

## CANADA - CERTAIN MEASURES AFFECTING THE AUTOMOTIVE INDUSTRY

### Report of the Panel

WT/DS139/R

WT/DS142/R

*Adopted by the Dispute Settlement Body  
 on 19 June 2000  
 as Modified by the Appellate Body Report*

#### TABLE OF CONTENTS

	Page
I. PROCEDURAL HISTORY .....	3061
A. Consultations .....	3061
B. Establishment and Composition of the Panel .....	3061
C. Panel Proceedings.....	3062
II. BACKGROUND.....	3062
A. The Auto Pact.....	3062
1. Letters from Auto Pact Manufacturer Beneficiaries to Industry Canada.....	3063
2. GATT Working Party Examination of the Auto Pact .....	3063
B. The Canada - United States Free Trade Agreement (CUSFTA)....	3064
C. The North American Free Trade Agreement (NAFTA).....	3065
D. Canada's Domestic Measures .....	3065
1. The MVTO 1998 .....	3066
2. Special Remission Orders.....	3068
III. FINDINGS AND RECOMMENDATIONS REQUESTED BY THE PARTIES.....	3070
A. Japan's Request for Findings and Recommendations .....	3070
B. The European Communities' Request for Findings and Recommendations .....	3070
C. Canada's Request for Findings and Recommendations .....	3071
IV. REQUEST FOR PRELIMINARY RULING.....	3072
A. Japan's Argument Giving Rise to Canada's Request for a Preliminary Ruling .....	3072
B. Canada's Request for a Preliminary Ruling .....	3072
C. The Panel's Decision.....	3073
V. FACTUAL ARGUMENTS OF THE PARTIES.....	3074
A. The Measures at Issue.....	3074
1. Terminology and Clarification of Claims .....	3074

---

 Report of the Panel
 

---

		Page
	(a) Japan's Framing of the Measures at Issue .....	3074
	(b) The European Communities' Framing of the Measures at Issue .....	3075
	(c) Canada's Response to the Complainants' Framing of the Measures at Issue .....	3076
	(d) Japan's Follow-Up to Canada's Response .....	3079
	(e) The EC's Follow-Up to Canada's Response .....	3079
2.	Letters .....	3080
	(a) Japan's Arguments Concerning the Letters .....	3080
	(b) The EC's Arguments Concerning the Letters .....	3081
	(c) Canada's Response to the Complainants' Arguments Concerning the Letters .....	3083
	(d) Japan's Rebuttal to Canada's Response .....	3084
	(e) The EC's Rebuttal to Canada's Response .....	3086
	(f) Response by Canada to the Complainants' Rebuttals .....	3093
	(g) The European Communities' Follow-Up to Canada's Response .....	3096
3.	The Auto Pact, the CUSFTA and the NAFTA .....	3098
	(a) Japan's Arguments Regarding the Auto Pact, the CUSFTA and the NAFTA .....	3098
	(b) The EC's Arguments Regarding the Auto Pact, the CUSFTA and the NAFTA .....	3106
	(c) Canada's Response to the Complainants' Arguments Regarding the Auto Pact, the CUSFTA and the NAFTA .....	3112
	(d) Japan's Rebuttal to Canada's Response .....	3114
4.	Measures Relating to Administration .....	3115
	(a) Japan's Account of Canada's Administration of the Import Duty Exemption .....	3115
	(b) The EC's Account of Canada's Administration of the Import Duty Exemption .....	3122
	(c) Canada's Response to the Complainant's Arguments Regarding Administration of the Import Duty Exemption .....	3122
B.	Structure of the Automotive Industry .....	3125
	1. Japan's Arguments on the Structure of the Motor Vehicles Industry .....	3125
	(a) The Integration of the Global Automobile Industry and its Implications for the Structure of the Canadian Industry .....	3125

	Canada - Autos
	Page
(b)	Implications for the Structure of the Canadian Industry ..... 3126
(c)	Production and Importation of Like Motor Vehicles ..... 3128
(d)	Production and Importation of Like Parts, Components and Materials Used in the Manufacture of Automobiles ..... 3132
(e)	Supply and Consumption of Like Services ..... 3132
(f)	The Discriminatory Effects of the Duty Waiver .... 3133
2.	Canada's Response to Certain Arguments Regarding the Structure of the Motor Vehicles Industry..... 3136
3.	Japan's Rebuttal to Canada's Response..... 3137
VI.	LEGAL ARGUMENTS OF THE PARTIES..... 3141
A.	Article I of the GATT ..... 3141
1.	Arguments of Japan ..... 3141
(a)	The Duty Waiver Relates to a Customs Duty Within the Meaning of Article I:1 of the GATT 1994..... 3141
(b)	The Duty Waiver is an Advantage Within the Meaning of Article I:1 of the GATT 1994 ..... 3141
(c)	The Products at Issue are "Like" Products ..... 3142
(d)	The Advantage is not Accorded Immediately and Unconditionally to Like Products Originating in all WTO Members ..... 3143
(e)	The Advantage Accorded to the Products Originating in Particular WTO Members Has Not Been Accorded to Like Products Originating in the Territories of all WTO Members ..... 3144
2.	Arguments of the European Communities..... 3147
(a)	The Measures Confer an "Advantage" Covered by Article I:1 ..... 3147
(b)	The Automobiles Imported by the Beneficiaries are "Like" the Automobiles Imported by Non-Beneficiaries ..... 3147
(c)	The Tariff Exemption Benefits Mainly Imports from the United States and Mexico..... 3147
3.	Canada's Response..... 3148
(a)	The Complainants Have Failed to Meet their Burden of Proof ..... 3148
(b)	The MVTO and the SROs Provide MFN Treatment for Products ..... 3149
4.	Rebuttal Arguments by Japan ..... 3156

---

 Report of the Panel
 

---

		Page
	(a) Correct Interpretation of Article I:1 of the GATT 1994.....	3157
	(b) The Fact that Imports Originating in One or More WTO Members Receive the Advantage is Not Indicative of MFN-Consistency .....	3159
	(c) Receipt of the Advantage Results from the Application of Government Measures not from Private Commercial Relationships.....	3163
5.	Rebuttal Arguments by the European Communities.....	3164
	(a) Canada's Interpretation of the Notion of De Facto Violation is Unduly Restrictive .....	3164
	(b) The European Communities Has Shown that De Facto the Tariff Exemption Provides an Advantage to Imports Originating in the United States and Canada .....	3165
	(c) The Advantage Accorded to Automobiles from the United States and Mexico Cannot be Exempted by GATT Article XXIV .....	3165
6.	Response by Canada to the Complainants' Rebuttals .....	3168
	(a) The Japanese and EC Interpretations of Article I:1 Are Not Supported by the Facts .....	3168
	(b) The Japanese and EC Interpretations of Article I:1 Find No Support in the Law .....	3171
7.	Japan's Follow-Up to Canada's Response.....	3175
8.	The European Communities' Follow-Up to Canada's Response.....	3177
	(a) The Tariff Exemption Provides an Advantage to Imports from the United States and Mexico .....	3177
	(b) The Test of De Facto Discrimination.....	3178
	(c) The Tariff Exemption is Not Exempted by GATT Article XXIV .....	3180
9.	Canada's Follow-Up Response .....	3181
	(a) Both Complainants Concede that there is No De Jure Violation.....	3181
	(b) Japan's Position on De Facto Violation is Not Supported by the Facts and it Misinterprets the Law .....	3181
	(c) The EC's Position on De Facto Violation is Not Supported by the Facts and it Misinterprets the Law .....	3187
B.	Article III:4 of the GATT .....	3189
	1. Arguments of Japan.....	3189

	Page
(a) The CVA Requirement .....	3189
(b) The Production-to-Sales Ratio .....	3192
2. Arguments of the European Communities.....	3192
(a) The CVA Requirements.....	3193
(b) The Ratio Requirements .....	3197
3. Canada's Response.....	3198
(a) Article III:4 Creates a Two-Step Test .....	3198
(b) The CVA Requirement .....	3198
(c) The Ratio Requirement .....	3201
4. Rebuttal Arguments by Japan .....	3204
5. Rebuttal Arguments by the European Communities.....	3206
(a) The CVA Requirement .....	3206
(b) The Ratio Requirements .....	3209
6. Response by Canada to the Complainants' Rebuttals .....	3209
(a) The CVA requirements .....	3209
(b) The Ratio Requirements .....	3215
7. The European Communities' Follow-Up to Canada's Response.....	3218
(a) Clarification .....	3218
(b) The Letters Contain Requirements.....	3218
C. The Trims Agreement.....	3220
1. Arguments of Japan .....	3220
(a) The CVA Requirement is a TRIM Within the Meaning of Article 2.1 of the TRIMs Agreement..	3220
(b) The CVA Requirement is Inconsistent with Article III:4 of the GATT 1994.....	3221
2. Arguments of the European Communities.....	3221
(a) The CVA Requirement and the Ratio Requirement are "Investment Measures" .....	3222
(b) The CVA Requirement and the Ratio Requirement are "Related to Trade in Goods" .....	3222
(c) The CVA Requirements and the Ratio Requirements Fall Within the Illustrative List of Prohibited TRIMs.....	3223
3. Canada's Response.....	3223
(a) The MVTO and SROs Are Not "Trade-Related Investment Measures" .....	3224
(b) The MVTO and SROs Do Not Violate the TRIMs Agreement .....	3225

---

 Report of the Panel
 

---

	Page
4. Rebuttal Arguments by Japan.....	3226
(a) Investment Measures .....	3226
(b) Trade-Related .....	3227
(c) Relevant Test .....	3227
5. Rebuttal Arguments by the European Communities.....	3228
6. Response by Canada to the Complainants' Rebuttals .....	3229
7. The European Communities' Follow-Up to Canada's Response.....	3229
8. Canada's Follow-Up Response .....	3230
D. The SCM Agreement.....	3230
1. Arguments of Japan.....	3230
(a) The Duty Waiver is a Subsidy under Article 1 of the SCM Agreement.....	3230
(b) The Subsidy is Prohibited under Article 3 of the SCM Agreement .....	3231
2. Arguments of the European Communities.....	3232
(a) The Tariff Exemption Constitutes a Specific Subsidy .....	3232
(b) The Tariff Exemption is a Prohibited Subsidy.....	3233
3. Canada's Response .....	3236
(a) The Duty-Free Treatment is not an Export Subsidy Within the Meaning of Article 3.1(a) of the SCM Agreement.....	3236
(b) The Ratio Requirements Do Not Make the Duty- Free Treatment Contingent Upon Export Performance.....	3239
(c) The Duty-Free Treatment Is Not a Subsidy Contingent upon the Use of Domestic Over Imported Goods .....	3243
4. Rebuttal Arguments by Japan.....	3245
(a) Article 3.1(a) of the SCM Agreement.....	3246
(b) Article 3.1(b) of the SCM Agreement .....	3247
5. Rebuttal Arguments by the European Communities.....	3248
(a) The Ratio Requirements .....	3248
(b) The CVA Requirements.....	3252
6. Response by Canada to the Complainants' Rebuttals .....	3255
(a) The Measures at Issue do not Create a Subsidy .....	3256
(b) The Duty-Free Treatment is Not Inconsistent with Article 3.1(b) .....	3257
(c) The Duty-Free Treatment is Not Inconsistent with Article 3.1(a).....	3259

		Canada - Autos
		Page
7.	Japan's Follow-Up to Canada's Response .....	3261
8.	The European Communities' Follow-Up to Canada's Response .....	3262
(a)	The Tariff Exemption is a Subsidy .....	3262
(b)	The Tariff Exemption is Prohibited by Article 3.1 (a) .....	3262
(c)	The Tariff Exemption is Prohibited by Article 3.1 (b) .....	3263
9.	Canada's Follow-Up Response .....	3266
(a)	The Measures Are Consistent with Article 3.1(a)..	3266
(b)	The Measures Are Consistent with Article 3.1(b)..	3267
E.	Applicability of the GATS to the Measures .....	3268
1.	Arguments of Japan .....	3268
2.	Arguments of the EC .....	3270
(a)	The Tariff Exemption is a "Measure by a Member" .....	3271
(b)	The Beneficiaries Are Suppliers of Wholesale Trade Services Covered by the GATS .....	3271
(c)	The Tariff Exemption "Affects" the "Supply" of Wholesale Trade Services .....	3272
(d)	The Tariff Exemption "Affects" the "Trade" in Wholesale Distribution Services .....	3273
3.	Canada's Response .....	3273
(a)	The Measures at Issue Are Not Covered by the GATS .....	3273
4.	Rebuttal Arguments by Japan .....	3277
5.	Rebuttal Arguments by the European Communities .....	3279
6.	Canada's Response to the Complainants' Rebuttals .....	3281
7.	Japan's Follow-Up to Canada's Response .....	3283
8.	The European Communities' Follow-Up to Canada's Response .....	3284
9.	Canada's Follow-Up Response .....	3286
F.	Article II of the GATS .....	3289
1.	Arguments of Japan .....	3289
(a)	Article II of the GATS Requires Immediate and Unconditional MFN Treatment for Wholesale Trade Services and Service Suppliers of Motor Vehicles .....	3289

---

 Report of the Panel
 

---

		Page
	(b) The Duty Waiver Accords More Favourable Treatment to Wholesale Trade Service and Service Suppliers of the United States and Sweden in Violation of Article II of the GATS .....	3290
2.	Arguments of the European Communities.....	3293
	(a) The Tariff Exemption is a "Measure Covered by the GATS" .....	3293
	(b) The Tariff Exemption Is Not Covered by the Annex on Article II Exemptions .....	3294
	(c) The Beneficiaries Are "Like" Other Suppliers of Wholesale Distribution Services.....	3294
	(d) The Tariff Exemption Affords "More Favourable Treatment" to US Service Suppliers than to the Service Suppliers of Other Members .....	3294
3.	Canada's Response .....	3297
	(a) The Measures at Issue Are Not Covered by the GATS .....	3298
	(b) The MVTO and SROs Do Not Accord More Favourable Treatment to the Service Suppliers of Certain Countries .....	3298
4.	Rebuttal Arguments by Japan .....	3301
	(a) The Duty Waiver is Within the Scope of the GATS .....	3301
	(b) The Duty Waiver Discriminates Between Like Service Suppliers .....	3301
	(c) Competition Exists Between Wholesale Trade Service Suppliers .....	3301
	(d) Article V of the GATS .....	3302
5.	Rebuttal Arguments by the European Communities.....	3302
	(a) The Tariff Exemption Affects the Provision of Services Within the Meaning of Article I:1 of the GATS .....	3302
	(b) Vertical Integration Does Not Exclude Competition Among Providers of Wholesale Distribution Services for Automobiles .....	3302
	(c) The Tariff Exemption Accords More Favourable Treatment to Service Suppliers of the United States.....	3304
	(d) The Violation of Article II is Not Exempted by Article V .....	3306

		Canada - Autos
		Page
6.	Response by Canada to the Complainants' Rebuttals .....	3308
(a)	The Duty-Free Treatment Does Not Affect Trade in Wholesale Services.....	3308
(b)	The Measures Do Not Accord More Favourable Treatment to Service Suppliers of Certain Countries.....	3308
7.	The European Communities' Follow-Up to Canada's Response.....	3310
(a)	The Tariff Exemption Affects Trade in Wholesale Distribution Services.....	3310
(b)	The Measure Accords More Favourable Treatment to US Suppliers.....	3310
(c)	Vertical Integration Does Not Exclude Competition Among Providers of Services.....	3312
8.	Canada's Follow-Up Response .....	3313
(a)	The Measures Do Not Affect Trade in Services ....	3313
(b)	Duty-Free Treatment Does Not Accord More Favourable Treatment .....	3313
9.	Further Follow-Up by the European Communities.....	3315
G.	Article XVII of the GATS .....	3317
1.	Arguments of Japan.....	3317
(a)	The Duty Waiver Accords More Favourable Treatment to Canadian Wholesale Trade Services and Service Suppliers in Violation of Article XVII of the GATS.....	3318
(b)	The Duty Waiver Accords More Favourable Treatment to Canadian Services and Service Suppliers Related to the Production of Motor Vehicles .....	3320
2.	Arguments of the European Communities.....	3326
(a)	The Relevant Sectors and Modes of Supply are Covered by Canada's Commitments on National Treatment .....	3327
(b)	The CVA Requirement is a "Measure Affecting the Supply of Services" .....	3328
(c)	Canadian Services Are "Like" the Services of Other Members Provided Through Modes 1 and 2 .....	3328
(d)	Services of Other Members Supplied Through Modes 1 and 2 are Afforded "Less Favourable Treatment" than Canadian Services .....	3329

---

 Report of the Panel
 

---

	Page
3. Canada's Response .....	3329
(a) Canada Has Not Undertaken a Commitment in a Relevant Sector .....	3330
(b) Duty-Free Treatment Under the MVTO and the SROs Does Not Affect the Supply of Wholesale Trade Services .....	3331
(c) The MVTO and the SROs Do Not Accord Less Favourable Treatment to Like Services and Service Suppliers .....	3331
(d) Article XVII of the GATS - CVA Requirements ...	3333
4. Rebuttal Arguments by Japan .....	3336
(a) Wholesale Trade Services .....	3336
(b) CVA .....	3338
5. Rebuttal Arguments by the European Communities .....	3339
(a) The Limitations on Canada's National Treatment Commitments Do Not Cover CVA Requirements ..	3339
(b) The CVA Requirements Accord "Less Favourable Treatment" to Foreign Services and Service Providers .....	3341
6. Response by Canada to the Complainants' Rebuttals .....	3342
(a) Article XVII - CVA .....	3342
(b) Canada Has Not Undertaken a Commitment .....	3342
(c) The Measures Do Not Accord Less Favourable Treatment .....	3343
7. Japan's Follow-Up to Canada's Response .....	3344
8. The European Communities' Follow-Up to Canada's Response .....	3345
9. Canada's Follow-Up Response .....	3345
(a) The Measures Do Not Deny National Treatment to Wholesale Distribution Trade Service Suppliers .....	3346
VII. QUESTIONS AND REPLIES .....	3347
A. Factual Arguments of the Parties .....	3347
1. Questions and Replies Relating to Factual Arguments on the Measures at Issue .....	3347
(a) Question 12 (The Ratio Requirement) .....	3347
(b) Question 36 (The "Actual" Ratio Requirements for MVTO Automobile Manufacturers) .....	3347
(c) Question 37 (SROs - Documents and Beneficiaries) ..	3348
(d) Question 38 (Letters - Comprehensiveness of Exhibits) .....	3349