W. T. Dixon ✓ — W. D. Stokes

FROM LASALLE, QUEBEC.

DATE June 17, 1966

SUBJECT TARIFF REFERENCE 120

REFERENCE 66-77

TO Mr. A. G. Erdman

P.T.&E.

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The Tariff Board has completed its study of Reference 120 - Chemicals ten years after it was assigned this task. The first volume of its report was tabled in Parliament June 13, 1966. This volume contains the meat of the Board's report - the recommended tariff rates and schedules.

The recommendations of the Board are not yet effective and will not be until presented to Parliament as a Bill for enactment - probably with the 1967 Budget presentation in the Spring of next year. In the meantime, several government bodies will be studying the report and receiving arguments pro and con from interested parties. It is in Monsanto's best interests to determine the net effect of the proposed rates and make the appropriate representation to Finance and Industry Departments.

HIGHLIGHTS OF RECOMMENDATIONS

1. Chemicals

a. In general, rates on chemicals now made in Canada and dutiable now at 15% BP - 20% MFN are reduced to 10% BP - 15% MFN.

b. Chemicals not made now will enter at 0 - 15% in perpetuity.

c. Class or kind is eliminated as a basis for establishing a higher or lower tariff rate (will still be used in assessing dump).

d. Several end-use items are eliminated and materials which previously entered duty free will now be dutiable at 10 - 15% or 0 - 15%.

2. Plastics

a. The form of the plastics schedule remains unchanged -

- named plastics (those now known and of some importance) have been assigned rates which are in general slightly higher (2½% to 10%) than previously.

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- a category for unspecified plastics - the products of the future-has been established at 0 - 0%.

GENERAL

In both Plastics and Chemicals, the format of the recommendations is a rigid one in that all products of future manufacture have a rate established 0 - 0 for plastics and 0 - 15 for chemicals. Any increase in tariff rates from these levels requires an act of Parliament. Because of the extreme difficulty (as shown by experience of the last 20 years) in obtaining increases in this manner, we can assume to all intents and purposes insofar as increases are concerned, that these rates are fixed.

Reduction of rates on a temporary basis of a product not available in Canada would still be obtainable through order-in-council. Although a fairly lengthy procedure - 6 months to 1 year - this procedure would be effective.

E. H. Toombs.

EHT:kh

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RATES PROPOSED ON PRODUCTS OF PARTICULAR IMPORTANCE TO MCCAN

		PRESENT BP - MFN	PROPOSED BP - MFN
Styrene		15 - 20	10 - 15
Vinyl chloride		15 - 20	10 - 15
Phenol (for plywood resin)		0 - 0	10 - 15
Formaldehyde		0 - 0	5 - 10
Urea		15 - 20	0 - 0
Melamine		15 - 20	10 - 15
Polystyrene		7½ - 7½	10 - 10
PVC		5 - 5	10 - 10
SAN		7½ - 7½	10 - 10
ABS		0 - 0	10 - 10
Phenol formaldehyde		0 - 0	10 - 10
Urea formaldehyde		0 - 0	7½ - 7½
Plasticizers	General	15 - 20	10 - 15
	Santicizer 160	0 - 0	0 - 15
Rubber Chemicals	Made	15 - 20	10 - 15
	Not made	0 - 15	0 - 15
Oil additives	Made	15 - 20	10 - 15
	Not made	0 - 5	0 - 15
Maleic		15 - 20	10 - 15
Phthalic anhydride		0 - 0	10 - 15
2-ethyl hexanol		15 - 20	10 - 15
iso-octanol		0 - 0	10 - 15
iso decyl alcohol		0 - 0	0 - 15

H. J. Dixon

DRAFT COVERING LETTER AND STATEMENT

Director, Tariffs Division,
Department of Finance,
Ottawa.

Dear Sir:

Re: Tariff Board Reference No. 120 (Chemicals).

Attached is the statement of the Industry Committee for the Study of Reference 120 (Chemicals) respecting the report of the Tariff Board.

The Industry Committee is an informal one representing the industry at large, and does not speak for any particular company or specialized group of companies within the chemical industry. Its comments are therefore made in relation to broad points of principle, rather than to tariff recommendations on individual chemicals. Our views, as expressed in the attached statement, have been circulated to over one thousand companies in the chemical industry.

We will be glad to meet with the group of tariff specialists which we understand has been set up to hear oral representations. We can then explain and amplify points made in the attached statement, and will be glad to deal with any questions not covered by our statement.

Yours very truly,

J. A. Davis,
Chairman.

STATEMENT BY THE INDUSTRY COMMITTEE FOR THE STUDY OF REFERENCE 120 (CHEMICALS) ON THE REPORT BY THE TARIFF BOARD

The overall objective of the Industry Committee in Reference No. 120 was to obtain a modern flexible tariff in line with those of leading industrial countries which would:

a) Increase the industry's share of the domestic market and thus reduce unit costs thereby improving its competitive position in both domestic and export markets.

b) Encourage the expansion of existing capacity and the establishment of plants for new products so that Canada can expand the manufacturing sector of the economy in pace with other industrial nations.

To accomplish this, the essence of the proposals put before the Tariff Board by the Industry Committee was:

a) To have the Brussels Nomenclature adopted for classifying chemicals and allied products.

b) To have statutory rates of 15% B.P. and 20% M.F.N. for the Brussels headings in general.

c) To make provision for temporary exceptions from the heading rates for non-competitive chemicals or plastics in such a way that they could be cancelled when the circumstances changed without the necessity of proceeding through budgetary proposals.

d) To secure the deletion or modification of end-use items.

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e) To eliminate anomalies and inconsistencies in the existing chemical and plastics tariff.

There are important features of the Board's report with which we cannot agree.

1. The rates recommended by the Board represent a substantial reduction from the 15% B.P., 20% M.F.N. recommended by the Industry Committee and, for the most part, are lower than the existing rates on the major portion of chemicals made in Canada. The adoption of the Board's rate proposal would mean that the chemical industry would fall far short of its growth potential in years to come.

2. The Board's proposal of free statutory rates in the headings and the elimination of the made - not made in Canada

distinctions preclude the use of the feature whereby goods are automatically accorded higher rates of duty on achieving made in Canada status. This feature is embodied in the existing tariff and its extension to all chemicals and plastics was incorporated in the Industry Committee proposals. If the Board's recommendations were adopted it would no longer be possible:

a) to obtain within a reasonable time a higher tariff rate when chemicals are made in Canada,

b) to be assured of duty protection on manufacture.

The only provision that the Board suggests for altering such rates as new Canadian production develops is through budgetary proposals laid before Parliament from time to time. This suggestion of referring to Parliament each time a change is required in respect of new or prospective production of a particular chemical or plastic is impracticable, costly and discouraging.

In any case, should the recommended rate of Free be bound under G.A.T.T. the suggested approach of going back to Parliament for revisions becomes completely illusory.

The establishment of duty rates for basket items would conform with the practice in other industralized countries. It would assist long-term planning and encourage consideration of manufacture in Canada by indicating the tariff rates that would apply.

3. The Board's proposal of free or low heading rates provide loop-holes for circumventing the tariff granted specific products.

4. The rules for the Interpretation of the Nomenclature, the Section and Chapter Notes, and the explanatory Notes to the Brussels Nomenclature form an integral part of the Brussels Nomenclature classification system. They are essential for its understanding, interpretation and administration. The Tariff Board has recommended that "as nearly as may be" the rules and notes be

prescribed by Order-in-Council "to serve as an aid" in the interpretation of the recommended tariff items. They cannot merely be an "aid", but must form an integral part of the recommended chemicals schedule.

5. The Board recommended different rates for most chemicals or plastics, which were unknown, unimportant or unavailable from Canadian production (at least as was known to the Board at the time of the hearings), from the rates recommended for those products in the same Brussels heading that were regarded as available from Canadian production. This decision by the Board resulted in the necessity of creating more than 800 sub-headings. If the same rates were recommended for the basket sub-headings as for the generality of the products under the same headings, which the Board has considered available from Canadian production, hundreds of sub-headings could be eliminated.

Our proposal, therefore, would greatly simplify the tariff structure to be incorporated into the statute. It need not change the effective level of rates, which can be adjusted downwards by Order-in-Council.

22nd July 1966