FURTHER INFORMATION CONTACT:
Dr. Grace Clark, Foreign Programs,
International Programs, Food Safety and
Inspection Service, U.S. Department of
Agriculture, Washington, D.C. 20250,
(202) 447-6971.

SUPPLEMENTARY INFORMATION:**Executive Order 12291**

The Administrator has determined in accordance with Executive Order 12291 that this final rule is not a "major rule". It will not result in an annual effect on the economy of \$100 million or more. There will be no major increase in costs or prices for consumers, individual industries, Federal, State or local government agencies, or geographic regions, and will not have a significant adverse effect on competition, employment, investment, productivity, innovation or the ability of United States-based enterprises to compete with foreign-based enterprises in domestic or export markets. The purpose of this regulation is to clarify and conform existing regulations to Public Law 97-98, the Agriculture and Food Act of 1981 which amended section 20 of the Federal Meat Inspection Act. The principal impact of this rule is on foreign countries exporting meat products to the United States and is not expected to be substantial. If any portion of the increased cost was not absorbed by the exporting country and was passed along to the United States, such cost should be quite small and should not have a substantial impact on the domestic economy.

Effect on Small Entities

The Administrator has determined that this final rule will not have a significant economic impact on a substantial number of small entities as defined by the Regulatory Flexibility Act, Pub. L. 96-354 because to the extent it involves any costs, those costs would be borne primarily by the exporting country. Those foreign countries offering meat and meat food products for exportation to the United States must have an inspection system at least "equal to" that of the United States, and most already have in place the programs necessary to comply with this regulation. Those countries requiring certain modifications to their systems should be able to develop the necessary programs at a minimal cost to them. Domestic businesses should incur little or no additional costs, either directly or indirectly.

Background

Pursuant to the Federal Meat Inspection Act (FMIA); (21 U.S.C. 601 *et seq.*), the Secretary of Agriculture is responsible for administering the programs which are designed to assure that products distributed to consumers are wholesome, not adulterated, properly marked, labeled, and packaged. In order to fulfill this obligation, the

Secretary has delegated to the Administrator of the Food Safety and Inspection Service (FSIS), the authority to issue regulations and implement appropriate procedures to ensure compliance with the requirements of the FMIA. The regulations addressing imported products are codified at 9 CFR Part 327. In these regulations the Administrator has established procedures by which foreign countries desiring to export meat or meat food products to the United States may become eligible to do so. More extensive background information on foreign programs is found in the "Supplementary Information" section of the proposal.

Proposal

On July 7, 1982, the Agency published a proposed rule, 47 FR 29685-29688, to implement the provisions of Pub. L. 97-98, the Agriculture and Food Act of 1981, concerning imported meat and meat food products. Section 1122 of the Farm Bill (21 U.S.C. 820(f)) amends section 820 of the FMIA (21 U.S.C. 620) by adding a new subparagraph (f) which requires that all imported products be subject to the same standards as domestic products with regard to inspection, sanitation, quality, species verification and residue. The Secretary is directed to enforce the provisions of the new section through the imposition of random inspection for species verification and residues. Additionally, the exporting country must provide for the random sampling and testing of internal organs and fat as appropriate for testing for residues in the carcasses at the point of slaughter. The Agency proposed that Part 327 of the Federal meat inspection regulations (9 CFR Part 327) be amended to include the following provisions:

(1) That the inspection, sanitary, quality, species verification, and residue standards applied to imported meat and meat food products must be at least "equal to" the standards applied to domestic product; and

(2) That foreign countries wishing to establish and/or maintain eligibility to export product to the United States must maintain a program to test for residues in the internal organs and fat of carcasses from which meat and meat food products intended to be offered for importation into the United States are produced.

Comments

The Agency received 22 comments in response to the proposal, 19 in favor and 3 opposed. The comments were submitted by Trade Associations, private citizens, State Universities, meat

producers, a meat packer, a State Department of Agriculture, and a United States Representative. The comments discussed 5 general issue areas:

- (1) Residue testing by the foreign inspection programs;
- (2) Cost of inspection;
- (3) Economic advantage imported meat and meat food products maintain over state inspected meat and meat food products;
- (4) Labeling as to country of origin; and
- (5) Consumer education regarding imported products. The Agency's responses are as follows.

1. *Residue testing by the foreign inspection program.* Two commentators expressed concern about the proposed requirement that each exporting country implement a residue testing program that includes the random sampling of internal organs and fat at the point of slaughter for potential contaminants. The thrust of both comments was that the Agency must participate in the determination of those types of residues for which testing ought to be conducted. One commentator specified that the burden of the residue testing program ought to be on the exporting country, providing there is adequate supervision and monitoring of the program to assure that the resulting product complies with established standards. The other commentator stressed the importance of the random testing, the adequacy of the testing procedures, and the need for documentation of those testing procedures that have not yet been approved in the United States.

The Agency agrees with both commentators and believes that the rule contains adequate safeguards, whereby FSIS will be confident of the adequacy of each exporting countries' residue testing program and the resulting product. Even though the burden of establishing a residue testing program rests with each exporting country, FSIS Foreign Program officials have been working with meat inspection officials in exporting countries to determine if the nature of their residue program is appropriate. Additionally, the Agency is requiring that the testing methods used must be approved by the Administrator. The specific testing procedures are also currently being evaluated by the Agency.

In response to the concern that the testing procedures be conducted on a random basis the Agency considers this to be a minimum requirement, and does not object to programs designed differently provided this minimum requirement is met. For example, the Agency is permitting programs in some

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countries which require testing of every lot of animals from every farm at each plant.

Finally, in response to the suggestion that the exporting country provide specific documentation of the adequacy of testing procedures not yet approved for use in the United States, the Agency notes that it can and will request such documentation as needed.

Documentation may be needed whenever an analytical method is not approved for official use in the United States or it is to be used for residues of a compound not approved for use in the United States. This is an inherent part of the review of exporting countries' residue programs; modification of the rule in that regard is not necessary.

2. *Cost of inspection.* Two of the comments discussed the cost to the United States of providing inspection, asserting that the cost ought to be borne by the exporting country.

The greatest cost burden associated with the new inspection requirements will be borne by the exporting country in implementing a residue testing program at the point of slaughter. The suggestion that each exporting country be charged for point-of-entry inspection services goes beyond the scope of this rulemaking.

3. *Economic advantage imported meat and meat food products maintain over state inspected meat and meat food products.* A comment was submitted by the State of Virginia's Department of Agriculture and Consumer Affairs which took issue with a statement in the proposal that the rule "[would] not have a significant adverse effect on competition, employment, investment, productivity, innovation or the ability of United States-based enterprises to compete with foreign-based enterprises in domestic or export markets." It was the commentator's contention that state inspected meat and meat food products suffer a competitive disadvantage in the market place. Even though the state meat inspection programs operate on a system that is at least "equal to" the federal program, the state inspected meat and meat food products are not permitted entry into interstate commerce. Whereas, imported products operating under the same "equal to" standard are allowed entry into interstate commerce.

The statement in the proposal and noted in the comment refers to a particular finding required by Executive Order 12291. The Executive Order requires that the Agency make a determination concerning the impact any proposed or final regulation would have on the national economy. USDA interprets a "significant effect" to be any

action that would have an annual effect on the economy in excess of \$100 million. Issuance of this regulation is not anticipated to cause a change in the amount of meat and meat food products being imported into the United States that would even approach a resulting \$100 million effect on the economy.

Nevertheless, the Agency agrees that imported product has an economic advantage over state inspected product, for the stated reason. The Agency is supporting proposed legislation that would allow state inspected meat and meat food products operating under standards that are at least "equal to" those of the Federal meat inspection program entry into interstate commerce. However, the Agency lacks authority to make such a change absent legislative action by Congress. The House and Senate Agriculture committees are currently considering proposed legislation that would permit the interstate sale of state inspected product.

4. *Labeling as to country of origin.* Two commentators discussed a requirement that all imported meat and meat food products be labeled as to their country of origin. One of the commentators supported such a requirement while the other opposed it.

Imported meat and meat food products must meet the same standards as domestically produced product. Therefore, special labeling as to the place of origin is not justified under the provisions of existing law. Any special labeling would be very costly to U.S. producers who combine domestic and imported product into a single finished product. These producers would be required to keep records that would detail combined product mixtures for all finished lots. It would also require that importers maintain various stockpiles of labels for every country from which product was imported.

5. *Consumer education regarding imported products.* One of the comments suggested that the Agency implement a consumer education program to stress the quality of imported meat and meat food products as a means of restoring any consumer confidence that may have been lost as a result of the Australian meat substitution incident.

The Agency agrees that it is important that consumers be aware that imported products meet all the standards set for domestic products. However, there does not appear to have been any loss in confidence in imported products due to the Australian meat substitution incident that would warrant the expenditures required for a consumer education program. Less costly and equally effective means of providing

information on the inspection standards applied to imports can be used to the same end. The Agency's mandate under the legislation was to strengthen the foreign inspection program. Implementation of a consumer education program exceeds the scope of this rulemaking.

Final Rule

Therefore, the Agency is amending Part 327 of the Federal meat inspection regulations (9 CFR Part 327) as proposed. This regulation is intended to make clear that the inspection, sanitary, quality, species verification, and residue standards applied to meat and meat food products being offered for importation into the United States must be at least "equal to" such standards applied to domestic meat and meat food products. Part 327 is further amended so as to require foreign countries desiring to establish and/or maintain eligibility for importation of products into the United States to have and maintain a program to test for residues in the internal organs and fat of carcasses from which meat and meat food products intended to be offered for importation into the United States are produced. Such a program would be required to provide for the sampling of internal organs and/or fat at the point of slaughter on a random basis, and the testing of such internal organs and fat for the detection of residues likely to occur in meat and meat food product from the particular exporting country. Analysis would be performed on the internal organs and/or fat as appropriate for the detection of the specific residue. In addition, testing would be required only for those substances known to be in use in the production of meat and meat food products in the particular exporting country or otherwise known to be present in the environment of such country. As part of its obligation to assure that imported products meet the same standards applied to such domestic products, FSIS may request testing for residues of additional specific substances. Current programs now include the random sampling for species verification and residue tolerance levels of the imported product at the point of entry. Authority to take samples for laboratory examinations from products offered for importation is provided in 9 CFR 327.10(a). FSIS is not proposing additional regulations under the Farm Bill (21 U.S.C. 620(f)) concerning the provisions of the Act that would: prohibit imported products not meeting U.S. standards entry into the United States; and impose mandatory random

Section for species verification on products offered for importation, as any such additional regulations would be a duplication of existing provisions.

List of Subjects in CFR Part 327

Imported products: Meat inspection

PART 327—(AMENDED)

Accordingly, FSIS is revising the Federal meat inspection regulations as follows:

1. The authority citation for Part 327 reads as follows:

Authority: 34 Stat. 590, 79 Stat. 903, as amended; 61 Stat. 584; 64 Stat. 91, 438, 21 U.S.C. 71 *et seq.*, 601 *et seq.*, 33 U.S.C. 1254.

2. Section 327.2(a)(2)(i) is amended by redesignating the present paragraph (j) as paragraph (g) and by adding a new paragraph (f) to read as follows:

§ 327.2 Eligibility of foreign countries for importation of products into the United States.

- (a) (1)
(2)
(i)

(f) The inspection, sanitation, quality, species verification, and residue standards applied to products produced in the United States.

3. Section 327.2(a)(2)(iv) is amended, for the sake of clarity, by designating the present requirements contained in this paragraph as paragraphs (a)(2)(iv) (a) and (b), and adding a new paragraph (c), to read as follows:

- (a)
(2)

(iv) The foreign inspection system must maintain a program to assure that the requirements referred to in this section, at least "equal to" those of the Federal system of meat inspection in the United States, are being met. The program as implemented must provide for the following:

(a) Periodic supervisory visits by a representative of the foreign inspection system not less frequent than one such visit per month to each establishment certified in accordance with paragraph (a)(3) of this section to assure that requirements referred to in (a) through (h) of paragraph (a)(2)(ii) of this section are being met: *Provided*, That such visits are not required with respect to any establishment during a period when the establishment is not operating or is not engaged in producing products for exportation to the United States;

(b) Written reports prepared by the representative of the foreign inspection system who has conducted a supervisory visit, documenting his or her findings with respect to the

requirements referred to in (a) through (h) of paragraph (a)(2)(ii) of this section, copies of which shall be made available to the representative of the Department at the time of that representative's review upon request by that representative to a responsible foreign meat inspection official: *Provided*, That such reports are not required with respect to any establishment during a period when the establishment is not operating or is not engaged in producing products for exportation to the United States; and

(c) Random sampling of internal organs and fat of carcasses at the point of slaughter and the testing of such organs and fat, for such residues having been identified by the exporting country's meat inspection authorities or by this Agency as potential contaminants, in accordance with sampling and analytical techniques approved by the Administrator: *Provided*, That such testing is required only on samples taken from carcasses from which meat or meat food products intended for importation into the United States are produced.

Done at Washington, D.C., on January 31, 1983.

Donald L. Houston,
Administrator, Food Safety and Inspection Service.

[FR Doc. 83-3006 Filed 2-8-83; 8:43 am]
BILLING CODE 3410-04-M

Food Safety and Inspection Service
9 CFR Part 527

(DocId: 659421)

Imported Product; Withdrawal of
Certain Countries From the List of
Those Eligible for Importation of Meat
Products

AGENCY: Food Safety and Inspection
Service, USDA.

ACTION: Interim rule with request for
comments.

SUMMARY: This document withdraws the
countries of Dominican Republic, El
Salvador, Haiti, Mexico, Nicaragua, and
Panama from the list of countries
eligible for importation of products of

cattle, sheep, swine, goats, and equines into the United States under the Federal Meat Inspection Act (FMIA). The FMIA requires that in order for a country to be eligible to export meat products to the United States, the meat inspection system of the country must assure compliance with requirements that are "at least equal to" the requirements of the FMIA and regulations as applied to official establishments in the United States. Failure of Dominican Republic, El Salvador, Haiti, Mexico, Nicaragua, and Panama to implement satisfactory residue testing and/or species verification programs has demonstrated that they no longer meet the provisions of the FMIA with regard to their ability to detect residues and species substitution in meat products destined for importation into the United States.

DATES: Interim rule effective February 15, 1984; comments must be received on or before April 16, 1984.

ADDRESS: Written comments to: Regulations Office, Alvin Amne Johnson, FSIS Hearing Clerk, Room 2537, South Agriculture Building, Food Safety and Inspection Service, U.S. Department of Agriculture, Washington, D.C. 20250.

(See also Comments under Supplementary information.)

FOR FURTHER INFORMATION CONTACT: Dr. Grace Clark, Director, Foreign Programs Division, International Programs, Food Safety and Inspection Service, U.S. Department of Agriculture, Washington, D.C. 20250 (202) 447-7630.

SUPPLEMENTARY INFORMATION

Executive Order 12251 and Effect on Small Entities

The Administrator of the Food Safety and Inspection Service has determined that immediate implementation of this rule, on an interim basis, is necessary in order to protect the consuming public from meat products imported from countries with deficient inspection programs.

Analysis of the procedures set forth in this rule under Executive Order 12251 and the Regulatory Flexibility Act (RFA) is not practicable at this time due to the urgency of publishing this interim rule. Pursuant to the provisions for emergency rules in section 8 of the Executive Order and section 606 of the RFA (5 U.S.C. 506), the Administrator has determined that there is an immediate need to preclude the entry into U.S. commerce of products produced under conditions found to be not at least equal to those in the United States. This interim rule will be followed by a final regulation to be published only after consideration of relevant

Comments

Interested persons are invited to submit comments concerning this action. Written comments must be sent in duplicate to the Regulations Office and should bear reference to the docket number located in the heading of this document. All comments submitted pursuant to this action will be made available for public inspection in the Regulations Office between 9:00 a.m. and 4:00 p.m., Monday through Friday.

Background

Pursuant to the Federal Meat Inspection Act (FMIA) (21 U.S.C. 601 et seq.), the Secretary of Agriculture is responsible for administering the programs which are designed to ensure that meat products distributed to consumers are wholesome, not adulterated, and properly marked, labeled, and packaged. The Secretary has delegated to the Administrator of the Food Safety and Inspection Service (FSIS) the authority to issue regulations and implement appropriate procedures to ensure compliance with the requirements of the FMIA. The regulations addressing imported meat products are in 9 CFR Part 327. In these regulations, the Administrator has established procedures by which foreign countries desiring to export meat or meat food products into the United States may become eligible to do so.

The Administrator has authority to withdraw the eligibility of a foreign country to import meat products into the United States under § 327.2(a)(4) (9 CFR 327.2(a)(4)).

Whenever it shall be determined by the Administrator that the system of meat inspection maintained by such foreign countries does not assure compliance with requirements at least equal to all the inspection, building construction standards, and other requirements of the Act and the regulations in this subchapter as applied to official establishments in the United States:

The Agriculture and Food Act of 1981 (Farm Bill) amended the FMIA to clarify that imported meat and meat food products must meet the same inspection, sanitation, quality, species verification, and residue standards applied to domestically prepared product. It directed the Secretary to enforce the Farm Bill through random inspections of imported product at port of entry for residues and species verification and require exporting countries to conduct random sampling and testing of internal organs and fat of carcasses for residues at point of slaughter in accordance with methods approved by the Secretary. Domestic and final regulations

implementing the Farm Bill requirements were published in the Federal Register on July 6, 1982 (47 FR 29685), and February 10, 1983 (48 FR 2091), respectively. All countries eligible to export product to the United States were notified of these regulation changes in July 1982 and May 1983.

Residue testing information is collected from exporting countries on an annual basis by the Department. Using this and additional information collected during regular reviews of the meat inspection systems of exporting countries, notice was given in July 1983 as to specific deficiencies in residue and species verification programs in each exporting country, informing them that all corrections must be made by January 1, 1984. A review of laboratory facilities, equipment, and methodology was made during December 1983 to determine the compliance of exporting countries with the residue and species verification requirements.

In order for a country's inspection system to be considered "at least equal to" that of the United States, that country must provide for testing of appropriate tissues (fat, kidney, muscle and/or liver) for chlorinated hydrocarbons, organophosphates, trace metals, antibiotics, and hormones, if applicable, using a method approved by the Secretary. In addition, countries must conduct an approved species verification program. The following countries have been judged by FSIS to be deficient in one or more of the above requirements as indicated:

Dominican Republic

1. No testing for trace metals was being conducted.
2. No testing for PCB was being conducted.

3. Inadequate recovery checks or other control to assure quality laboratory performance.

El Salvador

1. No testing for PCB and hormones contract laboratory.

2. Kidney, as well as liver and muscle must be tested for trace metals; sampling for trace metals testing must be implemented.

3. Inadequate recovery check and other check sample programs necessary to assure quality laboratory procedure at contract laboratory.

Haiti

1. No samples from Haiti were ever submitted to a laboratory for testing organophosphates, PCB, heavy metals, hormones, antibiotics, and species.

2. Inadequate recovery checks and use of other controls in laboratory in Dominican Republic, to which samples were sent, to assure quality laboratory performance.

Mexico

1. No testing was being performed on chlorinated hydrocarbons, organophosphates, PCB, trace metals, hormones, antibiotics, and species.
2. When testing is initiated, it must use correct methods and test correct tissues.
3. Laboratory must include proper recovery checks and inter- and intra-laboratory controls to assure quality laboratory performance.

Nicaragua

1. No testing was in place for organophosphates, PCB, heavy metals, hormones, antibiotics, and species.
2. When testing is initiated, laboratory must also perform necessary recovery checks and other inter- and intra-laboratory controls necessary to assure quality laboratory performance.

Panama

1. No sampling or testing for organophosphates, PCB, hormones, and species.
 2. Testing for heavy metals must be on muscle, liver and kidney, not fat.
 3. Testing for antibiotics must use kidney, as well as muscle.
 4. Inadequate recovery checks and inter- and intra-laboratory controls to assure quality laboratory performance.
- Therefore, pursuant to § 327.2 of the regulations (9 CFR 327.2), the Administrator is withdrawing Dominican Republic, El Salvador, Haiti, Mexico, Nicaragua, and Panama from the list of countries eligible for importation of products of cattle, sheep, swine, goats and equine into the United States.

The Department issued a press release on December 25, 1983, listing several other countries which would be delisted by this regulation. However, subsequent to the press release, those countries made improvements and provided evidence adequate to determine their "equal to" status. The Department is confident several others being delisted by this regulation will soon be able to provide similar substantiating evidence and consequently will be relisted.

When the Administrator of FSIS is satisfied that the meat and/or poultry inspection officials of such countries have corrected the deficiencies in their

FMIA and the regulations promulgated thereunder, such countries may again be added to the list of countries eligible for importation of cattle, sheep, swine, goats, and equine into the United States.

List of Subjects in 9 CFR Part 327

Imported products, Meat inspection.

PART 327—(AMENDED)

1. The authority citation for Part 327 is as follows:

Authority: 16 Stat. 1260, 79 Stat. 973, as amended, 81 Stat. 344, 84 Stat. 21, 438, 21 U.S.C. 71 *et seq.*, 607 *et seq.*, 33 U.S.C. 1224(b).

§ 327.2 (Amended)

2. Section 327.2(b) of the Federal meat inspection regulations (9 CFR 327.2(b)) is amended by removing the following countries from the list of countries eligible for importation of products of cattle, sheep, swine, and goats into the United States:

Dominican Republic	Mexico
El Salvador	Nicaragua
Haiti	Panama

3. Section 327.2(c) of the Federal meat inspection regulations (9 CFR 327.2(c)) is amended by removing Mexico from the list of countries eligible for importation of product of equines into the United States.

Done at Washington, D.C., on February 10, 1984.

Donald L. Houston,
Administrator, Food Safety and Inspection Service.

(FR Doc. 84-117) Filed 2-15-84; 8:41 am;
GSA GEN. REG. NO. 2710-108-0000

TOTAL P. 04

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PREPARED STATEMENT OF CECIL WATSON

Mr. Chairmen and distinguished Senators of the Subcommittee, I appreciate this opportunity to appear before you today to discuss the U.S.-Canada Free Trade Agreement.

The U.S.-Canada Free Trade Agreement has been in place for almost two years and U.S. wheat producers still have very serious concerns about the equity of the agreement. In particular, we question the remaining large differences in the wheat marketing and transportation systems and in the trading practices of the two nations. While U.S. wheat producers recognize that the FTA is a reality and that it accords benefits to the overall economic welfare of both the U.S. and Canada, we would argue that the agreement remains flawed in favor of Canadian wheat producers at the expense of U.S. wheat farmers. Of equal concern, is the apparent sanctioning under the FTA of elements of Canadian Wheat Board trading practices that have been, and are likely in the future to be, damaging to the U.S.'s ability to maintain market share in third country markets.

The Canadian Wheat Board (CWB) maintains a single desk monopoly in the marketing of Canadian wheat. Under CWB control, export pricing of Canadian wheat remains highly secretive. The CWB routinely observes the contrastingly open price discovery process of the U.S. marketing system and then offers comparatively attractive prices on Canadian wheats to prospective export customers while at the same time maintaining a schedule of unrealistic, higher list or asking prices which are largely meaningless in world trade. With this selective pricing authority, the CWB has a distinct advantage over the U.S. producer in capturing prospective markets and increasing market share to the detriment of U.S. producers, the U.S. trade balance, and the U.S. economy.

U.S. producers have witnessed the erosion of their market share under these selective pricing conditions for several years and are very concerned by the implied approval of such practices that appears to be granted under the FTA. Brief but graphic examples of U.S. markets that have suffered under the disruptive activities of the CWB include Venezuela, the Philippines and the increased movement of Canadian wheat and durum into the U.S. domestic market.

Until the mid-1980's, Venezuela was almost entirely a U.S. market for wheat. The strong U.S. market presence was established through fair competition and service in a market that demanded quality products. The U.S. had the added logistical advantage of being within close proximity to Venezuelan delivery points. In marketing year 1983/84 (July/June), U.S. sales began to shrink at an alarming pace due to the predatory entry of Canadian wheat into the market, while U.S. sales have recovered somewhat in recent years, the Canadian presence and pressure remains in the market, despite the obvious disadvantage presented by longer ocean shipping times which result in higher real costs of delivering Canadian wheat to Venezuela (See Chart No. 1).

A more recent example documented by U.S. wheat Associates' overseas marketing specialists involves Canadian spring wheat sales to the Philippines. Prior to 1989, the CWB had made few strenuous efforts to sell into the Philippines. Once the Philippines exhausted its remaining EEP balance, however, the Canadians started making large inroads into what had been a nearly all U.S. market. The Canadian wheat entered the Philippines at a significant discount to comparable U.S. wheats and to similar quality Canadian wheat being sold elsewhere in the region. Chart No. 2 clearly illustrates the CWB's discriminatory pricing pattern. See that during the spring and summer of 1989, CWB export prices on spring wheat sales to Japan were consistently \$30.00 per ton higher than the CWB prices offered to the Philippines. It is important to note, as well, that this staggering price differential, existed after accounting for the quality differences between sales of Canadian Western Spring (CWS) No. 1 to Japan and CWS No. 2 sales to the Philippines.

The CWB is again aggressively marketing its near record 1990 wheat crop of 28.6 million tons as evidenced by its recent sale of spring wheat to China for less than \$92.00 per ton (\$2.50 per bushel). U.S. FOB prices for spring wheat at the time of the Chinese sale were \$108 per ton (\$2.95 per bushel) at a Great Lakes export point, \$118 per ton (\$3.25 per bushel) at the Gulf and \$132 per ton (\$3.60 per bushel) at the PNW ports. Both U.S. and Canadian quality appears to be above average in this year's crop, which re-emphasizes the highly competitive market situation and the vulnerability of U.S. market shares.

Close to home, U.S. producers remain concerned about the longer term implications of the FTA on the domestic U.S. wheat market. Flaws in the implementation process have allowed Canadian wheats to flow freely into the U.S. market at increasing levels under declining tariffs, while U.S. wheat has been totally restricted

from entering the Canadian market. Once the producer subsidy equivalents (PSE) are deemed equal between the two countries, limited access for U.S. wheat to enter Canada will be granted. Admittedly, even the longer-term opportunities for U.S. wheat in the Canadian market may be limited due to the comparatively small consumption base in Canada versus the more populous U.S., but again the situation appears tilted in favor of the Canadian producer from the outset (See Charts No. 3 and No. 4).

The FTA's implementation language contains a provision, Article 701(3) which says, "that neither country, nor any public entity that they establish or maintain, shall sell agricultural goods in the other country at a cost below the acquisition price plus handling, storage and other cost." This provision was an attempt to lessen the blow dealt to the U.S. due to the loss of our Section 22 authority which in the past had been credited with exercising restraint on the Canadian Wheat Board. Now, the U.S. industry must demonstrate that imports of grain have "increased significantly as a result of a substantial change" in Canada's support programs for grain. Without price transparency and constant monitoring of the Canadian Wheat Board's activities, it is nearly impossible for U.S. wheat producers to determine to what degree changes have occurred in the Canadian Wheat Board's support mechanism. It is also difficult to determine whether the CWB is consistently undercutting the world price of wheat to make sales in third country markets.

One other unfair export advantage unique to Canada and the CWB is the rail freight subsidy, Canadian producers pay \$12.90 per ton (\$.35 per bushel) to ship wheat from the Canadian prairies to a Canadian west coast export point and \$6.83 per ton (\$.19 per bushel) to ship wheat eastbound to a Great Lakes export point. These freight charges represent approximately one-third of the actual charges with the remaining two-thirds paid by the Canadian government under the Western Grain Transportation Act (WGTA), more commonly referred to as the "Crow's Nest" rates.

For comparison, U.S. producers in North Dakota pay \$38.57 per ton (\$1.05 per bushel) to ship wheat west and \$20.57 per ton (\$.56 per bushel) to ship wheat east for domestic or export consumption. The effect of the Canadian subsidy is to advantage Canadian wheat for export at the expense of the U.S. producer. The Canadian wheat can leave the bins of the Canadian producer for markets overseas at comparatively lower market prices while maintaining the net price to the producer. On the other side of the border, the U.S. producer must bear the sole cost of moving his wheat to market.

In the FTA, Canada agreed to end its freight rate subsidies for grain moving westbound for export, we assume this has happened although we have no assurances from the Administration that they have seen this through. In the case of eastern bound rail freight subsidies, the Canadians were permitted to keep them because it was argued that they apply equally to Canada's domestic and export markets, and thus are not considered to be "export subsidies." In our opinion, eastbound freight subsidies are export subsidies and the Administration has been recalcitrant on the subject of entering negotiations, as mandated by the FTA implementation language of the House Committee on Agriculture, to obtain exclusion from the transportation rates established under Canada's WGTA of agricultural goods that originate in Canada and are shipped via east coast ports for consumption in the U.S." (House Report 100-816, Part 8).

U.S. producers have reason for considerable concern over the future of their world market shares and the future of their very industry if they continue to be disadvantaged by these and other discriminatory pricing and marketing practices that exist in the world market today.

Once again, Mr. Chairmen and distinguished Senators, I would like to thank you for this opportunity to present to you our position regarding continuing problems with the U.S.-Canada FTA. I will be pleased to answer your questions at the appropriate time.

CHART #1

U.S. and Canadian Wheat Exports to Venezuela
-million bushels-

	HRS		Durum	
	U.S.	Canada	U.S.	Canada
1976-77	14.6	1.6	3.6	-
1977-78	17.5	-	3.7	-
1978-79	21.8	0.5	4.7	-
1979-80	18.0	-	5.6	0.2
1980-81	18.8	-	5.5	-
1981-82	21.6	0.4	5.7	0.2
1982-83	20.9	-	6.7	-
1983-84	23.8	1.9	7.4	0.6
1984-85	20.5	9.0	6.2	1.8
1985-86	14.9	10.0	4.6	1.8
1986-87	22.3	4.1	7.2	1.4
1987-88	9.5	9.7	4.2	4.7
1988-89	10.9	7.8	3.2	3.9
1989-90	16.5	4.7	5.4	1.9

NDWC 9/28/90
 N792

CHART #2

U.S. AND CANADIAN WHEAT EXPORTS TO THE PHILIPPINES
(Million Bushels)

	<u>US</u>			<u>CANADA</u>
	<u>HRS</u>	<u>White</u>	<u>Total</u>	<u>CWRS</u>
1980-81	20.5	6.9	27.4	0.0
1981-82	22.3	9.1	31.4	0.0
1982-83	26.0	8.8	34.8	0.0
1983-84	21.0	5.7	26.7	0.0
1984-85	20.1	5.9	26.0	0.0
1985-86	18.4	6.7	25.1	0.8
1986-87	23.9	7.2	31.1	3.7
1987-88	28.5	8.9	37.4	1.1
1988-89	32.3	11.8	44.1	4.3
1989-90	21.1	12.1	33.2	13.2

NDWPC 9/28/90
107248

CHART #3

SHIPMENTS OF CANADIAN WHEAT TO THE UNITED STATES

Marketing Year (June-May)	ALL WHEAT		DURUM		SPRING	
	000 MT	MIL BU.	000 MT	MIL BU.	000 MT	MIL BU.
1982-83	126.9	4.7	0	0.0	126.9	4.7
1983-84	62.5	2.3	2.6	0.1	59.9	2.2
1984-85	235.4	8.6	0	0.0	235.4	8.6
1985-86	317.5	11.7	0	0.0	317.5	11.7
1986-87	477.2	17.5	58.8	2.2	418.4	15.4
1987-88	298.8	11.0	163.8	6.0	135.0	5.0
1988-89	366.2	13.5	208.0	7.6	158.2	5.8
1989-90	303.7	11.2	165.3	6.1	138.4	5.1
(June-July 1990-91)	42.4	1.6	33.4	1.2	9.0	0.3

Source: Canadian Grain Commission

NDWC 9/18/90
NY229

CHART #4

CANADIAN SHIPMENTS OF DURUM TO THE US
 (US Marketing Years - Monthly)
 (000 Tons and Million Bushels)

	<u>1986-87</u>		<u>1987-88</u>		<u>1988-89</u>		<u>1989-90</u>			
	Tons	Bu.	Tons	Bu.	Tons	Bu.	Tons	Bu.	Tons	Bu.
June	0		0.2		18.7	(0.7)	2.0	(0.1)	9.9	(0.4)
July	0		7.1	(0.3)	29.4	(1.1)	14.7	(0.5)	18.5	(0.7)
August	0		13.2	(0.5)	27.7	(1.0)	18.7	(0.7)		
September	0		10.3	(0.4)	13.9	(0.5)	15.4	(0.6)		
October	0		21.9	(0.8)	28.2	(1.0)	13.1	(0.5)		
November	6.5	(0.2)	17.3	(0.7)	13.9	(0.5)	26.6	(1.0)		
December	6.8	(0.3)	25.4	(0.9)	13.5	(0.5)	25.5	(0.9)		
January	5.0	(0.2)	13.1	(0.5)	10.8	(0.4)	5.4	(0.2)		
February	4.7	(0.2)	14.9	(0.5)	11.4	(0.4)	4.9	(0.2)		
March	13.7	(0.5)	21.6	(0.8)	12.1	(0.4)	1.3	(0.1)		
April	11.9	(0.4)	9.9	(0.4)	24.2	(0.9)	9.9	(0.4)		
May	10.2	(0.4)	8.9	(0.3)	4.2	(0.2)	27.8	(1.0)		
Total	58.8	(2.2)	163.8	(6.0)	208.0	(7.6)	165.3	(6.1)		

NDWC 87670
 NF233

CHART #5 ATTACHMENT #2
 COMPARATIVE U.S. AND CANADIAN SPRING WHEAT SALE PRICES
 TO JAPAN AND THE PHILIPPINES
 (U.S. Dollars/MT)

Tender Date	Philippines Price 1/	Japan Price 2/
1/24/89	U.S. 184.00 (Apr) 3/ CAN <u>189.10</u> (Apr)	U.S. 184.43 (Mar) CAN <u>224.60</u> (Apr)
	+ 5.10	+40.17
2/7/89	U.S. 184.00 (Apr) CAN <u>188.75</u> (Apr)	U.S. 187.00 (Apr) CAN <u>218.00</u> (Apr)
	+ 4.75	+29.00
4/11/89	U.S. 181.24 (Jly) CAN <u>180.75</u> (Jly)	U.S. 183.27 (Jun) CAN <u>214.10</u> (Jun)
	- 0.49	+30.83
	U.S. 179.06 (Spt) CAN <u>178.75</u> (Spt)	
	- 0.31	
4/18/89	U.S. 183.86 (Oct) CAN <u>182.65</u> (Oct)	
	- 1.20	
5/30/89	U.S. 182.30 (Nov) CAN <u>182.65</u> (Nov)	U.S. 180.70 (Jly) CAN <u>211.92</u> (Jly)
	- 1.06	+81.22
6/20/89	U.S. 182.10 (Aug) CAN <u>181.75</u> (Aug)	U.S. 174.07 (Aug) CAN <u>198.18</u> (Aug)
	- 0.35	+24.08
	U.S. 183.94 (Jan) CAN <u>181.75</u> (Jan)	
	- 2.19	
	U.S. 186.04 (Feb) CAN <u>181.75</u> (Feb)	
	- 3.29	

1/ U.S. prices to the Philippines and Japan are for NS/DNS No #2, 14 protein, FOB PMW. The Canadian prices to the Philippines are CWRS No #2, 13.5 protein, FOB Vancouver, B.C.
 2/ Canadian prices to Japan are for CWRS No #1, 13.5 protein, FOB Vancouver, B.C. This table adjusts the Japanese prices to reflect what the Japanese import companies have paid for U.S. and Canadian wheat following sales to the Japanese Food Agency.
 3/ Delivery dates are shown in the parentheses.

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CHART #6

**Comparative Transportation Charges on Wheat Movements
in Canada and the U.S.**

WESTBOUND**Canada: Brandon, Manitoba to Vancouver**

Producer Share	C\$14.84/ton	(C\$.40/bu.)
Canadian Gov't Share	C\$29.21/ton	(C\$.80/bu.)
Total Charge	C\$44.05/ton	(C\$1.20/bu.)

US: Devils Lake, ND to PNW

Producer Share	US \$38.57/ton	(US \$.105/bu.)
Total Charge	US \$38.57/ton	(US \$.105/bu.)

EASTBOUND**Canada: Brandon, Manitoba to Thunder Bay (Great Lakes)**

Producer Share	C\$7.85/ton	(C\$.21/bu.)
Canadian Gov't Share	C\$15.43/ton	(C\$.42/bu.)
Total Charge	C\$23.28/ton	(C\$.63/bu.)

US: Devils Lake, ND to Duluth (Great Lakes)

Producer Share	US \$20.57/ton	(US \$.56/bu.)
Total Charge	US \$20.57/ton	(US \$.56/bu.)

Canada: Brandon, Manitoba to Buffalo, NY

Producer Share	C\$7.85/ton	
Can. Gov't Share	C\$15.43/ton	
Laker Freight	C\$21.00/ton (T. Bay to Buffalo)	
Total	C\$44.28/ton	(US \$37.64/ton)
Producer Share	C\$28.85/ton	(US \$24.52/ton)

US: Devils Lake, ND to Buffalo (BN through rate-unit train)

Producer Share	US \$36.37/ton
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Rise in Wheat Imports From Canada Could Further Depress US Prices

By KEVIN COMBINS
Journal of Commerce Staff

CHICAGO — Canadian wheat exports into the United States may increase in the next few months, a development that will further depress U.S. wheat prices, some analysts predict.

Bob Frazier, senior vice president of the Chicago trading firm Gerald Inc., said weak demand from overseas buyers could encourage Canadian wheat exporters to focus on the U.S. market.

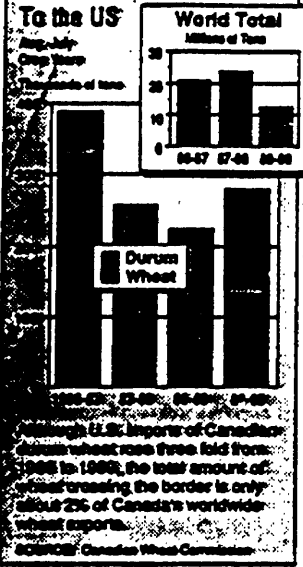
"My fear is that we will begin to see larger amounts of Canadian wheat coming into the market," Mr. Frazier said. "For larger quantities, we're the best market Canada has."

Historically, Canada has exported relatively little wheat into the United States. Canada ships a major portion of its wheat exports to Asia and Eastern Europe. In the 1988-89 crop year, the U.S. purchased of 275,000 tons of Canadian wheat, making it Canada's 18th leading foreign buyer.

However, with a bumper wheat crop this year and weak overseas demand, Canada may market more aggressively into the United States.

"In today's soft wheat market you find customers wherever you

Canadian Wheat Exports



Although U.S. imports of Canadian wheat rose three fold from 1988 to 1989, the total amount of wheat crossing the border is only about 2% of Canada's worldwide wheat exports.

SOURCE: Canadian Wheat Commission

9018 P/09/14/90 Journal of Commerce

George Galasso, a wheat market analyst at the U.S. Department of Agriculture, said Canadian durum wheat trade to the United States has climbed sharply in the past few years, peaking during the 1988 U.S. drought.

"Durum wheat imports from Canada alone went from virtually nothing in the 1985-86 marketing year (August-July) to 150,000 metric tons in 1988-89."

Typically, the U.S. buyers of Canadian wheat are mills in the East, close to the Great Lakes. The mills elect to buy Canadian wheat shipped on the Lakes because the transport costs usually are lower than for U.S. wheat shipped by rail from the Midwest.

Although Canadian wheat exports into the United States historically have been small, they have raised the ire of the U.S. wheat industry.

Last June, in an action initiated by the U.S. National Association of Wheat Growers, the International Trade Commission ruled that there was no evidence Canadian wheat exports injured the U.S. wheat industry.

Similarly, in response to queries from the National Association of

SEE RISE, PAGE 6A

Rise in Wheat Imports May Depress US Prices

CONTINUED FROM PAGE 1A

Wheat Growers, the U.S. trade representative's office asserted that the pricing policies of the Canadian Wheat Board and Canadian rail subsidies do not constitute a "de facto" export subsidy, according to Karen Fogley, director of wheat export trade education for the U.S. trade group.

Nonetheless, Canadian wheat exports remain a contentious issue in the northern wheat producing states of North Dakota, Minnesota and Montana.

Sarah Vogel, North Dakota agricultural commissioner, reportedly has hired a Washington law firm to

analyze the ITC decision and is taking an aggressive stand against Canadian wheat imports in her current election campaign.

Durum wheat is used primarily for pasta and cake flour.

In 1988 U.S. durum wheat production fell as drought damaged nearly 80% of the crop. The price then soared to \$4.50 a bushel compared with about \$3.50 today.

Canadian wheat exports into the U.S. could become a psychologically important issue to farmers because the U.S. wheat market is so weak that many farmers may be forced to forfeit their crops to the government.

Few U.S. export prospects and a record spring wheat crop, led the U.S. Department of Agriculture this week to revise its estimate of next year's wheat stocks to 625 million bushels or 945 million bushels (1 metric ton=36.4 bushels).

Although a big increase in demand from the Soviet Union could bolster wheat prices, most U.S. analysts are convinced that the Soviets will import much less U.S. wheat than normal because of internal financial problems and the lack of credit from the United States.

Howard Simon in New York contributed to this story.

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PREPARED STATEMENT OF MIKE WEHLER

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to submit this information for your study and for the record. I am President of the National Pork Producers Council and manage a hog operation in Plain, Wisconsin.

This testimony is submitted on behalf of the National Pork Producers Council (NPPC), which represents approximately 100,000 pork producers and their families in NPPC's 45 affiliate state organizations. NPPC members represent more than 90 percent of the nation's commercial pork production.

First and foremost, NPPC would like to stress that domestic producers are efficient, capable and well-able to compete with producers of fairly priced and fairly traded pork anywhere in the world. We support the concept of eliminating tariff and non-tariff trade barriers between Canada and the United States. Any agreement that offers the opportunity to foster and expand trade opportunities for the pork industry--and for all U.S. agricultural products--should be explored.

OVERVIEW

Generally speaking, the U.S.-Canada Free Trade Agreement (FTA) is viewed favorably by U.S. pork producers. Although the FTA is still being implemented, so far it appears to be working reasonably well. However, our nation's pork producers have experienced some difficulty achieving fair trade through implementing the U.S./Canada Free Trade Agreement.

The topics of most concern to U.S. pork producers include the U.S. countervailing duty, open border agreement for meat inspection and Canadian quarantine of U.S. hogs. Obviously, of primary concern are the recent actions regarding U.S. countervailing duties.

We are also extremely dependent on a new multilateral General Agreement on Tariff and Trade (GATT) agreement that successfully reduces internal price support. If the Canadians can continue to unfairly subsidize their producers (such as they did in late 1988-1989), and the U.S. countervailing duty is proved ineffective, American pork producers will be left with no recourse to combat Canada's unfair trade practices.

CANADIAN SUBSIDIES

The major domestic subsidy to Canadian pork producers is through a price support program known as the Canadian tripartite program. This program funds the subsidy level paid to Canadian producers by an equal contribution of federal provincial, and producer funds. Cash payments are granted to Canadian hog producers when market prices are deemed to be too low to guarantee an "adequate" income to producers. For the 18-month period of July 1988 through 1989, the net Federal and provincial subsidies averaged in excess of \$17 (U.S.) per hog. Canadian subsidies have been as high as \$20-\$30 per hog.

For the two decades prior to the 1980s, Canadian pork production remained within 100 million pounds of Canadian consumption. Since 1980-1981 however, pork production has increased consistently above the level of Canadian consumption, primarily because of the production incentives created by the Canadian subsidy programs. Much of the increased Canadian production resulting from the Canadian subsidy program has been exported to the United States. In fact, the United States is the main export market for Canadian pork, with about 90 percent of Canada's exports being sent to the United States.

This surplus exportation has depressed prices of U.S. hog and pork products. American pork producers receive no protection from government price support programs and must fend for themselves in an artificially-distorted market. A long-lasting consequence of Canadian subsidies is the institutionalization of the excess production in Canada.

To counteract these Canadian subsidies, NPPC was successful in obtaining the imposition of countervailing duties in 1985 on imports of Canadian *live hogs* to the United States. Currently, live hog imports from Canada now face a U.S. countervailing duty of about \$4 per head.

However, countervailing duties on live hogs did not stop the flow of Canadian pork to the United States. Canadian producers simply slaughtered the hogs in Canada and shipped the product to the United States in the form of pork products. Consequently, the U.S. pork industry filed a countervailing duty petition on January 4, 1969, with the U.S. International Trade Commission and the U.S. Department of Commerce on fresh, chilled, and frozen pork from Canada. On August 28, 1989, the International Trade Commission (ITC) agreed that the U.S. pork industry was

threatened with material injury by reason of imports of fresh, chilled, or frozen pork from Canada. Accordingly, the U.S. Commerce Department issued a countervailing duty on pork products and set a duty level of about 3 (U.S.) cents per pound on subsidized Canadian pork imports.

A new review mechanism established through the U.S./Canadian Free Trade Agreement allowed the Canadian Pork Council to appeal the countervailing duty decision on pork products to two binational panels. The ITC found that it had used an incorrect figure in determining the increase in Canadian production of hogs between 1986 and 1988 in its original ruling. Therefore, the binational panel has now required the ITC to further investigate and re-vote on how the lower production increase will affect the ITC's determination of threat of material injury. This decision has no bearing on the countervailing duty collected for pork products during this period and time. However, should ITC overturn its original decision, all duties collected will be refunded by the Federal treasury. Additionally, this binational panel's decision for remand has no effect on the duty collected for live hogs from Canada coming into the United States. The Canadian marketing boards have the flexibility to control the mix between live hogs and pork coming into the U.S. and we believe they are using this to their advantage.

A second binational panel is reviewing the Commerce Department's decision in the pork product countervailing duty. This second binational panel is expected to announce today, September 28th, whether the Department of Commerce needs to reconsider its 1989 opinion on the pork product countervailing duty.

Canada also filed for a GATT review of the U.S. pork product countervailing duty. They claim that the duty is not permitted by the GATT. In August, the GATT panel assigned to review the case rendered a finding that the imposition of such duties under Section 771B of the U.S. countervailing duty laws contravened U.S. obligations under the GATT. However, only a full GATT council decision may overturn the countervailing duty. The full GATT council is next scheduled to meet on November 7, 1990, which is the earliest time it can consider whether or not to accept the GATT panel recommendation.

Canada's opposition to the U.S. duty on pork through the GATT is difficult to reconcile with its position on a major case in 1986 involving European Community Beef (EC Beef). In that case, Canada imposed a countervailing duty on beef from the EC in response, in part, to subsidies paid to European cattle producers. The Canadian decision in the EC Beef case was reviewed by a GATT panel that found such treatment of agricultural subsidies is inconsistent with GATT. However, Canada did not change the practice, as it now urges the U.S. to do, but instead blocked the unfavorable ruling from consideration by the GATT Council. In light of Canada's previous actions in the EC Beef case, it would be ironic for the U.S. to accept this GATT panel recommendation pertaining to Canadian pork imports.

The provisions of Section 771B are necessary to help domestic producers respond to subsidized imports. Without Section 771B, a significant amount of agricultural trade would be removed from effective protection from subsidized imports. Accordingly, the GATT subsidies code should be amended to permit all countries to impose countervailing duties on initially processed agricultural commodities in the Uruguay round of multilateral trade negotiations. This provision is too important to be unilaterally surrendered by the United States.

OPEN BORDER AGREEMENT

In February, the U.S. Department of Agriculture (USDA) and Agriculture Canada announced their intent to test the feasibility of an open border with respect to trade in meat and poultry. A one-year experiment was to be undertaken that would eliminate reinspection of meat and poultry at the border between the two countries. This trial could form the framework for a permanent open border agreement on inspection procedures between the two countries.

NPPC is willing to experiment with a one-year trial period without border inspection of meat products between the United States and Canada. However, we need to ensure that there are adequate measures taken to maintain consistency in inspection systems in both countries. USDA, through its Food Safety and Inspection Service, has a proven track record and the trust of American farmers and consumers alike in the area of meat inspection. Our overriding goal must continue to provide U.S. consumers with adequate assurances that we will maintain a safe, wholesome supply of meat and meat products. To attain this goal, we should have systems in place to make sure that pork products entering the U.S. market meet the same stringent standards for wholesomeness and safety required by our own meat inspection procedures.

A July report by the General Accounting Office (GAO) raises some valid concerns regarding this issue. In its study, the GAO reports that the rejection rate of Canadian meat imports to the U.S. increased during 1989. Moreover, one particular point of entry experienced a rejection rate about three times higher than the average rejection rate. GAO sums it up best in the following statement, "[T]he key policy issue will be whether FSIS still has adequate import controls to ensure the wholesomeness of Canadian meat."

The GAO report also raises questions regarding the legality of the open border agreement between the United States and Canada. FSIS authorities question whether the Federal Meat Inspection Act must first be amended before establishing a permanent open border agreement. Until these important legal questions are answered, proceeding with the permanent open border agreement should be seriously evaluated.

NPPC is also concerned that Canada permits the use of two drugs that are not now approved for use in the United States. In Canada, the products, Dimetridazole and Ipronidazole, are used to treat livestock and poultry diseases. Yet our own Food and Drug Administration no longer approves the use of these products, and it is believed that they may cause cancer. Because of the questions associated with these drugs, NPPC believes that Canada should discontinue the use of these drugs. In the interim, Canada needs to assure the U.S. that pork containing Dimetridazole and Ipronidazole residues does not find its way into the United States.

CANADIAN QUARANTINE

Canadian hog producers are free to send an unlimited number of hogs to the United States without any trade-restrictive health regulations. However, Canada imposes a 30-day quarantine on imported hogs as a result of its concern for pseudorabies. Pseudorabies is a disease that primarily affects young pigs and has no effect on the quality or safety of pork itself. Therefore, it would be easy to satisfy Canadian health concerns through alternative methods, such as shipping hogs under seal directly to packing plants in Canada. As currently imposed, the 30-day quarantine makes it virtually impossible for most U.S. pork producers to export their market hogs to Canada. In practice, Canada thus imposes a "de facto" embargo on U.S. hog exports to that country.

This quarantine means that American hogs have to be fed at the U.S. border for 30 days before being sent to a slaughterhouse. To continue the feeding of hogs in Canada costs a tremendous amount of money and is commercially practical only for a very few premium-quality breeding hogs sold at very high prices. The Free Trade Agreement should require the elimination of unnecessary Canadian restrictions on U.S. swine shipments to Canada. Through the Free Trade Agreement, the U.S. has made a good faith effort to explore avenues for increased trade between the U.S. and Canada. However, until Canada eliminates the pseudorabies quarantine program the United States should not implement liberalized meat inspection procedures.

CONCLUSION

In summary, the National Pork Producers Council perceives the U.S./Canada Free Trade Agreement as another step toward fairer and freer trade. We are generally supportive of this effort to eliminate trade barriers. The FTA has substantial economic and political significance to the United States because the principles embodied in the agreement are generally compatible with U.S. agricultural trade policy. Although U.S. pork producers are experiencing some difficulty with implementing certain provisions of the FTA, the accord does set a positive precedent in terms of future bilateral and multilateral agreements.

Additionally, the agreement is clearly compatible with efforts in the Uruguay Round of GATT negotiations. The much anticipated GATT agreement will help phase down price supports, domestic barriers to trade, and export subsidies.

We appreciate your consideration of our views and offer our assistance as you continue to review the implementation of the U.S./Canada Free Trade Agreement. Our primary objective in conjunction with free trade is that it must be accompanied by fair trade.

COMMUNICATIONS

STATEMENT OF THE NATIONAL HAY ASSOCIATION, INC.

The National Hay Association has launched a concerted effort to recapture Asian markets lost to subsidized Canadian competition during the last half of the 1980s, and we appreciate this opportunity to highlight the effect of Canada's subsidies on this vital and growing export market.

THE PROBLEM

American alfalfa exporters have worked hard during the last decade to develop viable Japanese and Korean markets for our pellets and cubes. We have successfully created a combined market valued at \$200 million annually, or 1.7 million metric tons, and growing. Unfortunately, subsidized Canadian large share of the market we worked so hard to develop.

We have watched the U.S. share of Japan's alfalfa pellet market, for instance, slip from 49 percent in 1982 to under 1 percent in 1989. Canada has captured most of this 260,000 metric ton market, with their market share rising from 49 percent in 1982 to over 99 percent in 1989. The story in the 670,000-ton alfalfa cube market is similar, with a 95 percent U.S. market share in 1982 falling to just 69 percent in 1989, while Canada made up the difference. The displacement of U.S. forage products is approaching 500,000 metric tons per year in Japan alone, representing over \$75 million.

A joint effort in recent years by the USDA and the NHA successfully opened the South Korean market at a cost of over \$500,000. Canada again is right on our heels, rapidly picking up that market share with its subsidized products. Canada now controls 90 percent of the growing South Korean market.

The same situation exists in Taiwan where the U.S. market share has dropped from 60 percent to 35 percent while Canada's has risen from 39 percent to 65 percent.

The Pacific Rim is the main forage importing region in the world. The U.S. owed its previous dominance to its superior products and efficiency, and now we are being systematically eliminated by heavily subsidized Canadian products.

THE CAUSE

Canada's Western Grain Transportation Act (WGTA) is the critical factor in this competitive picture. The Act saves Canadian alfalfa exporters between \$25 and \$30 per metric ton in transportation across Canada to Western ports. That \$25 to \$30 is just the amount by which Canada is underbidding U.S. exporters in Japan.

The Canadian Government passed the Western Grain Transportation Act in 1983, aiming to increase revenues of rail carriers while maintaining transportation subsidies that originated in 1897 for westbound agricultural products. The subsidy was extended to alfalfa meal, pellets and cubes in 1984, and the Canadian Government now subsidizes 99 percent of those products' exports.

Canada, by its own admission, relies heavily on the rail subsidies to compete in Asian markets. A report issued by Agriculture Canada earlier this year emphasized the importance of transportation subsidies to the competitive strength of Canadian alfalfa exports. It acknowledges that Canadian forage exporters, under current conditions, would not be competitive without the subsidy:

"Transportation costs will always be a significant cost component of exporting forage products from Western Canada because of the distance to port facilities, thus, as processors are forced to bear a greater proportion of the domestic transportation costs, they must become increasingly efficient

or forage exports from Western Canada will not be able to compete with U.S. forage exports."

—Infrastructure Requirements For the Movement of Forage Products to Foreign Markets, by Agriculture Canada

ACTION

We are seeking relief through the Uruguay Round of GATT negotiations, hoping that U.S. efforts to reduce unfair export subsidies will meet with success. We have specifically requested that U.S. negotiators work for removal of alfalfa from Canada's Western Grain Transportation Act.

The uncertainty surrounding the Uruguay Round's agricultural talks, however, has made us turn to the U.S.-Canada Free Trade Agreement as well. The agreement addresses the WGTA subsidies, but does not provide an automatic solution to our problems in the Pacific Rim.

The agreement outlaws the use of WGTA subsidies on exports through Western Canadian ports into the United States, but it leaves the door open for subsidies to other destinations such as the Pacific Rim. The accord contains a commitment by both parties to "take into account the export interests of the other party in the use of any export subsidy on any agricultural good exported to third parties."

The National Hay Association requests the U.S., in implementing the Free Trade Agreement, to press for elimination of Canada's WGTA subsidies on alfalfa exports because they significantly disrupt our markets.

PRECEDENT

The U.S. has honored the FTA commitment to take into account Canada's export interests in the use of U.S. agricultural export programs. The National Hay Association knows from experience that USDA will not grant Export Enhancement Program funds to alfalfa exporters to Japan and Korea because the EEP, as a policy, is not used against Canada. It is used to counteract European subsidies. In a letter denying U.S. exporters' request for EEP assistance to combat Canada's WGTA subsidies in Asia, U.S. Under Secretary of Agriculture Richard Crowder wrote, "As a matter of policy, CCC has not used the EEP as a measure to counteract export subsidies by Canada."

As we implement the U.S.-Canada Free Trade Agreement, we must demand fair treatment from our Canadian counterparts. Removing the transportation subsidy would put U.S. alfalfa exporters on a more equal footing with our Canadian competitors. We don't think that's too much to ask.

The National Hay Association requests immediate relief from subsidized Canadian competition. We fear that Canadian dominance of the Asian alfalfa market may become a permanent fixture if it is not reversed in the coming months.

SAFERCO, PRODUCTS, INC.,
Regina, Canada, Oct. 16, 1990.

Hon. MAX BAUCUS, *Chairman,*
Subcommittee on International Trade,
Committee on Finance,
4205 Dirksen Senate Office Building
Washington, DC

Dear Senator Baucus: Please accept this statement as a written submission on behalf of Safarco Products Inc. for the record of your subcommittee's Sept. 28, 1990, hearing on the U.S.-Canada Free Trade Agreement. Also attached for inclusion in the record is a memorandum (Attachment A) correcting a number of erroneous and misleading statements made by a witness at that hearing.

For the record, I am chairman of Safarco Products Inc. Safarco Products Inc. is a commercial joint venture between the Province of Saskatchewan and Cargill Limited. Safarco is building a nitrogen fertilizer plant near Belle Plaine, Saskatchewan. This plant will produce granular urea and anhydrous ammonia for agricultural and industrial uses. Production is scheduled to begin in 1992.

It is unfortunate that a great deal of misinformation has been generated and circulated about the Safarco project by opponents of that project. In fact, all parties to the project have bent over backward to ensure that all transactions are being conducted on commercial terms and the parties are fully adhering to the spirit and letter of all pertinent laws, including environmental and international trade rules.

Let me start by describing the financing arrangements for this project. The province and Cargill Limited spent more than two years evaluating the economic viability of this plant and negotiating the details of the joint venture. Throughout that process, all parties insisted that the Saferco project would not involve any subsidies that might run afoul of U.S. or other countries' countervailing duty laws.

The capital required for this project will total C\$485 million. This amount consists of C\$130.5 million in equity and C\$304.5 million in debt.

The Province of Saskatchewan holds 49 percent of the equity in Saferco, Cargill holds 50 percent and a private financial institution holds the remaining 1 percent. Each party paid the same price per share and no one party owns a controlling majority of the shares.

The province has guaranteed repayment of the Saferco debt. However, Saferco is paying the province a commercial fee that is comparable to prevailing market rates for such guarantees.

Furthermore, Saferco has not, is not and will not receive any subsidies, loans, grants or preferential prices for any natural gas or other raw materials that are provided by either the provincial government or government-owned suppliers. Saferco does plan to purchase—at normal commercial rates—some of its raw material needs for the production of nitrogen fertilizers from government-owned suppliers.

It is settled U.S. countervailing duty law that a government loan guarantee is not countervailable if a commercial fee is paid, nor is the provision of goods or services from government-owned suppliers a subsidy if purchased at normal commercial rates.

NITROGEN SUPPLY AND DEMAND OUTLOOK

The capacity of the Saferco plant will be 445,000 short tons (406,000 metric tons) of nitrogen per year—an increase in North American capacity of 2.5 percent. A significant portion of that production will go to the Canadian market.

Construction of the Saferco plant is justified by the supply and demand outlook for nitrogen fertilizers in North America in the 1990s. After bottoming in 1986/87, annual nitrogen use in North America has increased by 800,000 metric tons—from 10.4 million metric tons (mmt N) in fertilizer year 1986/87 to an estimated 11.2 mmt N in 1989/90. This increase is equivalent to the planned nitrogen production capacity of two Saferco plants.

The North American nitrogen industry currently is operating at or near full capacity. North America is a nitrogen-deficit market, requiring imports of roughly 1 million tons of nitrogen each year from off-shore sources. Even at full production, the Saferco project would satisfy less than half of this deficit. Moreover, demand is projected to grow moderately in the 1990s as a result of gradual increases in planted acres. These increases in demand will have to be met by either additional imports from an increasingly tight world nitrogen market or new North American capacity.

Several industry experts projected the significant tightening in world nitrogen markets even before recent political and economic events in the East Bloc and Middle East. Before this past August, Iraq and other Middle East countries had planned large additions in fertilizer production capacity. Most of these projects will likely be delayed or canceled. The Middle East crisis has the potential to substantially decrease world supplies.

In addition, the full effects of the political changes and economic reforms in the Soviet Union and East Europe are unknown. These regions account for more than 30 percent of the world's nitrogen capacity. Decreases in world supply may result from the closure of inefficient and environmentally unsafe plants in those regions as these countries make the transition to market-based economies.

As a consequence of all of the above, we do not anticipate that the North American fertilizer market will suffer serious disruption when Saferco begins production. Demand for nitrogen fertilizers continues to grow worldwide, but it is questionable whether existing supply capacity will be adequate to meet that demand.

ENVIRONMENTAL ASSESSMENT

Saferco has fully complied with all applicable provincial environmental laws. In fact, we have gone one significant step further, volunteering for a full environmental assessment that is not required by law.

From the beginning, Saferco has worked closely with the provincial government to ensure that all environmental review requirements would be satisfied for this plant. We have complied with all requests for information and have volunteered information when design changes have been contemplated to improve the plant's envi-

ronmental safeguards. Our objective all along has been to set new standards—not just meet existing rules—for environmental protection.

For example, we adopted a policy of zero discharge for liquid effluent. In other words no liquid effluent will be released from the plant site.

The environmental review conducted by the Province of Saskatchewan fully complied with provincial legislative requirements for environmental review. The Saferco project has been subjected to the same review process and requirements imposed on other projects of this type in Saskatchewan.

In the process, Saferco received approval to proceed from Saskatchewan's environment department in 1989. Nevertheless, we at Saferco decided to provide more information to the general public on potential environmental impacts by volunteering for a full environmental impact assessment (EIA). The EIA is nearing completion.

In the course of the EIA process, we have been producing a variety of informational materials for the general public and have sought out public input on the project. Saferco is responding to every reasonable individual's inquiries.

Allegations that the province is somehow circumventing environmental requirements for this project or that the project is less than environmentally sound are wholly without merit. This plant will meet or exceed all Saskatchewan environmental requirements. The environmental controls incorporated in the project reflect the concern that the investing parties have for the environment.

In conclusion, Saferco may prove to be unwelcome competition to other North American producers. But, the competition from Saferco will be fair and honest. The Saferco plant will be clean and efficient and will provide North American farmers with a needed alternative source of supply for a vital input.

Thank you for the opportunity to submit this statement for the record. The attachment rebutting certain allegations made at the hearing follows immediately.

Sincerely,

KERRY HAWKINS, *Chairman, Saferco
Products Inc.*

Attachments.

ATTACHMENT A—MEMORANDUM REBUTTING STATEMENT OF ROBERT C. LIUZZI

On Sept. 20, 1990, the Subcommittee on International Trade of the Senate Committee on Finance held a hearing on the subject of the U.S.-Canada Free Trade Agreement. One of the witnesses, Mr. Robert C. Liuzzi, President of CF Industries, Inc., and Chairman of the Ad Hoc Committee of Domestic Nitrogen Producers (Ad Hoc Committee), delivered a statement (statement) that contained a number of misstatements, factual errors and errors of omission regarding a nitrogen fertilizer plant now under construction near Belle Plaine, Saskatchewan.

This memorandum is submitted by Saferco Products Inc., the owner of that nitrogen project, to rebut those inaccurate and misleading statements and set the record straight. The errors and misrepresentations made on behalf of the Ad Hoc Committee include the following:

THE AD HOC COMMITTEE

The Ad Hoc Committee is composed of eight U.S. companies producing nitrogen fertilizer products. However, the statement neglected to observe that two of the member companies have interests in Canadian nitrogen production facilities.

Mr. Liuzzi and members of the Ad Hoc Committee have stated publicly that they are seeking to prevent the Saferco plant from entering the North American nitrogen market.

NO SUBSIDIES

Contrary to assertions in the statement, no subsidies, countervailable or otherwise, are involved in the financing arrangements for the Saferco nitrogen plant. For example, Mr. Liuzzi suggests that the Saferco loan guarantee violates U.S. countervailing duty principles. However, Mr. Liuzzi neglects to mention in the statement that Saferco is paying a commercial fee to the province that is comparable to prevailing market rates for such loan guarantees. It is settled U.S. countervailing duty law that a loan guarantee is not countervailable if such a commercial fee is paid.

ENVIRONMENTAL ASSESSMENT

Mr. Liuzzi states that significant opposition, "including litigation," arose over the provincial process for environmental assessment and project approval. However, he failed to add several important facts.

First, the litigation that arose sought to compel the disclosure of documents. A Saskatchewan judge dismissed the action, affirming that the Saskatchewan Department of Environment and Public Safety (SEPS) had released all documents in dispute relating to the Saferco project even though it had no obligation to do so.

Second, Mr. Liuzzi fails to disclose that the litigation was funded in part, by Saferco's Canadian competitors, who also oppose increased competition from this project.

Third, Saferco followed every provincial process, regulation and law in seeking approval to build its nitrogen plant. SEPS granted approval in the fall of 1989 for Saferco to proceed with construction.

Despite complying fully with all environmental requirements, after receiving approval to build the plant, Saferco volunteered to prepare a complete environmental impact assessment in an effort to provide more information to the public about this plant. This study is nearing completion.

SAFERCO PRODUCTION CAPACITY

The statement misrepresents Saferco's planned production capacity. Mr. Liuzzi states that Saferco's planned annual production capacity is 560,000 short tons of anhydrous ammonia and 750,000 short tons of urea.

In fact, only 150,000 short tons of anhydrous ammonia will be available for sale each year. The rest will be consumed internally by Saferco in the process of manufacturing urea. This important omission in the statement creates a seriously misleading impression and distorts the true production capacity of the plant.

In total, this plant will produce 445,000 short tons (406,000 metric tons) of nitrogen (N) in the form of ammonia and urea, and will increase North American nitrogen capacity by 2.5 percent.

NORTH AMERICAN NITROGEN USE

Another misstatement relates to our competitors' claim that the North American nitrogen market has entered a low-growth period. Fertilizer consumption figures from the Tennessee Valley Authority (TVA) and Statistics Canada show that the North American nitrogen use bottomed out in the 1986/87 fertilizer year. (Attachments A.1 and A.2)

North America's annual nitrogen use has increased from 10.4 million metric tons nitrogen (mmt N) in 1986/87 to 10.8 mmt N in 1988/89. This increase in annual use of 400,000 mt N is equivalent to the nitrogen production capacity of the Saferco plant.

Official consumption statistics for the 1989/90 fertilizer year are not yet available, but several industry analysts estimate that North American nitrogen use exceeded 11.2 mmt N, an increase equivalent to the capacity of yet another plant the same size as Saferco. For example, Isherwood and Maene of the International Fertilizer Industry Association, relying on inputs from analysts worldwide, projected North American nitrogen use of 11.3 mmt N at a meeting in June 1990. (Attachment A.3)

Furthermore, both the U.S. and Canadian nitrogen industries are operating at extremely high rates. For example, in the past two fertilizer years, the U.S. industry has operated at 94 to 98 percent of capacity. The Canadian industry has operated at 96 to 102 percent of capacity. (Attachments A.4 and A.5) Additional increases in demand in the 1990s will have to be met by either imports or new capacity.

MARKET NEED AND COMMERCIAL VIABILITY

Contrary to our competitors' claims, several independent industry experts forecast that the world nitrogen fertilizer market is getting tighter, providing an economic need for another world-scale nitrogen fertilizer plant in North America.

For example, in May the Fertilizer Working Group, an expert committee made up of representatives from the World Bank, United Nations and private industry, projected that nitrogen demand would rise from 97.5 percent of maximum potential world supply in 1988/89 to 98.7 percent in 1994/95. (Attachment A.6)

Even the Blue, Johnson and Associates' NPKS Marketing Report cited in our competitors' testimony projected that the world nitrogen supply/demand balance will tighten in the 1990s. Their report concludes that even with the addition of new capacity equal to 38 plants the size of Saferco, growth in nitrogen demand would still result in a deficit, of 0.4-2.0 mmt N by 1995. (Attachment A.7)

It should be noted that each of these reports, including the one cited by our competitors, was completed before the recent developments in the Middle East. This is especially noteworthy because large additions in capacity were planned in Iraq and other Middle Eastern countries. Most of these projects will likely be delayed or canceled—further tightening the world nitrogen supply/demand balance. (Attachment A.8)

In addition, these studies do not fully account for the potential decreases in supply from the Soviet Union and East Europe that may result from the political changes and economic reforms that have occurred in the past year. The Soviet Union and East Europe account for more than 30 percent of the world's nitrogen capacity. (Attachment A.9)

NATURAL GAS RESOURCES

The statement also said incorrectly that natural gas currently supplied to other commercial users may be diverted to Saferco and that this aspect of the plant's operations has not been publicly described. Neither of these statements is accurate.

Any volume available for export must be in excess of reserves contracted or directly owned by local consumers. In fact, Saskatchewan gas producers export more than five times the amount of natural gas that Saferco will require each year. (Attachment A.10)

COMMERCIAL FERTILIZERS

TOTAL U.S. FERTILIZER CONSUMPTION 44.9 MILLION TONS IN 1989

U.S. fertilizer consumption for the 1988-89 year was 44.9 million tons of material—an increase of less than one percent from the previous year. The average plant nutrient content of all fertilizers decreased slightly as total plant nutrient consumption declined from 19.61 million to 19.59 million tons of N, P₂O₅, and K₂O.

Total nitrogen consumption increased one percent to 10.63 million tons, while P₂O₅ use decreased by less than one percent to 4.12 million tons. Potash consumption declined from 4.97 million tons to 4.83 million tons K₂O—a 2.8 percent decrease.

Consumption patterns varied widely from state to state as weather conditions adversely affected fertilizer application even with significant increases in total planted crop acreage. Illinois, Indiana, Iowa, Minnesota, and Ohio reported a decline in total plant nutrient application while several of the southeastern states registered an increase in consumption.

Nutrient levels in mixed fertilizers remained unchanged as slight gains in the nitrogen and P₂O₅ content were offset by a decline in K₂O. Consumption of ammonium polyphosphate solution (10-34-0) and monoammonium phosphates increased 9.2 percent and 12.8 percent respectively, while diammonium phosphate (18-46-0) use was 2.4 percent below last year.

A general increase in the use of nitrogen materials was reported with the exception of nitrogen solutions which declined 2.1 percent from 1987-88. Urea consumption rose almost 2 percent, ammonium nitrate was up 8.1 percent, and ammonium sulfate recorded a 9.5 percent gain in consumption. Anhydrous ammonia use was only 35,000 tons above last year.

NFDC



N.L.HARGETT J.T.BERRY S.L.McKINNEY

ECONOMICS AND MARKETING
NATIONAL FERTILIZER DEVELOPMENT CENTER
TENNESSEE VALLEY AUTHORITY
MUSCLE SHOALS, ALABAMA 35660
(205) 388-3551

1989

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TABLE 1 - U.S. CONSUMPTION OF FERTILIZERS AND PLANT NUTRIENTS
YEARS ENDING JUNE 30, 1960 - 1989

TOTAL CONSUMPTION								
GROSS TONNAGES				PRIMARY NUTRIENT CONTENT				
MULTIPLE-NUTRIENT MATERIAL	SINGLE-NUTRIENT MATERIAL	SECONDARY & MICRO-NUTRIENTS	TOTAL	N	AVAILABLE P2O5	K2O	TOTAL	
1,000 SHORT TONS								
1960	15,650	7,850	1,378	24,877	2,738.0	2,572.4	2,153.3	7,463.7
1961	15,735	8,639	1,194	25,567	3,030.8	2,645.1	2,168.5	7,844.4
1962	16,205	9,100	1,310	26,615	3,370.0	2,807.0	2,275.5	8,447.5
1963	17,157	10,229	1,459	28,844	3,929.1	3,072.9	2,503.4	9,505.4
1964	18,093	11,113	1,475	30,681	4,352.8	3,377.8	2,729.7	10,460.3
1965	18,559	11,756	1,521	31,836	4,638.5	3,512.2	2,834.5	10,985.2
1966	19,659	13,412	1,461	34,532	5,326.3	3,897.1	3,221.2	12,444.6
1967	21,132	14,552	1,397	37,081	6,027.1	4,304.7	3,641.8	13,973.6
1968	21,294	15,832	1,617	38,743	6,787.6	4,453.3	3,792.6	15,033.5
1969	21,234	16,380	1,334	38,949	6,957.6	4,665.6	3,891.6	15,514.8
1970	20,961	17,331	1,297	39,589	7,459.0	4,573.8	4,035.5	16,068.3
1971	21,513	18,389	1,216	41,118	8,133.6	4,803.4	4,231.4	17,168.4
1972	21,511	18,385	1,310	41,206	8,022.3	4,863.7	4,326.8	17,212.8
1973	22,547	19,275	1,466	43,288	8,295.1	5,085.2	4,648.7	18,029.0
1974	24,067	20,897	2,130	47,094	9,157.2	5,098.6	5,082.6	19,338.4
1975	20,647	19,959	1,878	42,484	8,600.8	4,506.8	4,453.2	17,560.9
1976	22,958	23,935	2,296	49,189	10,411.6	5,227.6	5,209.7	20,848.8
1977	24,099	24,999	2,525	51,624	10,647.4	5,629.7	5,833.8	22,110.9
1978	22,110	23,511	1,877	47,497	9,964.6	5,096.1	5,526.1	20,586.9
1979	23,742	25,600	2,139	51,480	10,714.7	5,605.8	6,244.5	22,565.1
1980	23,270	27,221	2,296	52,787	11,406.7	5,431.5	6,245.1	23,083.3
1981	23,525	28,236	2,227	53,988	11,923.8	5,434.4	6,319.5	23,677.7
1982	20,857	26,054	1,758	48,669	10,983.1	4,813.9	5,630.9	21,427.9
1983	18,352	21,851	1,610	41,813	9,127.0	4,137.5	4,831.0	18,095.5
1984	21,174	26,928	1,954	50,056	11,092.2	4,901.1	5,796.8	21,790.1
1985	20,711	26,967	1,971	49,109	11,492.6	4,657.6	5,552.5	21,702.6
1986	17,790	24,662	1,620	44,071	10,424.4	4,177.9	5,052.6	19,654.9
1987	17,144	24,145	1,675	42,964	10,209.5	4,008.3	4,836.5	19,054.3
1988	17,574	25,106	1,847	44,527	10,511.6	4,128.5	4,972.7	19,612.8
1989	17,548	25,298	2,056	44,903	10,633.1	4,124.3	4,832.5	19,589.9

ATTACHMENT A.2

Table 2.14 Total Fertilizer Material Used and Nutrient Content, All Canada
Year Ended June 30

Year	Fertilizer Material	Nutrient Content			All Nutrients (N + P + K)
		Nitrogen (N)	Phosphate (P ₂ O ₅)	Potash (K ₂ O)	
(All figures in metric tonnes)					
1989	4,048,225	1,160,166	614,369	356,142	2,130,677
1988	4,241,298	1,187,653	634,475	404,040	2,226,168
1987	4,068,656	1,144,537	626,259	369,890	2,140,686
1986	4,299,991	1,220,721	695,110	370,209	2,286,040
1985	4,434,637	1,254,411	726,279	401,837	2,382,527
1984	4,243,300	1,157,500	712,700	370,300	2,240,500
1983	3,842,400	1,001,900	651,700	342,100	1,996,200
1982	3,741,600	965,900	636,300	343,600	1,945,800
1981	3,758,300	937,800	635,100	365,600	1,938,500
1980	3,571,600	831,100	627,700	348,900	1,807,700
1979	3,671,100	834,400	630,400	330,400	1,794,800
1978	3,266,700	755,300	593,600	275,900	1,624,800
1977	2,828,756	599,120	503,180	234,231	1,336,531
1976	2,780,383	586,092	502,657	242,077	1,330,826
1975	2,676,410	531,286	501,765	206,812	1,239,863
1974	2,608,623	512,643	494,230	202,039	1,208,912
1973	2,260,778	409,748	415,294	190,708	1,015,750
1972	1,972,120	334,420	340,813	248,929	924,162
1971	1,915,045	323,084	326,387	184,333	833,804
1970	1,699,834	269,830	284,013	176,129	729,992
1969	1,721,491	251,839	315,530	168,307	735,676
1968	2,079,921	320,842	399,245	166,105	886,192
1967	1,980,785	276,700	373,954	161,608	812,262
1966	1,739,855	218,210	333,473	141,828	693,511

Source: Summation of figures from Tables 2.8 to 2.13 inclusive.
 (1966-1977) Originally derived from Statistic Canada "Fertilizer
 Trade" (Stat. Can. Catalogue 46-207)
 (1978-1989) Regional fertilizer associations and the Potash and
 Phosphate Institute

ATTACHMENT A.3

**THE MEDIUM TERM OUTLOOK
FOR THE SUPPLY AND DEMAND
OF FERTILIZERS AND RAW MATERIALS**

by K.F. Isherwood and L.M. Maene

IFA Annual Conference
Vancouver, May 1990

COUNTRY		AUSTRIA	BELG/LUX	DENMARK	FINLAND	FRANCE	GERMANY WEST	GREECE	ICELAND	IRELAND	ITALY	NETHERL.	NORWAY
	Note :												
1987/88 + 1987	H	131.5	199.0	367.0	214.0	2537.1	1661.4	380.0	11.4	339.3	1076.1	450.1	111.2
1987/88 + 1987	P205	69.4	87.0	95.5	156.7	1005.1	679.4	163.9	6.5	182.7	821.5	79.5	45.1
1987/88 + 1987	K20	97.9	131.0	143.3	151.1	1766.2	864.0	52.7	5.0	179.1	444.2	97.0	73.1
1988/89 + 1988	H	141.0	197.0	377.0	211.2	2603.0	1539.9	415.6	11.5	349.0	907.0	435.0	110.0
1988/89 + 1988	P205	73.2	90.0	92.0	141.4	1460.0	643.5	173.0	5.9	148.0	710.0	82.5	39.0
1988/89 + 1988	K20	106.2	132.0	148.0	139.3	1924.7	887.1	59.3	6.5	193.6	446.0	102.7	67.6
1989/90 + 1989	H	142	195	390	200	2575	1520	400	12	349	994	411	107
1989/90 + 1989	P205	72	88	91	140	1433	625	177	7	140	715	80	30
1989/90 + 1989	K20	100	130	146	139	1875	850	69	5	194	450	99	64
1990/91 + 1990	H	144	180	325	195	2575	1500	400	12	346	1027	394	105
1990/91 + 1990	P205	74	85	85	130	1440	620	170	7	145	720	70	37
1990/91 + 1990	K20	102	130	132	135	1800	850	68	5	190	450	95	63
1991/92 + 1991	H	145	180	300	190	2550	1485	420	12	346	1030	370	102
1991/92 + 1991	P205	75	85	82	120	1420	590	175	7	145	720	76	36
1991/92 + 1991	K20	103	130	130	130	1850	830	70	5	190	453	91	61
COUNTRY		PORTUGAL	SPAIN	SWEDEN	SWITZERL.	U.K.	WEST EUROPE	CANADA	USA	NORTH AMERICA	ARGENT.		
	Note :												
1987/88 + 1987	H	149.5	1147.1	241.2	72.6	1525.0	10591.1	1160.2	9535.9	10696.1	94.5		
1987/88 + 1987	P205	83.9	537.4	76.4	40.4	435.0	4925.4	634.5	3745.3	4379.0	60.3		
1987/88 + 1987	K20	45.7	365.5	83.1	64.3	524.0	5179.2	485.6	4511.1	4916.7	13.1		
1988/89 + 1988	H	156.5	1121.2	223.3	71.5	1462.0	10413.3	1107.7	9646.1	10033.0	99.1		
1988/89 + 1988	P205	89.1	530.3	70.0	40.0	433.0	4822.5	614.4	3741.6	4356.0	51.2		
1988/89 + 1988	K20	48.9	372.6	73.0	66.0	521.0	5296.5	357.0	4302.9	4740.9	12.2		
1989/90 + 1989	H	130	1075	220	73	1440	10217	1225	10030	11265	39		
1989/90 + 1989	P205	77	518	62	39	430	4735	632	3700	4412	43		
1989/90 + 1989	K20	44	356	69	64	520	5174	372	4540	4912	11		
1990/91 + 1990	H	151	1136	210	70	1430	10200	1265	10000	11305	105		
1990/91 + 1990	P205	82	542	57	36	420	4736	691	3020	4511	50		
1990/91 + 1990	K20	47	359	57	64	517	5136	445	4620	5065	12		
1991/92 + 1991	H	154	1154	217	70	1420	10149	1290	10050	11340	121		
1991/92 + 1991	P205	83	554	55	36	426	4695	701	3020	4521	61		
1991/92 + 1991	K20	48	365	56	60	514	5090	456	4640	5096	16		

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ATTACHMENT A.4Canadian Nitrogen Operating Rates
1000 short tons NH₃ (ammonia)

	<u>1988/89</u>	<u>1989/90</u>
Production	4256	3793
Capacity (Average of calendar years)	4178	3933
Operating Rate (percent)	101.9	96.4

Source: Canadian Fertilizer Institute, Production Summary Report, Fertilizer Materials and Related Products; Statistics Canada, Canadian Production of Fertilizer Materials; and Blue, Johnson & Associates, Canada Ammonia Production Capacity

CANADIAN PRODUCTION OF FERTILIZER MATERIALS

JULY - JUNE
 1988 vs 1989
 (Metric Tonnes)

	<u>1988</u>	<u>1989</u>	<u>%Change</u>
ANHYDROUS AMMONIA	3,780,000	4,255,560	+12.5
UREA	2,258,988	2,459,086	+8.8
AMMONIUM NITRATE	826,613	1,026,125	+24.1
WET PROCESS PHOSPHORIC ACID (100% of P ₂ O ₅)	446,953	500,571	+12.0
AMMONIUM PHOSPHATE	913,173	970,735	+6.3
MURIATE OF POTASH (K ₂ O)	7,841,264	8,088,931	+3.2

SOURCES: Statistics Canada
 P.P.I.

Page No. 1
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89-07 TO 90-06 VS 88-07 TO 89-06

CANADIAN FERTILIZER INFORMATION SYSTEM
FERTILIZER MATERIALS & RELATED PRODUCTS
PRODUCTION SUMMARY REPORT - (Metric Tonnes)

PRODUCT	PREVIOUS PERIOD	CURRENT PERIOD	PERCENT CHANGE
ANHYDROUS AMMONIA	0	5793205	100.0
EAST	0	623471	100.0
WEST	0	3169734	100.0
AMMONIUM NITRATE SOLID	0	782885	100.0
UREA SOLID	0	2357115	100.0
AMMONIUM SULPHATE	0	388649	100.0
AMMONIUM PHOSPHATE	0	852528	100.0
MURIATE OF POTASH	0	11121341	100.0
AMMONIUM NITRATE LIQUOR	0	1010462	100.0
UREA LIQUOR	0	2489439	100.0
PHOSPHORIC ACID	0	404926	100.0

SUMMARY

CD-3

February 20, 1983

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BLUE, JOHNSON & ASSOCIATES

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CANADA AMMONIA PRODUCTION CAPACITY (YE)

COMPANY, LOCATION	1900 STATUS	1980	1981	1982	1983	1984	1985	SHORT TONS (MTPY NH3)		1989	1990	1991	1992	1993	1994	1995
								1986	1987							
ALBERTA GAS CHEMICALS																
MEDICINE HAT, AB	SP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	410
CANADIAN OS																
ROSETOWN, SK	SP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	150
CANADIAN FERTILIZERS (CF INDUSTRIES, MCFI)																
MEDICINE HAT, AB I	OPR	450	450	450	450	450	460	460	460	475	475	475	475	475	475	475
MEDICINE HAT, AB II	OPR	450	450	450	450	450	460	460	460	475	475	475	475	475	475	475
CIL																
COURTRIGHT, ON I	CL-MB	400	400	400	400	400	400	400	400	400	-	-	-	-	-	-
COURTRIGHT, ON II	OPR	-	-	-	-	-	440	440	440	450	450	450	450	450	450	450
COURTRIGHT, ON III-IV	CL-MB	65	65	65	-	-	-	-	-	-	-	-	-	-	-	-
COMINCO																
CALGARY, AB	CL-MB	110	110	110	110	110	110	110	-	-	-	-	-	-	-	-
CARSELAND, AB	OPR	450	450	450	450	450	450	450	450	450	450	450	450	450	450	450
JOFFRE, AB	OPR	-	-	-	-	-	-	-	385	385	385	385	385	385	385	385
TRAIL, BC	CL-MB	70	70	70	70	70	70	70	70	-	-	-	-	-	-	-
CYAMAMID																
MELLAND, ON	OPR	245	245	245	245	245	245	245	245	245	245	245	245	245	245	245
ESSO																
REDWATER, AB I	CL-MB	250	250	250	250	250	250	-	-	-	-	-	-	-	-	-
REDWATER, AB II	OPR	-	-	-	650	650	650	650	700	700	700	700	700	700	700	700
GLACIER AMMONIA																
PINCHER CREEK, AB	CL-MB	-	-	-	-	-	-	70	140	140	-	-	-	-	-	-
NITROCHEM																
MAITLAND, ON	OPR	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85
OCELOT																
KITIMAT, BC	OPR	-	-	-	-	-	-	-	210	210	210	210	210	210	210	210
PEACE RIVER FERTILIZERS																
PEACE RIVER, AB	OPR	-	-	-	-	-	-	-	-	35	35	35	35	35	35	35
SAFERCO																
BELLE PLAINE, SK	SP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	560
SHERRITT																
FT. SASKATCHEWAN, AB I	OPR	165	165	165	165	165	165	165	165	165	165	165	165	165	165	165
FT. SASKATCHEWAN, AB II	OPR	-	-	-	360	360	375	440	440	440	440	440	440	440	440	440
SIMPLOT																
BRANDON, MB I	OPR	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110
BRANDON, MB II	OPR	-	-	110	110	110	110	110	110	110	110	110	110	110	110	110
WESTERN COOPERATIVE FERTILIZERS																
CALGARY, AB	CL-MB	65	65	65	65	65	65	65	-	-	-	-	-	-	-	-
MEDICINE HAT, AB	CL-EGM	65	65	65	65	65	65	65	-	-	-	-	-	-	-	-
SEE ALSO CANADIAN FERTILIZERS																
TOTAL AMMONIA CAPACITY (EX-SP)		2980	2980	3090	4035	4035	4510	4395	4870	4875	4335	4335	4335	4335	4335	4335

PLANT STATUS CODES: OPR = operating or operational (may have been idle for part of year). OPR-RV = operating or operational, undergoing or to undergo major revamp. OPR-ID = operating or operational, but primarily idle. CL = closed (assumed permanently). CL-MB = closed, equipment moth-balled (may be for sale). CL-EGM = closed, equipment gone (e.g., sold, scavenged, demolished). AP = active project. AP-BLD = active project, construction underway. AP-FNC = active project, financing in hand but construction not started. SP = speculative project. SLD = complex sold to another company. UN = unknown current status of existing plant.

METRIC
TONS 4423 3933 3933

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ATTACHMENT A.5U.S. Nitrogen Operating Rates
1000 short tons NH₃ (ammonia)

	<u>1988/89</u>	<u>1989/90</u>
Production	17103	16566
Capacity (Average of calendar years)	17533	17601
Operating Rate (percent)	97.6	94.1

Source: U.S. Department of Commerce, Current Industrial Reports, Fertilizer Materials; and Blue, Johnson & Associates, U.S. Ammonia Production Capacity

Fertilizer Materials



U.S. Department of Commerce
BUREAU OF THE CENSUS

JUNE 1990

M288(90)-6
Issued August 1990

The statistics in this report are based on a survey of producers of sulfuric acid, inorganic fertilizer chemicals, and phosphatic fertilizer materials. The statistics represent total production and stocks of U.S. manufacturers of nitric acid, sulfuric acid, ammonia, and phosphatic fertil-

izer materials. Estimates are included for companies whose reports were not received in time for tabulation. A description of the survey methodology and related information may be found in the January 1990 report for this series, M288(90)-1, issued April 1990.

This report is available electronically in CENDATA, the Bureau's online information service through a commercial vendor. The electronic version of this report will be available approximately one week earlier than the printed report. The CENDATA report for July 1990 will be released on or about September 10, 1990. For further information, contact Customer Services, DUSD, Bureau of the Census, Washington, D.C. 20233, or call (301) 763-1100. Statistics on production of inorganic fertilizer materials, by state, are no longer presented. This information can be requested at the address and telephone number listed below.

Table 1. SUMMARY OF PRODUCTION OF PRINCIPAL INORGANIC FERTILIZERS: 1988 TO 1990
(1,000 short tons)

Month and year	Ammonia, synthetic (28731 311) (1002)	Ammonia nitrate, original solution (18731 30) (1002)	Ammonia sulfate (28731 56) (1002)	Urea (18731 00) (1002)	Nitric acid (18731 12) (1002)	Phosphoric acid (18731 01) (1002 P ₂ O ₅)	Sulfuric acid, gross (28131 00) (1002)	Phosphatic fertilizer materials (18131 00) (1002 P ₂ O ₅)
Year-to-date								
July 1989 to June 1990.....	16,566	7,583	2,423	7,703	7,917	11,706	43,377	8,359
July 1988 to June 1989.....	17,103	7,896	2,393	8,033	8,061	11,716	43,297	8,333
1990								
Fertilizer year (July 1989 -								
June 1990).....	16,566	7,583	2,423	7,703	7,917	11,706	43,377	8,359
June.....	1,341	346	190	603	623	956	3,354	640
May.....	1,439	416	232	663	689	1,026	3,759	704
April.....	1,815	643	278	693	680	1,019	3,823	726
March.....	1,506	497	212	655	725	1,016	3,723	748
February.....	1,375	606	206	638	661	931	3,424	632
January.....	1,439	675	200	697	699	990	3,436	697
1989								
Total.....	16,823	7,964	2,334	7,753	8,016	11,344	43,410	8,327
December.....	1,321	428	173	623	671	930	3,601	634
November.....	1,400	640	200	397	633	900	3,613	727
October.....	1,390	473	184	425	661	1,012	3,716	743
September.....	1,292	396	181	606	593	958	3,341	678
August.....	1,268	606	193	567	616	971	3,692	699
July.....	1,300	635	198	630	640	927	3,504	691
Fertilizer year (July 1988-								
June 1989).....	17,103	7,896	2,393	8,033	8,061	11,716	43,297	8,333
June.....	1,433	665	201	603	608	848	3,291	644
May.....	1,505	724	206	496	714	963	3,687	743
April.....	1,671	718	207	702	701	944	3,639	771
March.....	1,684	714	199	726	713	1,043	3,823	777
February.....	1,342	647	186	648	690	936	3,496	630
January.....	1,329	726	201	721	726	1,007	3,790	744
1988								
Total.....	16,821	7,504	2,323	7,814	7,991	12,677	43,141	7,970
December.....	1,510	695	210	713	724	1,074	3,890	773
November.....	1,390	634	207	673	670	966	3,444	718
October.....	1,327	620	212	678	662	1,013	3,444	756
September.....	1,260	543	167	622	583	931	3,414	634
August.....	1,379	597	190	633	645	990	3,320	678
July.....	1,432	593	188	630	633	944	3,439	638

Note: Data for inorganic fertilizer figures for 1989 and 1988 have been revised based on the results of the reconciliation between this report and the 1988 annual report, M288(88)-1, issued November 1989.

Address inquiries concerning these figures to U.S. Department of Commerce, Bureau of the Census, Industry Division, Washington, D.C. 20233, or call Gisela B. Hoffman, (301) 763-7807.

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NH3CAP

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BLUE, JOHNSON & ASSOCIATES

U.S. AMMONIA PRODUCTION CAPACITY (YE)
(Mtpy NH3)

COMPANY, LOCATION	1990 STATUS	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
UNOCAL																	
BREA, CA	CL	260	260	260	260	260	260	260	260	260	-	-	-	-	-	-	-
KEHAI, AK I	OPR	570	570	570	570	570	570	570	570	570	570	570	570	570	570	570	570
KEHAI, AK II	OPR	570	570	570	570	570	570	570	570	570	570	570	570	570	570	570	570
PARACHUTE CREEK, CO	OPR-ID	-	-	-	-	-	-	12	12	12	12	12	12	12	12	12	12
USA PETROCHEMICAL																	
VENTURA, CA	CL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USAC																	
CHEROKEE, AL	SLD	175	175	175	175	175	175	-	-	-	-	-	-	-	-	-	-
CLAIRTON, PA	CL-EGM	275	275	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GENEVA, UT	CL-EGM	70	70	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VALLEY NITROGEN																	
CHANDLER, AZ	SLD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NELM, CA	SLD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EL CENTRO, CA	SLD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIGORO																	
E. DUBUQUE, IL	OPR	-	-	-	-	-	-	-	270	270	270	270	270	270	270	270	270
VULCAN MATERIALS																	
VICHITA, KS	CL-EGM	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
WILGRO																	
PRYOR, OK	OPR	-	-	-	-	-	-	-	90	90	90	90	90	90	90	90	90
LYCOM -- SEE COASTAL CHEM																	
TOTAL AMMONIA CAPACITY		20808	20741	19584	18189	18734	18761	17693	17564	17494	17571	17631	17771	17771	18276	18276	18276

PLANT STATUS CODES: OPR = operating or operational (may have been idle for part of year). OPR-RV = operating or operational, undergoing or to undergo major revamp. OPR-ID = operating or operational, but primarily idle. CL = closed (assumed permanently). CL-MB = closed, equipment moth-balled (may be for sale). CL-FSL = closed, equipment for sale. CL-EGM = closed, equipment gone (e.g., sold, scavenged, demolished). AP = active project (under construction and/or financing completed). SP = speculative project. SLD = complex sold to another company. UN = unknown current status of existing plant.

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ATTACHMENT A.6

World Bank May 21, 1990

13

WORLD AND REGIONAL NITROGEN SUPPLY DEMAND BALANCES '000 TONS N

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
ALL DEVELOPED M.E.							
NH3 Nominal Capacity	32,878	32,593	32,870	32,882	33,208	33,262	33,264
NH3 Supply Capability	30,784	30,407	30,902	31,028	31,207	31,381	31,436
NH3 Industrial Use	6,852	6,914	6,971	7,023	7,075	7,122	7,164
Losses	1,925	1,879	1,914	1,920	1,931	1,941	1,942
NH3 Available for Fert.	22,017	21,614	22,017	22,085	22,201	22,318	22,330
Non-NH3 Nitrogen	320	320	320	320	320	320	320
N Fert. Supply Potential	22,337	21,934	22,337	22,405	22,521	22,638	22,650
N Fert. Consumption	23,170	23,680	23,740	23,790	23,850	23,890	23,940
Surplus (-Deficit)	(833)	(1,746)	(1,403)	(1,385)	(1,329)	(1,252)	(1,290)
ALL DEVELOPING M.E.							
NH3 Nominal Capacity	28,268	28,975	29,559	30,547	33,599	35,075	35,619
NH3 Supply Capability	22,054	23,293	24,222	24,969	26,496	28,201	29,159
NH3 Industrial Use	643	666	688	710	733	756	775
Losses	1,713	1,810	1,883	1,941	2,061	2,196	2,271
NH3 Available for Fert.	19,698	20,817	21,651	22,318	23,702	25,249	26,113
Non-NH3 Nitrogen	45	45	45	45	45	45	45
N Fert. Supply Potential	19,743	20,862	21,696	22,363	23,747	25,294	26,158
N Fert. Consumption	20,250	21,130	22,150	23,190	24,290	25,410	26,640
Surplus (-Deficit)	(507)	(268)	(454)	(827)	(543)	(116)	(482)
ALL CENT. PLANNED EC.							
NH3 Nominal Capacity	54,769	55,284	56,795	57,535	58,105	59,185	59,635
NH3 Supply Capability	45,334	45,770	45,548	46,103	46,647	47,306	47,675
NH3 Industrial Use	2,480	2,510	2,540	2,570	2,600	2,630	2,670
Losses	3,428	3,461	3,441	3,483	3,524	3,574	3,600
NH3 Available for Fert.	39,426	39,799	39,567	40,050	40,523	41,102	41,405
Non-NH3 Nitrogen	195	195	195	195	195	195	195
N Fert. Supply Potential	39,621	39,994	39,762	40,245	40,718	41,297	41,600
N Fert. Consumption	36,160	36,100	36,500	36,900	37,500	38,100	38,700
Surplus (-Deficit)	3,461	3,894	3,262	3,345	3,218	3,197	2,900
WORLD TOTAL							
NH3 Nominal Capacity	115,915	116,852	119,224	120,964	124,912	127,522	128,518
NH3 Supply Capability	98,172	99,470	100,672	102,100	104,350	106,888	108,270
NH3 Industrial Use	9,975	10,090	10,199	10,303	10,408	10,508	10,609
Losses	7,056	7,150	7,238	7,344	7,515	7,710	7,813
NH3 Available for Fert.	81,141	82,230	83,235	84,453	86,427	88,670	89,848
Non-NH3 Nitrogen	560	560	560	560	560	560	560
N Fert. Supply Potential	81,701	82,790	83,795	85,013	86,987	89,230	90,408
N Fert. Consumption	79,580	80,310	82,390	83,880	85,640	87,400	89,280
Surplus (-Deficit)	2,121	1,880	1,405	1,133	1,347	1,830	1,128

ATTACHMENT A.7



BLUE, JOHNSON & ASSOC.

NPKS MARKETS REPORT, JANUARY 1990

AMMONIA — UREA:
WORLD SUPPLY — DEMAND — TRADE
OUTLOOK TO 1995

WORLD DEMAND

- Recent projections of growth in world nitrogen chemical demand out to 1995 are summarized below and overleaf. The projections by FAO for fertilizer approximate a growth rate in a 2-2.5% per year range. (A few more aggressive prognosticators suggest fertilizer growth rates may be even higher, e.g., at 3-3.5% per year, but these seem unlikely.) Translated back to output from the world's ammonia production capability, an additional 17-19 MMtpy of NH₃ output will be required in 1995 (over 1988) to satisfy demand at these forecast levels.
- As has been the case so far in the 1980s, most demand growth has been forecast to occur for fertilizer use in the developing agricultural economies of Latin America, USSR, Africa, and Asia. Most published forecasts have shown only nominal increases in the developed agricultural economies of North America, West Europe, and Japan from a "depressed" 1988 base, but with no net growth relative to past peaks in 1980-81. Flat trends in parts of North America and Europe (West and East) may actually prove optimistic if the growing tide of concern about high N application rates and water quality effectively serve to improve the efficiency of nitrogen/soil management systems.

WORLD NITROGEN SUPPLY-DEMAND BALANCE

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1992
CONSUMPTION										
FERTILIZERS									(est)	88.5
MMtoes N (a)	60.1	60.8	61.8	63.9	69.1	70.3	71.3	76.0	74.0	89.5
MMtoes NH ₃ (b)	83.3	84.3	85.6	88.6	95.8	97.4	98.8	105.3	102.5	122.5
ALL OTHER (c)										16.0
MMtoes NH ₃	10.0	11.9	7.6	9.1	13.3	12.6	10.7	10.8	18.6	17.0
TOTAL (c)										138.5
MMtoes NH ₃	93.3	96.2	93.2	97.7	109.1	110.0	109.5	116.1	121.1	141.0
AMMONIA PRODUCTION (c)										
MMtoes NH ₃	93.3	96.2	93.2	97.7	109.1	110.0	109.5	116.1	121.1	138.5
APPARENT SURPLUS (DEFICIT) (c)										
MMtoes NH ₃	-	-	-	-	-	-	-	-	-	0-(2.5)

(a) Based on FAO historical data bases and forecasts.

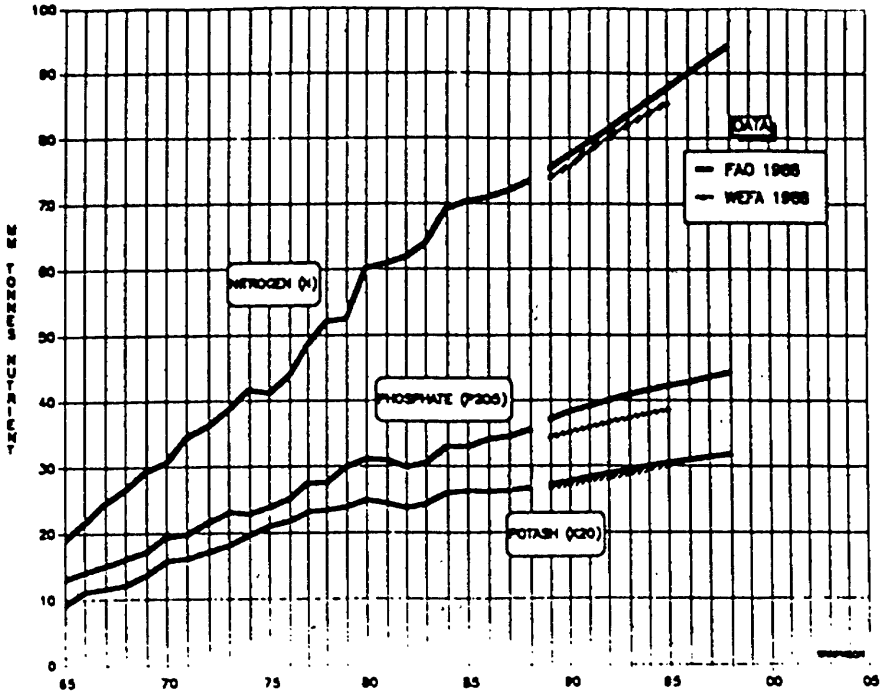
(b) Blue, Johnson estimates assuming an overall world average 12% loss (manufacturing, distribution) between basic ammonia production and final nitrogen fertilizer product consumption (i.e., 88% average yield on NH₃ production).

(c) In this simplified analysis, ammonia production is assumed to equal total consumption (which it does over time, but not necessarily annually). Thus, the "All Other" data are derived by difference and include the associated variances in the data base as well as actual NH₃ equivalent consumption for nitrogen in feeds, explosives, polymers, etc.

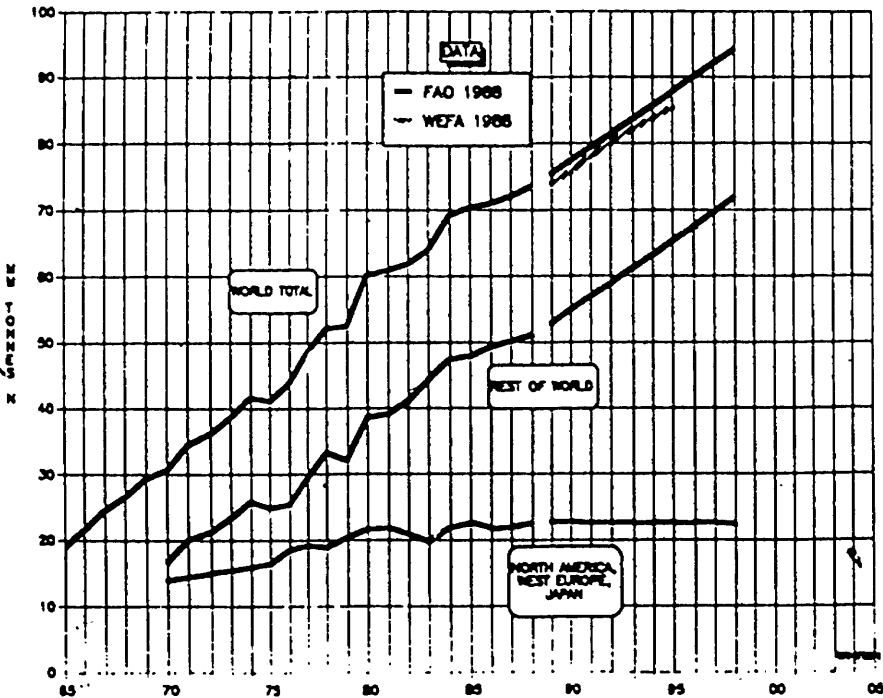
REPORTED NITROGEN FERTILIZER CONSUMPTION (FAO)
(MMtonnes N)

	1980	1987	▲ 1980 → 1987 BY GENERAL TREND				Total
			I	↔	I	II	
NORTH AMERICA	11.18	10.41		-0.77			
MEXICO	0.90	1.35	0.44				
OTHER CENTRAL AMERICA-CARIB	0.79	1.22	0.43				
BRAZIL	0.91	0.96				0.05	
OTHER LATIN AMERICA	0.26	0.47	0.21				
WEST EUROPE	9.56	10.69	1.13				
EAST EUROPE	4.84	5.09	0.24				
USSR	8.26	11.79	3.53				
AFRICA	1.81	1.89	0.08				
WEST ASIA	1.17	2.20	1.03				
INDIA	3.44	5.77	2.33				
OTHER SOUTH CENTRAL ASIA	1.24	2.04	0.80				
JAPAN, SKOREA, TAIWAN	1.48	1.38			-0.10		
CHINA	11.84	16.99	5.15				
OTHER EAST ASIA	2.07	3.37	1.30				
OCEANIA	0.28	0.41	0.13	---	---	---	
TOTAL	60.05	76.02	16.80	-0.77	-0.10	-0.05	15.97
NH ₃ Equivalents(a)	83.22	105.35	23.28	-1.07	-0.14	-0.07	22.13
ANNUAL AVERAGE			2.40	-0.11	-0.01	<0.01	2.28
NH ₃ Equivalents(a)			3.33	-0.15	-0.02	-0.01	3.16

(a) Assumes overall world average of 12% loss (manufacturing, distribution) between basic ammonia feedstock production and final nitrogen fertilizer product consumption (i.e., 88% average marketplace yield on NH₃ production).



WORLD NITROGEN FERTILIZER CONSUMPTION



**WORLD NITROGEN SUPPLY-DEMAND
(MMTONNES NH3 EQUIVALENTS)**

	<u>1988</u>		<u>1995</u>
TOTAL NITROGEN DEMAND	121	18 20 →	139-141

TOTAL AMMONIA CAPACITY

IN-PLACE	143		143
'FIRM' GROWTH		→	19
TOTAL	143		162

TOTAL AMMONIA PRODUCTION

FROM IN-PLACE			
+ 'FIRM' GROWTH	121	17 →	139
AVG OP RATE	85%	1% →	86%

APPARENT SHORTEALL

PRODUCTION	NA		0.5-2.5
CAPACITY	NA		0.6-2.9
NO. PLANTS			
@ 500 Mtpy	NA		1-6
WILL THEY BE BUILT ?			YOU BET !

WORLD SUPPLY

1. World anhydrous ammonia capacity will increase from 143 MMtpy NH₃ in 1988 to at least 162 MMtpy NH₃ in 1995 (about 13%), based on active construction and projects (about 15 MMtpy of the net increase) plus expansions via revamps & recommissionings (about 4 MMtpy of the net increase). Over the same time frame, production capability is expected to increase 14% as a function of this known capacity growth plus real improvement in the world's average operating capability (due to experience, revamps, more reliable infrastructure, etc.). Thus, total output potential from this known capacity base is expected to approximate about 139 MMtpy NH₃ by 1995, i.e., 0.5-2.5 MMtonnes short of the projected requirement. This shortfall equates to 1-6 new world scale ammonia plants.
2. In addition to active projects/expansions, a huge roster of speculative projects (SP) exists which could, if all implemented, increase total world ammonia capacity by another 29 MMtpy NH₃ (to 191 MMtpy NH₃) by 1995. Obviously, not all of these will be built, but 5-6 MMtpy of additional capacity is likely to emerge from this "inventory" by the mid-1990s. Thus, total world ammonia capacity will likely approach 165 MMtpy NH₃ by 1995, and its output potential should approximate 140-145 MMtpy NH₃, i.e., at least enough to supply estimated demand.
3. The international capacity/ supply outlook for urea is similar. Based on known plans ("active projects"), world urea capacity will increase by about 20 MMtpy between 1988 and 1995. Based on these plants and plans, plus general improvement in operating rates, world urea supply will increase by a slightly-higher 22 MMtonnes over the same time frame. These increases, plus eventual translation of selected ventures from "speculative" (27 MMtpy total inventory) to "active" status, will ensure generally-adequate supplies to the international market.
4. Ammonia and urea capacity in the fairly mature agricultural economies within North America, Europe, Asia, and Oceania will remain stagnant at best, and even decline incrementally in some areas. Thus, the locus of most new capacity placement continues to be (a) where the largest demand growth potential exists, both intra-country and intra-regional (e.g., Asia export plants for Asian trade), and (b) where feedstocks are the cheapest.
5. In summary, Blue, Johnson does not foresee international nitrogen markets being seriously short for any sustained periods during the 1990s. As in the past, there may be brief periods of perceived shortages (logistical and/or inflation-induced) to

promulgate one or more short-term price runups during the next five years. However, there are sufficient new projects being actively pursued or speculated so that world markets will more often than not continue to be adequately supplied.

6. It also seems increasingly evident that new world-nitrogen capacity development will generally keep pace with expected market evolution, rather than explode in clusters as it did in North America, West Europe, and Japan in the 1960s and 1970s, and later in East Europe-USSR, West Asia, Indonesia, and China in the 1970s and 1980s. Thus supply factors (as a function of capacity) should become less and less likely to contribute to market imbalance than demand factors. For example, the period of serious "oversupply" that world nitrogen producers encountered in the early 1980s was much more a matter of unanticipated demand stagnation than it was of capacity run amok. These circumstances, in turn, were a function of a prolonged cycle of generally favorable growing conditions that resulted in (a) major buildups in grain stocks, (b) depressed crop prices, and (c) constraints on acreage and fertilizer use in major markets, particularly in North America. Nobody predicted this recent cycle of benevolent agricultural conditions, just as nobody predicted the occurrence or severity of the 1988 U.S. drought.

WORLD AMMONIA CAPACITY
(MMtpy NH₃)

	YE 1988	YE 1991	Speculative Projects
MEXICO-CENTRAL AMERICA-CARIBBEAN	619	721	263
OTHER LATIN AMERICA	151	175	268
WEST EUROPE	1676	1694	122
EAST EUROPE	1454	1554	078
USSR	3017	3484	135
NORTH AFRICA	251	325	201
OTHER AFRICA	137	170	191
WEST ASIA	559	879	695
SOUTH CENTRAL ASIA	1353	1692	465
EAST ASIA	832	1022	123
CHINA	2141	2423	210
OCEANIA	065	065	003
subtotal	<u>122.53</u>	<u>142.02</u>	<u>27.54</u>
CANADA-USA	<u>20.31</u>	<u>20.06</u>	<u>1.47</u>
Total	<u>142.84</u>	<u>162.09</u>	<u>29.01</u>

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
WORLD TOTAL (ex-speculative projects)											
Capacity	135.9	137.4	140.4	142.8	145.5	147.7	152.1	157.0	160.9	162.1	162.1
Operating Rate	81%	80%	83%	85%	82%	83%	84%	84%	84%	85%	85%
Production	110.0	109.5	116.1	121.1	119.9	123.2	127.2	131.7	135.4	137.3	138.5

WORLD UREA CAPACITY
(MMtpy urea)

	YE 1988	YE 1995	Speculative Projects
MEXICO-CENTRAL AMERICA-CARIBBEAN	359	408	205
OTHER LATIN AMERICA	148	202	272
WEST EUROPE	681	667	-
EAST EUROPE	951	1004	0.40
USSR	1489	1646	115
NORTH AFRICA	201	241	0.56
OTHER AFRICA	0.81	1.30	1.53
WEST ASIA	5.57	10.72	6.83
SOUTH CENTRAL ASIA	19.15	23.97	5.49
EAST ASIA	9.40	11.63	1.97
CHINA	10.40	14.69	2.52
OCEANIA	0.41	0.41	-
subtotal	84.00	104.38	25.22
CANADA-USA	9.82	9.67	1.55
Total	93.83	114.05	26.77

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
WORLD TOTAL (ex-speculative projects)											
Capacity	83.3	87.6	88.7	93.8	96.6	98.2	101.8	107.3	112.4	114.1	114.1
Operating Rate	75%	75%	80%	80%	78%	80%	82%	82%	82%	83%	85%
Production	62.5	66.0	70.9	75.2	75.6	78.6	83.2	87.9	91.8	95.1	96.7

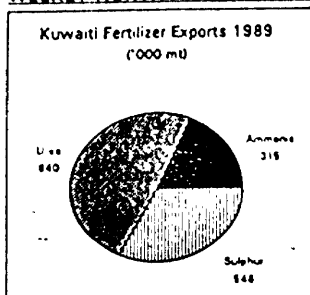
WORLD TRADE

1. World trade in anhydrous ammonia is expected to stabilize within a 11-12 MMtpy NH3 plateau after several years of generally steady growth. The United States and West Europe account for roughly 70% of the international market and no import growth is expected in either. Elsewhere in the world, modest growth in some countries and regions is nearly offset by declines in others, resulting in little net increase.
2. Somewhat more change is expected in the locus of supply, with increases noted for countries in/on the Caribbean, North Africa, West Asia, South Central Asia, and East Asia vs. decreasing trends forecast for Canada-United States (specifically the United States) and the USSR.
3. World trade in urea will continue to grow towards 24 MMtpy by 1995, with the biggest increase in available supply occurring in West Asia.
4. Note: The country and regional trade scenario in this report for ammonia and urea has a particular dependency on the assumptions made about the nitrogen industries in East European countries and the USSR. Specifically, the data herein simplistically assume that, except for a decline in Rumanian urea exports, these industries will otherwise be relatively untouched by the dramatic political changes now underway. This probably won't be the case, but Blue, Johnson is not prescient enough to more than guess at alternative outcomes. See the discussion on pp. REG 104-105 for additional comments and a tabulation of factors to watch.

Fertilizer Markets

WEEKLY NORTH AMERICAN PERSPECTIVE

VOL. 1, NO. 2 AUGUST 13, 1990



Supply disruption seen from Iraq crisis

The United Nations trade embargo placed on Iraq and occupied Kuwait has halted the movement of fertilizer products from the two nations and put brakes on construction projects. The prospect that sulphur, nitrogen and phosphate fertilizer products may not be shipped from either country for a lengthy period of time pushed up some prices last week. Freight rates for ammonia tankers increased as additional vessels turned to the LPG trade, and war risk insurance went up for not just Iraq and Kuwait destinations but also for Saudi ports in the Gulf. War risk insurance is said to be 2.5% for Iraq/Kuwait and 1% for Saudi Gulf ports; the insurance normally is .25%.

Iraq has the ability to produce 816,000 mt/y (N) ammonia, 1.1 million mt/y of urea, 400,000 mt/y (P₂O₅) phosphoric acid, and 898,000 mt/y of phosphate fertilizers. The country also has the ability to produce up to 787,000 mt/y of recovered and 1 million mt/y of Frasch sulphur.

Production is believed to be continuing in Iraq, although an extended trade embargo against Iraqi products could force some eventual reductions or closures. Some product may continue to reach markets if it is transported overland through Jordan or Turkey. However, a naval blockade is being set up to prevent movement of Iraqi goods from Jordanian or Turkish ports, and it is now believed to be almost impossible to funnel funds for purchases into Iraq. The Iraqis are reported to have halted shipments of goods for which payment has not been received prior to loading.

On the books at the time of the trade curtailment were commitments for 150,000 mt of Iraqi sulphur to move to Egypt in September, 10,000 mt of sulphur for prompt delivery to cover a ConAgra sale to BCIC/Bangladesh, 100,000 mt of sulphur for second-half commitments Helm made to India, and 40,000 mt of TSP to cover a sale Trans ammonia made into Bangladesh. It was also expected that 150-200,000 mt of Iraqi urea would have been concluded for second-half shipment to China. In first half 1990 Iraq exported 617,076 mt of sulphur, with most of its going to India, Turkey, Egypt, Tunisia, Romania and Jordan. An estimated 600-650,000 mt of Iraqi urea was delivered to China in the same six-month period.

Kuwait has production capacity for 990,000 mt/y (N) of ammonia, 792,000 mt/y of urea and 1.3 million mt/y of recovered sulphur. All Kuwaiti production assets are now shuttered. Kuwaiti exports in 1989, the latest period for which figures are available, included 315,000 mt of ammonia, 840,000 mt of urea and 546,000 mt of recovered sulphur.

Fertilizer shipments pending at the time the Iraqis took over Kuwait included 8,000 mt of August ammonia committed to Greece, 12-15,000 mt of ammonia sold to CDPC/Taiwan for September delivery, 35,000 mt of ammonia for early October delivery to South Korea, about 50,000 mt of ammonia to be shipped in August as the final deliveries of first-half contractual tonnage and 40,000 mt of sulphur sold to India for August. About 100,000 mt of Kuwaiti urea was expected to go to China July-December.

Construction of a major phosphate, urea and ammonia expansion at Al Qaim, Iraq cannot continue while the UK contractor is banned from doing business in the country. Likewise, Freeport-McMoran is reported to have halted work on Iraq's Mishraq mine expansion after the US froze Iraqi assets and banned trade with the country.

This Week

- Kalium plans to up output at MI mine 2
- Phibro unit to relocate to energy offices 3
- Market moves to cover Kuwaiti NH₃ sales 4
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ATTACHMENT A.9

AMMONIA CAPACITY
('000 tonnes NH3)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Austria	489	489	548	609	609	609	609	588	566	566	566
Belgium	560	560	560	532	416	416	716	916	916	916	918
Finland	83	83	74	64	85	85	85	85	85	85	85
France	3111	3111	2834	2641	2258	2258	2258	2258	2258	2258	2258
Germany FR	2498	2498	2576	2718	2694	2670	2520	2371	2371	2371	2371
Greece	335	412	412	412	412	412	412	657	496	496	496
Iceland	9	9	9	9	9	9	9	9	9	9	9
Ireland (Rep)	468	468	468	495	495	495	495	495	495	495	495
Italy	2086	2086	2086	2110	2110	2110	2110	2110	2110	2110	2110
Netherlands	3449	3449	3515	3699	3699	3699	3699	3699	3699	3699	3699
Norway	654	599	607	547	487	487	487	487	487	487	1028
Portugal	521	521	521	529	529	529	529	529	529	529	529
Spain	1017	904	878	997	997	997	997	997	997	997	997
Sweden	59	59	59	0	0	0	0	0	0	0	0
Switzerland	44	44	44	44	44	44	44	44	44	44	44
Turkey	511	511	473	473	473	473	473	473	473	803	803
United Kingdom	2205	2205	1892	1538	1919	1606	1606	1606	1606	1606	1606
West Europe	18099	18008	17556	17417	17236	16899	17049	17324	17141	17471	18012
Albania	88	88	88	88	88	158	158	158	158	158	158
Bulgaria	1161	1161	1012	1457	1457	1457	1457	1457	1457	1457	1457
Czechoslovakia	1039	1039	1039	1039	1039	1039	1039	1039	1369	1369	1369
Germany DR	1600	1600	1600	1711	1822	1822	1822	1822	1822	1822	1822
Hungary	998	998	998	998	998	998	998	998	998	998	998
Poland	3105	3105	3105	3105	3105	3105	3105	3105	3105	3105	3105
Romania	4227	4227	4227	4316	4465	4616	4616	4616	4616	4616	4616
USSR	31773	33169	33668	33867	34954	36050	36525	36525	36525	36525	36525
Yugoslavia	1156	1456	1456	1456	1456	1456	1456	1456	1456	1456	1756
East Europe	45147	46843	47193	48037	49384	50701	51176	51176	51506	51506	51806
Algeria	660	660	825	990	990	990	990	990	990	990	990
Egypt	1106	1123	1123	1123	1123	1197	1527	1527	1527	1620	2158
Libya	660	660	660	262	330	412	660	660	660	660	660
Nigeria	0	0	165	330	330	330	330	330	570	570	570
Somalia	48	0	0	0	0	0	0	0	0	0	0
South Africa	811	811	811	720	720	720	720	720	720	720	720
Tanzania	0	0	0	0	0	0	0	0	0	255	514
Zambia	111	111	88	88	88	88	88	88	88	88	88
Zimbabwe	109	109	109	109	109	109	109	109	109	109	109
Africa	3505	3474	3781	3622	3690	3846	4424	4424	4664	5012	5809
Afghanistan	70	70	70	70	70	70	70	70	70	70	70
Bahrain	165	329	329	329	412	412	412	412	412	412	412
Bangladesh	653	653	713	983	983	983	1032	1635	1882	2228	2228
China PR	20292	20921	21566	22141	22977	23169	23169	25220	25520	26120	26120
India	7531	8496	8701	9429	10203	10648	10981	11849	13184	13605	13605
Indonesia	2990	2990	2990	3017	3612	3612	3788	4058	4718	4718	5378
Iran	9	9	405	405	651	1065	1065	1065	1168	1296	1296
Iraq	447	117	117	528	791	1039	1039	2029	2359	2359	2359
Israel	80	80	80	80	80	80	80	80	80	80	80
Japan	2240	2188	2188	2188	2188	2139	2139	2139	2139	2139	2139

AMMONIA CAPACITY
(**'000 tonnes NH₃**)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Korea (North)	1299	1299	1299	1299	1360	1579	1579	1579	1579	1579	1579
Korea (South)	879	879	879	879	879	792	792	792	792	792	792
Kuwait	860	860	860	909	909	909	909	909	909	909	909
Malaysia	217	382	382	382	330	330	330	330	330	330	660
Myanmar	287	287	287	287	287	287	287	287	287	287	287
Pakistan	1476	1476	1476	1476	1507	1507	1507	2155	2232	2408	2458
Philippines	24	0	0	0	0	0	0	0	0	0	0
Qatar	592	592	592	700	700	700	700	700	1195	1195	1195
Saudi Arabia	528	528	738	1023	1023	1023	1023	1518	1518	1518	1518
Sri Lanka	14	0	0	0	0	0	0	0	0	0	0
Syria	379	379	379	379	379	379	379	379	379	379	379
Taiwan	379	379	379	379	379	379	379	379	379	379	379
U Arab Emirates	330	330	330	330	330	330	330	330	730	730	730
Viet Nam	72	72	72	72	72	72	72	72	72	72	72
Asia	41813	43316	44832	47285	50122	51504	52062	57987	61934	63605	64645
Australia	524	524	524	524	524	524	524	524	524	524	524
New Zealand	88	88	88	88	88	88	88	88	88	88	88
Oceania	612	612	612	612	612	612	612	612	612	612	612
Canada	3884	4099	4429	4322	4385	4078	4078	4705	4886	4886	4886
United States	16971	16000	15961	15442	15442	15249	15310	15310	15310	15310	15310
North America	20855	20099	20390	19764	19827	19327	19388	20015	20196	20196	20196
Argentina	111	111	111	111	111	111	201	201	201	201	696
Brazil	1269	1269	1269	1269	1296	1318	1318	1318	1648	1846	1846
Colombia	200	200	200	200	200	200	200	200	200	200	200
Cuba	372	372	372	372	372	372	372	372	372	372	372
Mexico	2909	2909	2909	2909	2909	3354	3799	3799	3799	3799	3799
Peru	156	156	156	156	156	156	156	156	156	156	156
Trinidad	1427	1427	1427	1689	1877	1877	1877	1877	1877	1877	1877
Venezuela	790	790	790	790	790	790	790	790	1285	1285	1285
Latin America	7234	7234	7234	7496	7711	8178	8713	8713	9538	9736	10231
WORLD TOTAL	137265	139586	141598	144233	148582	151067	153424	160251	165591	168138	171311



What Are The Water Needs?

The company's water will be drawn directly from Buffalo Pound Lake, which is supplied from Lake Dieffenbaker. The supply will not pass through the water treatment systems serving Regina and Moose Jaw.

Annual water use at the plant is equivalent to one half a summer's day evaporation from Lake Dieffenbaker.



How Much Electricity Is Required?

The power needs of the fertilizer plant will be met by SaskPower's existing electrical system and will have no effect on the system's capability to supply electricity to the province.



And What About Natural Gas?

In Saskatchewan we have large resources of natural gas. So much, in fact, that we currently export 5 times the annual requirements of the fertilizer facility to markets in Ontario and the eastern United States.

Hayhurst Gas Ltd., a subsidiary of SaskEnergy, will assist the company in its gas purchases and local producers will have an opportunity to sell their gas to Safarco at competitive terms and conditions.



How Will Farmers And Other Saskatchewan Residents Benefit?

The economic benefits are extensive during construction and operation.

The project will create 2 million hours of work during the construction phase. An average of 600 people will be employed on the site, peaking at 1,000 in 1991. A Buy Saskatchewan policy is in effect to help ensure all qualified Saskatchewan businesses have an opportunity to supply goods and services.

Throughout the first 20 years of the project an average of some \$100 million per year will be spent in the province every year, including as much as \$30 million for natural gas purchases, \$21 million on transportation and \$20 million on payroll. Plus the company will pay \$25 million on average per year directly to the province in the form of taxes.

But more importantly it provides Saskatchewan the ability to use its own natural gas to produce nitrogen fertilizer. Saskatchewan has half the arable land in Canada but does not produce its own fertilizer.

Safarco Products Inc.

The Belle Plaine facility creates new permanent jobs, adds value to a natural resource and provides more competition in a key area of farm inputs - nitrogen fertilizer.

Reviewing the facts...

SAFARCO

Recycled Paper



Keeping The Public Informed

Construction of the \$435-million nitrogen fertilizer plant at Belle Plaine, Saskatchewan is under way.

As part of our commitment to the public awareness, we've prepared this summary of information about the new plant.



Who Is Saferco Products Inc.?

The company represents a joint venture between the Government of Saskatchewan and Cargill Ltd. Cargill holds 50 percent, the government owns 49 percent and the remaining 1 percent will be sold to a Canadian financial institution.

Plant construction will cost \$435 million - \$65 million from Cargill, \$64 million from the government and \$305 million which will be borrowed by the company from commercial sources.

The government will guarantee the repayment of Saferco's debt and the company will pay a commercial fee for that service.



Why The Partnership?

Working in co-operation, the two partners have the resources and expertise to develop a major agriculture-based industry in the province.

The government plays an essential role in facilitating plant construction. Cargill - with 125 years of related business experience - provides a worldwide marketing network for the product. The Cargill experience enhances the commercial success of the plant.



What Is The Product And Where Are The Markets?

Nitrogen is the colourless, tasteless, odourless, gaseous element that makes up 78 percent of our atmosphere. It also happens to be an essential element for plant growth.

In order to provide this nutrient in levels which are sufficient to produce healthy growth, fertilizers made from nitrogen are often applied to the soil.

The primary product of the Belle Plaine plant is granular urea, considered among the safest forms of fertilizer available. An alternative form is anhydrous ammonia. Both will be produced at the plant through a commercial process which combines air, water and natural gas.

Markets include western Canada, Ontario, the northern United States and the Pacific Rim countries. It will be available to every fertilizer distributor in Saskatchewan including Co-op retailers, Wheat Pool elevators, other elevator outlets and all independent dealers.



Is There Room For Another Fertilizer Plant?

There is no Saskatchewan-based nitrogen fertilizer manufacturer at the present time. Saskatchewan farmers now spend more than \$300 million every year on nitrogen fertilizer produced outside the province. And the trend is toward more use of granular urea on the Prairies because it is safer to apply and farmers recognize it as a way to cost-effectively increase their yields.

The Belle Plaine product provides an opportunity to keep Saskatchewan farmers' money working here in the province.



Why Belle Plaine?

The area is a natural spot because it meets all criteria for the viable production and distribution of fertilizer. Belle Plaine offers ready access to natural gas, the main ingredient in the manufacturing process, as well as water



Is The Plant Safe?

The Canadian fertilizer industry, as a whole, has an exceptionally good safety record. No major incident has occurred at a Canadian producer in recent years.

The company policy will be zero-discharge of waste water. No liquid effluent will be released from the property. Waste water will be discharged to an evaporation pond where it will be closely monitored under the guidelines established by a geotechnical consultant and the Saskatchewan Department of Environment and Public Safety.

Air emissions will be treated by state-of-the-art scrubbers.

The company believes so strongly in the safety of the project it has volunteered to participate in a full environmental impact study.

The Leader-Post Regina, Sat., July 14, 1990

Safenco Products Inc.



An opportunity for discussion

Construction of a \$435 million nitrogen fertilizer plant, now underway at Belle Plaine, represents an important new industry for Saskatchewan.

The following information provides some background and reflects our commitment to public transparency. For more details, and the opportunity for group discussion, join us at one of the upcoming town hall meetings.



Who is Safenco Products Inc.?

The company represents a joint venture between the Government of Saskatchewan and Cargill Ltd. Cargill holds 30 percent, the government owns 49 percent and 1 percent will be sold to a Canadian financial institution.

Plant construction will cost \$435 million - \$63 million from Cargill, \$64 million from the government and \$308 million which will be borrowed from commercial sources. The government will guarantee the repayment of Safenco's debt and the company will pay a commercial fee for that service.



The product and its markets

The primary product is granular urea, considered among the value forms of fertilizer available. An alternative form is anhydrous ammonia. Both will be produced at the plant through a commercial process which combines air, water and natural gas.

Markets include western Canada, Ontario, the northern United States and the Pacific Rim.

courtesy, it will be available to every fertilizer distributor in Saskatchewan including Co-op retailers, Wheat Pool stores, other fertilizer outlets and all independent dealers.



The resources

The plant is being constructed at a site which meets all criteria for production and distribution.

- **Water:** It will be drawn directly from Buffalo Pound Lake - which is supplied from Lake Diefenbaker - without passing through the water treatment systems serving Regina and Moose Jaw. Annual water use at the plant is equivalent to one half a summer's dry evaporation from Lake Diefenbaker.

- **Power:** The power needs of the plant will be met by Saskatchewan's existing electrical system and will have no effect on the system's capability to supply electricity to the province.

- **Market of Gas:** In Saskatchewan we have large resources of natural gas. So much so that we currently export 3 times the annual requirements of the fertilizer plant to markets in Ontario and the western United States.

- A "Buy Saskatchewan" policy will ensure that qualified Saskatchewan businesses have an opportunity to supply goods and services.

- Average expenditures of up to \$100 million annually on Saskatchewan products and services over the first 20 years of the project.

- Average of \$23 million paid directly to the province each year in the form of taxes over the first 20 years.



Learn more about this exciting project by attending one of the following town hall meetings.

Monday, July 16
Parks Township
Brunswick Street & Pine Street
Parks, Saskatchewan
7:00 p.m.

Tuesday, July 17
Harwood Inn
24 Fernside Street East
Moose Jaw, Saskatchewan
7:00 p.m.

Wednesday, July 18
Regina Inn
Elizabethan Ballroom
1975 Broad Street
Regina, Saskatchewan
7:00 p.m.

Thursday, July 19
Saskatoon Inn
Ballroom C
2000 Airport Drive
Saskatoon, Saskatchewan
7:00 p.m.



The benefits

The economic benefits to the people of Saskatchewan are:

- 2 million hours of employment during construction.
- an average of 600 people employed on site, peaking to 1,000 in 1991.

• 2 million hours of employment during construction.

• an average of 600 people employed on site, peaking to 1,000 in 1991.



For more information on the plant, please list your areas of interest and return this form. We will be happy to respond.

 Name _____
 Occupation _____
 Address _____
 City/Town _____ Postal Code _____

Safenco Products Inc.
 Suite 213
 1875 Assiniboine Street
 Regina, Saskatchewan S4P 0L3
 (306) 322-0911
 Fax: 322-2842

1000000

Saferco satisfied despite few people at public meetings

By RON SEYMOUR

Times-Herald Staff Writer

A voluntary environmental impact study on the Saferco fertilizer plant will be sent to the government this fall, company officials said.

Comments from a series of public meetings held this week will be used to prepare the impact statement for the fertilizer plant, now under construction 20 km east of Moose Jaw.

Though only about 100 people showed up at the four meetings, Saferco spokesman Joe Raiko said the company still viewed them as a success.

"This was not an exercise in generating large numbers," Raiko said Friday. "We wanted and received public input directly to help us prepare our environmental impact assessment on the project."

But Raiko acknowledges he thought attendance would have been greater at the information sessions, held in Pense, Moose Jaw, Regina and Saskatoon. "I thought it would have been five or 10 times that great," he said.

Issues raised at Wednesday's meeting ranged from the safety of using chemical fertilizers and the growth of organic fertilizers, to the need for government funding of the project.

The low response to the project was mirrored in a direct-mail campaign and newspaper ads placed by Saferco. "In addition to the four townhall meetings, we also mailed information to about 72,000 rural Saskatchewan households, which included a postage-paid reply card," he said.

"Yet in the first week, only 152 cards were returned."

Saferco also placed ads in Saskatchewan's three largest newspapers asking for public input. "Again, the response was not overwhelming, with just five inquiries from a newspaper audience of more than 130,000 readers," Raiko said.

"In fact, four replies were from people looking for work."

The \$435-million joint venture between the provincial government and Cargill has been the subject of widespread political debate since it was announced last spring.

Moose Jaw, Sask.

July 21, 1990

Provincial Transcript Regarding Commercial Rates
Saferco will Pay for Natural Gas



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FOURTH SESSION - TWENTY-FIRST LEGISLATURE

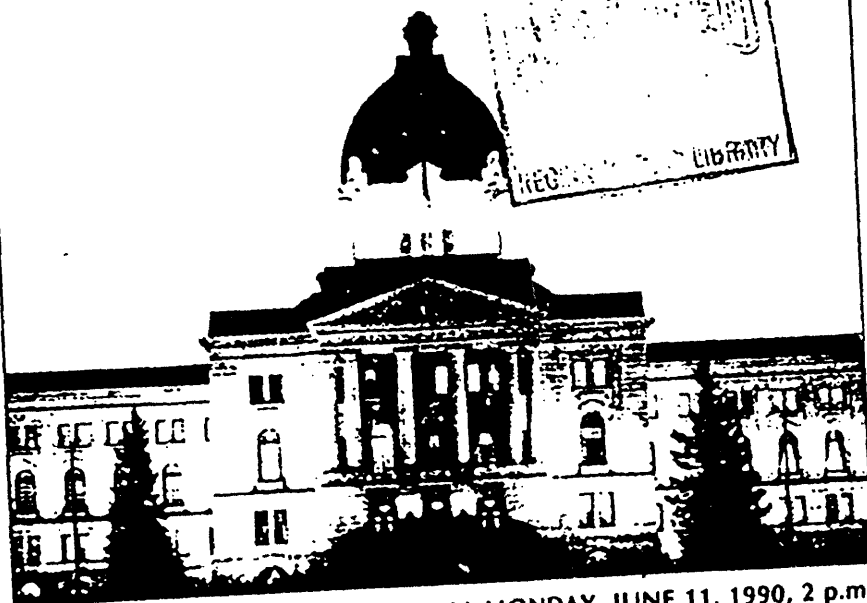
of the

Legislative Assembly of Saskatchewan

DEBATES
and
PROCEEDINGS

(HANSARD)

Published under the
authority of
The Honourable A. B. Tusa
Speaker



N.S. VOL. XXXIII

NO. 58A MONDAY, JUNE 11, 1990, 2 p.m.

June 11, 1990

Some Hon. Members: Hear, hear!

Mr. Solomon: — Mr. Speaker, the minister stands in the House and responds for the minister responsible for the Cargill project and contradicts Kerry Hawkins who's president of Cargill with respect to the purchase of natural gas. I would remind this minister that the people of Saskatchewan have put up \$369 million in this project and Cargill is putting up \$65 million. As the senior partner in the developments, the government of Saskatchewan should be dictating the terms and not Cargill. The government should be doing all that it can to ensure that Saskatchewan producers, and not Alberta producers, as Mr. Hawkins states, are given precedence.

Mr. Minister, I ask you: have you made that position known to Kerry Hawkins? Have you made the position known of the Premier and the statement you just made known to Mr. Hawkins or have you not?

Some Hon. Members: Hear, hear!

Hon. Mr. Swenson: — Mr. Speaker, natural gas in the province of Saskatchewan brings in some \$40 million in royalties for people here, and just a few years ago that figure was almost nil. And I think it's at the encouragement of industry by this government, with rules and regulations, that has allowed those types of royalties to flow back to our province.

So for the member opposite to say that there are no economic spin-offs to this province is not true, Mr. Speaker. This particular plant and the quantities of natural gas we'll use will amount to nearly 10 per cent of what is produced in this province at present. Saskatchewan producers have shown that they are amongst the most competitive producers in Canada. And given this type of opportunity for 18 billion cubic feet of market for their natural gas, I would think, Mr. Speaker, given that past record, that they will be in there supplying natural gas to the Saskatchewan Fertilizer Company.

Some Hon. Members: Hear, hear!

Mr. Solomon: — Mr. Speaker, a new question to the Minister of Energy and Mines. The Premier said that there was some assurances that Saskatchewan producers would have first crack at this gas and we'd be the recipient of royalties as a result of that. Mr. Minister, you've said in this House that the Saskatchewan producers will benefit.

How come Kerry Hawkins says that it will go to the lowest bidder which may be Alberta natural gas producers? Why haven't you some assurances in writing from Saferco and from Cargill that Saskatchewan natural gas producers will indeed be the benefactors of the consumption of natural gas?

Some Hon. Members: Hear, hear!

Hon. Mr. Swenson: — Mr. Speaker, members of the opposition can't have it both ways. For months they have stood in this House and accused the government of having a sweetheart deal with Cargill Grain corporation. What the member opposite is proposing would in fact be

a sweetheart deal. Saskatchewan producers have a natural advantage. They are closer to the plant than any other gas producers in Canada. And if one understands the transmission infrastructure in this country, that is a built-in advantage.

We have said all along that this will be a commercial plant. The gas contracts for the Saskatchewan Fertilizer Company will be on a long-term, mid-range, and short-term basis, the same as any other industrial user in the province of Saskatchewan, knowing full well that those Saskatchewan producers are closer and therefore have the advantage in bidding on those types of contracts.

Some Hon. Members: Hear, hear!

INTRODUCTION OF BILLS

Bill No. 42 — An Act respecting the Legal Profession, the Law Foundation and the Law Society of Saskatchewan

Hon. Mr. Lane: — Thank you, Mr. Speaker. I move first reading of a Bill respecting the Legal Profession, the Law Foundation and the Law Society of Saskatchewan.

Motion agreed to and the Bill ordered to be read a second time at the next sitting.

Bill No. 43 — An Act respecting Police Services

Hon. Mr. Lane: — Mr. Speaker, I move first reading of a Bill respecting Police Services.

Motion agreed to and the Bill ordered to be read a second time at the next sitting.

ORDERS OF THE DAY

GOVERNMENT ORDERS

SECOND READINGS

Bill No. 7 — An Act to amend The Intestate Succession Act

Hon. Mr. Lane: — Mr. Speaker, I'm pleased to rise today to move second reading of The Intestate Succession Amendment Act, 1990. The Intestate Succession Act sets out a statutory scheme for distributing the estate of a person who dies without a will. Where a person dies leaving a spouse and children, the spouse receives a preferential share of the estate before the balance is divided between the spouse and the children. The preferential share was last raised from 10,000 to 40,000 in 1978, and since that time inflation has decreased the value of this amount to the point where it is necessary to increase the preferential share again.

The Bill before this House will increase the preferential share to \$100,000 with respect to estates of persons who die after this Act has passed, and I am confident that together with the proposed The Dependants' Relief Amendment Act, (1990) also currently before this House, that these Bills will update the legislation relating to provisions for both spouses and dependants upon the death of an individual.

1939

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MCLEOD & PIRES,
Washington, DC., October 2, 1990.

Hon. MAX BAUCUS, Chairman
Senate Finance Subcommittee on International Trade,
U.S. Senate.
205 Dirksen Senate Office Bldg.,
Washington, DC. 20510

RE: September 28, 1990—Hearing on Implementation of U.S.-Canada Free Trade Agreement

Dear Senator Baucus: On behalf of the United Egg Producers and United Egg Association, organizations representing shell egg producers and further processors respectively, I wish to bring to your attention a problem regarding adherence to the U.S.-Canadian Free Trade Agreement.

PROBLEM

As you may be aware, Canada operates a supply management program for domestic egg producers. Domestic production is controlled by a quota system which guarantees producers a price based on a cost of production formula. The Canadian Egg Marketing Agency (CEMA) purchases all eggs, and those that are not needed to satisfy domestic demand are sold at a discount to processors. This product can then be exported to the U.S. at less than fair market value, which is damaging to our egg and egg products industries.

ARTICLE 701 (3)

Language was included in this Agreement under Article 701(3) which prohibits either country, or a public entity, from selling agricultural goods at a cost below the acquisition price, plus handling, storage and other costs. It was the intent of this language, as clearly stated in the implementing legislation, to include in the definition of "public entities" commodity marketing agencies, such as the Canadian Egg Marketing Agency, the Canadian Wheat Board, etc. In fact, the implementing legislation called for the U.S. to routinely monitor Canadian sales price policies as pertains to eggs and wheat to ensure that Article 701(3) would not be circumvented.

In recognition of past problems encountered by the U.S. regarding Canadian pricing practices for eggs and egg products, specific practices were identified in the implementing legislation to be included in the reach of Article 701(3), such as: (1) "dual pricing," whereby CEMA pays one price for domestic eggs, and a minimum or token price for export eggs; and (2) "blended pricing," which employs the same two-tier price structure, and uses an average of the two for a price.

The position of our Administration as described in the Statement of Administrative Action, as well as that of Congress as evidenced in the Agreement's implementing legislation, illustrates that Article 701(3) was plainly intended for public entities such as CEMA. Thus, CEMA's position is completely untenable and in direct violation of the Agreement.

CEMA'S POSITION/GATT CONTRADICTION

Although language was included in the Agreement under 701(3) which prohibits either government, or public entities, from selling agricultural goods for less than the cost of acquisition, CEMA has declared that they are not a public entity for purposes of this language, and further purports that the Canadian government agrees with their position. This allows CEMA, with express government approval, to simply conduct "business as usual," despite clear language prohibiting their actions.

Even more noticeable is the direct contradiction of CEMA's position under GATT negotiations, whereby they portray themselves as a public entity for purposes of Article XI, which allows for import restrictions. Clearly they cannot legally have it both ways.

CONCLUSION

The language in Article 701(3) was designed to protect the U.S. egg and egg products industry from unfair pricing practices by Canada and Canadian public entities. However, this language will offer no protection if the parties bound by it are permitted to circumvent its authority by merely claiming it has no effect on them.

As it stands now, we must operate with one obvious handicap—Canada's quota system, which limits the U.S. to a share of a global quota of just over 1.5 percent of Canada's domestic production. However, we were at least reassured by the inclusion

of Article 701(3) that fair pricing practices would be required of both countries, and we certainly hope that this will be the case in the future.

We wanted you to be aware of this situation in view of your September 28, 1990 hearing. Any assistance that you or your Subcommittee could provide to the U.S. egg industry would be greatly appreciated.

Sincerely,

MICHAEL R. MCLEOD, *Washington
Counsel.*

CHRISTINE NELSON, *Director, Government
Relations.*

