

Room, R., Giesbrecht, N. and Stoduto, G. (2006) Trade agreements and disputes. In: Giesbrecht, N., Demers, A., Ogborne, A., Room, R., Stoduto, G. and Lindquist, E., eds., *Sober Reflections: Commerce, Public Health, and the Evolution of Alcohol Policy in Canada, 1980-2000*, pp. 74-96. Montreal & Kingston: McGill-Queen's University Press.

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Trade Agreements and Disputes

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Canada and the United States are each other's biggest trading partners. Alcoholic beverages are a substantial item of both import and export trade in Canada. Canadian whisky has long been a substantial export item, and, with the rise in popularity of imported beers in the 1980s and 1990s in the United States, Canadian brewers also developed substantial export markets. In the other direction, Canada is an important import market for foreign wines. The Ontario and Quebec liquor retail monopolies are among the top three importers of wine globally, and the Quebec monopoly claims to be the single biggest importer of French wine.

The substantial trade between Canada and the United States takes specific forms that underlie the trade issues we discuss in this chapter. In order to provide a context for this discussion we provide information on the volume of trade and government revenue that it generates. Table 6.1 presents cross-border exports and imports of alcohol in 1993-94. Trade in each alcoholic beverage is quite imbalanced. However, other factors often influence the degree to which these imbalances generate trade friction. For example, Canada exports considerably more spirits to the United States than vice versa. Since the spirits industry is so multinational, however, it has no particular interest in changing this balance. In fact, given the strength of the American dollar in the 1990s, the more that was sold in the United States, from whatever source, the happier the industry undoubtedly was.

Canada also exports much more beer to the United States than vice versa (although, given that the US population is about ten times that of Canada, Canadian beer's share of the US market is about the same as US beer's share

Table 6.1

Imports and exports of alcoholic beverages between Canada and the United States, 1993-94 (conversions: 1 us gallon = 3.78 litres; 1 us dollar = \$1.2537 Canadian)

<i>Exports from Canada to United States¹</i>	<i>Spirits²</i>	<i>Wine</i>	<i>Beer</i>
Volume in thousands of litres	166,150	2,876	329,357
Value in Canadian \$\$\$ (000)	\$410,925	—	\$207,426
Share of total Canadian exports (% by volume)	83%	87%	100%
Rank of us as destination for Canadian exports of beverage (by volume)	1	1	1
Share of total imports of the beverage type (% by volume)	38%	Less than 2%	28%
Rank of Canada as source of us imports (by volume)	4	Below 7	2
<i>Exports from United States to Canada³</i>			
Volume in thousands of litres	9,100	33,805	24,506
Value in Canadian \$\$\$ (000)	18,821	57,231	\$15,724
Share of total us exports (% by volume)	5%	26%	7%
Rank of Canada as destination of us exports of beverage (by volume)	5	1	4
Share of total Canadian imports of beverage (% by volume)	9%	21%	49%
Rank of us as source of Canadian imports of beverage (by volume)	4	2	1

¹ Statistics Canada (1994).

² Represents volume at 40 percent alcohol content.

³ Adams/Jobson's Handbook Advance (1996).

of the Canadian market). Since the brewing companies are more nationally based, this imbalance has been a source of more friction, as we shall discuss.

Finally, there is a positive balance of trade in wine for the United States. This in part reflects the climatological limits on Canadian grape growing. But, as we shall see, the us wine industry was not satisfied with the level of its shipments to Canada and has sought to increase its presence in the Canadian market.

TRADE AGREEMENTS AND DISPUTES, 1980-98

Whereas international trade is a federal matter, the Canadian alcohol control structure, as was discussed in Chapter 2, is primarily a provincial matter. There is substantial provincial government involvement in the alcohol market not only through regulation but also through direct government ownership of wholesale and retail levels of the trade.

Federal legislation adopted in 1928 – dating “from the grandfather of Jesus Christ, or nearly,” as a member of the Quebec Assembly put it –

assigned to the provincial governments the exclusive right to import alcoholic beverages into their province (Commission permanente de l'économie et du travail 1992; Consolidated Statutes 2000). The trade disputes over alcohol thus raised difficult issues about how federal and provincial levels would collaborate, or at least interact, and (as a last resort) what power the federal government has to force provincial compliance with what it has agreed to internationally.

Negotiating trade treaties and the handling of trade disputes, as an international matter, are defined as primarily the responsibility of the Canadian federal government. During the period under study, there were several agreements and international disputes pertaining to alcohol sales. Table 6.2 provides a chronology of these events in trade involving the Canadian market, primarily between 1987 and 1994. It is compiled from various sources, including Chapman (1995), Room and West (1998), and newspaper accounts.

The main trade agreement by which Canada was bound as of the mid-1980s was the General Agreement on Tariffs and Trade (GATT), a multilateral agreement initiated in 1948 and subsequently expanded in scope (GATT was succeeded in 1995 by the World Trade Organization). Already in the 1970s Canada had been pressured by the European Common Market to end discrimination against imported products, and in 1979 the Canadian federal government had promised its "best efforts" to eliminate discriminatory treatment by provincial liquor boards. In 1985 the European Union (EU), dissatisfied with the pace of progress on this commitment, filed a complaint with GATT, joined in the same year by the US.

In late 1987 GATT issued a preliminary ruling against Canada's slow progress on these GATT complaints, thus initiating a period of negotiations on how and with what timetable Canada would come into compliance with the ruling. This ruling began a turbulent period of trade disputes on alcoholic beverages between Canada and its main trading partners – a period that lasted until 1994.

The Conservative Party was in power from 1984 until late 1993, largely under Prime Minister Brian Mulroney. During this period, the federal government negotiated two key trade treaties. The Canada-US Free Trade Agreement (FTA), which went into effect at the beginning of 1989, was superseded on 1 January 1994 by the North American Free Trade Agreement (NAFTA), involving Mexico, Canada, and the US. These trade agreements were never popular with Canadians, and former prime minister Mulroney's commitment to them may have contributed to the rout of the Conservative Party, then under new leadership, at the 1993 federal election. Nevertheless, despite growing public opposition to NAFTA, the succeeding Liberal government reversed its previous opposition to the treaty and publicly began to endorse it.

Table 6.2
Chronology of trade disputes involving Canada concerning alcoholic beverages, 1979-98

Complainant				Date	Complaint involving Canada and alcohol or ruling made regarding trade dispute
CAN	US	EU	OTHER		
		✓		1979	In GATT negotiations, Canada promises "best efforts" to eliminate discrimination by provincial liquor boards.
		✓		1985	EU lodges a complaint against Canada's restrictions on imported alcoholic beverages.
	✓			1985	US joins EU complaint.
		✓		1987	GATT rules against Japan: shochu and whisky are similar beverages, should have same tax.
		✓		10 Nov 1987	Preliminary ruling by GATT in favour of EU, against discriminatory rules and markups on beer, wine, and liquor.
	✓	✓		Dec 1988	In negotiations after GATT ruling, Canada asks for 12-year phase-in, EU says 2 years, agreement reached on 7 years.
			✓	1 Jan 1989	Canada-US Free Trade Agreement (FTA) goes into effect, includes provisions to eliminate Canadian wine and spirits discriminations over 7 years; beer exempted from agreement.
					Negotiation between Canadian federal and Ontario and BC governments on financial package to save wineries, primarily financed from new provincial charges on wine sales.
	✓			July 1989	US complaint against increase in Ontario warehousing costs for beer, as violating the fta, which allowed only discriminatory measures on beer in effect as of 4 Oct. 1987.
	✓			June 1990	US complaint under GATT of discriminatory beer distribution and pricing policies by Ontario, contrary to 1988 ruling. Responds to May complaint by Heileman Brewing; Stroh Brewing also complains in September 1990.
✓				May 1991	Canada files complaint with GATT, claiming US pricing, distribution, and sale restrictions discriminate against Canadian beer, wine and cider.
✓				4 June 1991	"Dumping" ruling handed down by Revenue Canada concerning BC; requires that two US brewers pay anti-dumping levies. (Dumping is charging prices in an export market less than the "normal" home market price and causing material injury to the domestic producers in the export market.)
	✓			25 Oct 1991	Preliminary GATT ruling upholding US complaint. US threatens retaliatory tariffs if Canadian restrictions are not lifted by Dec. 1991.

Table 6.2 (continued)

Complainant				Date	Complaint involving Canada and alcohol or ruling made regarding trade dispute
CAN	US	EU	OTHER		
	✓			18 Feb 1992	Canada accepts GATT ruling that Canada's distribution and pricing practices for imported beer and wine are discriminatory. Proposes three-year phase-in of compliance; us wants compliance by summer 1992.
			✓	31 Mar 1992	Agreement between most provinces and federal government: interprovincial beer barriers to be eliminated by 1 July, foreign beer barriers to be eliminated by 1995.
✓				March 1992	GATT panel upholds Canadian case against the us, ruling that the pricing, distribution, and sale restrictions in the us at the federal level and in 44 states are discriminatory.
	✓			April 1992	us objects to lengthy phase-in period for opening beer market and threatens retroactive border duties if barriers are not dropped by summer 1992. Ontario LCBO announces boycott of us beer.
	✓			25 Apr 1992	Last minute us-Canada deal: 18-month compromise on implementation period for opening Canadian beer markets.
	✓			30 Apr 1992	Ontario imposes a 10-cent-per-can environmental levy on canned beer.
✓				30 Apr 1992	GATT releases report upholding Canadian case against us restrictions.
✓				June 1992	us agrees to accept GATT ruling, with some reservations.
	✓			July 1992	us rejects Canada's implementing plan, largely because of Ontario environmental levy on canned beer.
	✓			July 1992	us requests GATT permission to withdraw trade concessions from Canada; the request is denied.
	✓			24 Jul 1992	us unilaterally imposes 50% tariff on beer originating in Ontario (\$3 per case of 24 beers).
✓				24 Jul 1992	Canada imposes 50% retaliatory tariff on two us brewers (Stroh and Heileman).
			✓	10 Aug 1992	Stall in Mexico/us/Canada trade agreement (NFTA) negotiations: Mexico wants 5-year phase-out of its 25% tax on beer in bottles, 10-year phase-out for cans; us cannot agree, as would undercut its position with Canada.
			✓	30 Sep 1992	GATT rebukes us and Canada for "beer war" outside frame of GATT.
			✓	5 Nov 1992	us threatens 200% tariff on European white wine if us soybean farmers are not given better treatment in European markets.

Table 6.2 (continued)

Complainant				Date	Complaint involving Canada and alcohol or ruling made regarding trade dispute
CAN	US	EU	OTHER		
✓				3 Dec 1992	Canada pushes for us implementation of GATT rulings, asking for loosening of us restrictions by summer 1993.
✓				8 Feb 1993	us-Canada trade panel (under FTA) upholds the Canadian ruling that 3 us brewers dumped beer in BC.
			✓	2 Jun 1993	us environmentalists ask us to withdraw opposition to Ontario beer-can levy, linking this to whether they will support NAFTA.
	✓			30 Jun 1993	us asks other Canadian provinces to guarantee they will not impose further restrictions such as Ontario's environmental levy: Quebec refuses to grant this.
			✓	July 1993	Group of Seven industrialized democracies agree to a package of tariff cuts (although no specific target numbers are given). Japan agrees to reduce liquor taxes, Canada agrees to reduce beer tariffs, us makes concessions in other areas.
			✓	1 Aug 1993	Canadian federal government lifts the Canadian Wheat Board's monopoly on barley sales (brewers had been required to purchase from the board at above-market prices).
	✓			6 Aug 1993	American beer complaint solved, with Canada allowing access to us beer but maintaining minimum price (at lower level) and Ontario's environmental levy.
			✓	8 Aug 1993	Canadian brewers switch to us barley.
		✓		30 Sep 1993	Ontario extends 6 August agreement with us to the EU and other foreign brewers.
			✓	1 Jan 1994	NAFTA (North American Free Trade Agreement between Mexico, us, Canada) takes effect. us trade representative announces the start of talks to speed up cuts in Mexican wine tariffs.
	✓			6 Jan 1994	Three major us brewers charge that Ontario, Quebec, and BC continue to block us exports despite a Memorandum of Understanding signed in 1993. us claims that Ontario has been slow to put American beer in provincial Brewer's Retail outlets and that Quebec's minimum price undermines competitiveness.
✓				26 Jan 1994	Canada complains to GATT concerning decision of 30 April 1992: only 4 of 44 us states have removed unfair taxes.

Table 6.2 (continued)

Complainant				Date	Complaint involving Canada and alcohol or ruling made regarding trade dispute
CAN	US	EU	OTHER		
	✓			2 Feb 1994	us sends out notification that provincial governments have 30 days to comply with truce conditions or it promises to tear up the "beer agreement" and impose duties on Canadian beer.
			✓	14 Feb 1994	Draft agreement circulated to provincial negotiators in Canada to eliminate inter-provincial trade barriers before July 1994.
	✓			April 1994	Canada's provincial pricing system for beer and liquor tops the list of us concerns re: annual inventory of foreign trade barriers. There is special concern around minimum price requirements that impair the ability of us brewers to compete on the basis of price (Ontario, BC, Quebec [proposed], Nova Scotia, New Brunswick, Newfoundland).
✓				April 1994	CATT dispute settlement panel rules that Canada violated its CATT obligations by imposing anti-dumping duties on us beer sold in BC (insufficient evidence that us was dumping beer into the region).
	✓			5 May 1994	Canada and us reach agreement on market access of us beer. Quebec offers to permit the sale of us beer in supermarkets and convenience stores. The two countries still disagree on whether BC will retain its minimum price on beer and whether Quebec will establish such a requirement.
			✓	July 1994	Interprovincial agreement on Canadian internal market; for alcoholic beverages, it only sets up a process for dealing with existing disputes.
			✓	Dec 1994	CATT's review of Canadian trade policies and practices points out that interprovincial trade barriers within the country are hampering economic progress. However, in general, Canada's policy is depicted as being open and positive.
✓				2 Dec 1994	Canadian International Trade Tribunal (CITT) rules that the level of interprovincial trade (since 1991) is such that BC packaged beer producers no longer constitute a regional industry, therefore the ruling results in the lifting of anti-dumping duties on us beer shipments to BC.
			✓	9 Oct 1995	us NAFTA negotiators try but fail to persuade Mexico to drop 16% wine tariff now rather than over 10 years.

Table 6.2 (continued)

Complainant				Date	Complaint involving Canada and alcohol or ruling made regarding trade dispute
CAN	US	EU	OTHER		
	✓			Nov 1995	NAFTA dispute settlement panel upholds a decision to abandon dumping duties on us beer sold in bc. Marked as the end of a four-year dispute on the flow of cheap beer into bc from Pabst Brewing Company, C. Heileman Brewing Company Inc., and Stroh Brewery Co. Panel rules that crrt was justified to have lifted anti-dumping duties in December 1994. This represents the third time some aspect of the bc beer dispute has been referred to a bi-national panel. bc government still upholds a minimum price around that charged by Molson, Labatt, and Pacific Western. Ontario also still exacts a levy on cans of imported beer.
			✓	28 May 1996	Canada, us, and eu win a World Trade Organization case against Japan's liquor tax regime as discriminating against whisky in favour of shochu.
			✓	13 Dec 1996	Mexico raises tariffs on us wine, wine coolers, and brandy to 20% for three years in retaliation for higher us duties on Mexican straw brooms.
			✓	13 Feb 1998	NAFTA panel rules against us on tariff on Mexican straw brooms.
			✓	8 Dec 1998	us president lifts tariff on Mexican straw brooms.

1 This quotation, and others ascribed to an informant, are based on in-depth interviews conducted during the research for the project. The protocol, which included an agreement between the researchers and those interviewed, was that respondents would not be identified by name, position, or organization.

Between 1987 and 1994 Canada thus found itself engaged on two fronts in disputes and negotiations on trade in alcoholic beverages. One front was the continuing series of disputes in the wake of the preliminary GATT decision of 1987, which (with a follow-up US complaint of 1990) continued until 1994. (In fact, the series may be said to have continued into the new century, in view of American non-compliance with the GATT ruling on Canada's counter-complaint.) The other front was the negotiations over the FTA, and then over NAFTA, in which both the beer and wine industries in Canada saw themselves as having significant interests at stake. The basic strategy of the beer and wine industries was to secure exemptions in these two trade agreements that, it was hoped, would protect them against the GATT decisions. This strategy failed for the wine industry immediately, as the EU was not a party to the FTA, and the Americans proved unwilling to exempt wine from the FTA. The strategy also ultimately failed for the beer industry as an FTA exemption did not deter the US, under pressure from its brewers, from filing a new grievance under GATT in 1990. During this period it turned out that GATT was more important than the FTA or NAFTA in disputes concerning the Canadian alcohol market.

At the beginning of the pivotal period in trade agreements and disputes concerning the Canadian alcohol market, a newspaper article laid out very clearly the disparate interests of the various Canadian alcoholic beverage industries (Spears 1987). The distillers felt that the gains and losses for them from the FTA, for instance, would roughly match, so that, on balance, they tended to favour the trade agreement. In contrast, Canadian winemakers felt that free trade would be a "disaster." Brewers also felt that free trade with the United States would leave them "as flat as a glass of day-old draft," as an officer of Labatt explained the brewers' position (Morgan 1987). With the US brewers' economies of scale, the wages per unit of US beer were about half those per unit of Canadian beer. Ingredients for Canadian beer also cost more; the requirement to use Canadian malting barley, for instance, meant buying at twice the world market price. Moreover, high Canadian beer taxes were brought into the argument, though it is hard to see how they would disadvantage Canadian against American beer.

In this newspaper article, and in other public presentations, brewing interests did not totally oppose the application of free trade to beer, but they wanted a substantial phase-in period. As one beer industry presentation to the government put it in 1985, without a sufficient time for the "considerable economic and structural adjustment" of the Canadian brewing industry prior to opening the market further to American exporters, "free trade would have a totally disruptive effect on the Canadian beer market." Even with this time for adjustment, the Brewers Association of Canada (1985, n.p.) noted, "some members question the ability of the Canadian industry to survive."

THE CRISIS OVER WINE 1987-89

The issue of "discrimination" against foreign beer, wine, and spirits by Canadian provincial liquor boards had already been raised in GATT negotiations in the late 1970s, and in 1979 the Canadian federal government committed itself to its "best efforts" to eliminate these. In a federal system it is inherently difficult for one level of government to influence another level within the other's area of constitutional competence, and it is perhaps not surprising that in 1985 the EU lodged a complaint against Canada's lack of progress in ensuring provinces' compliance to GATT rules. That same year the United States joined in the complaint, and in late 1987 the GATT hearing process was complete, with GATT indicating that the ruling would go against Canada. This started a round of negotiations about the implementation of the agreement and how it was to be phased in. Apparently there would be little problem with spirits, given the integrated multinational nature of the spirits industry, but for beer and wine the Canadian federal government was faced with very unhappy industries, backed up by the provincial regulatory agencies.

This is the context within which the negotiations about the FTA with the United States were finalized. During these negotiations the Canadian government succeeded in keeping beer out of the FTA altogether but signed an agreement to eliminate import controls on US wine and liquor in just over two years. This step dismayed and outraged Canadian winegrowers. As a Niagara, Ontario region grape grower put it, "We were bargained away. We were betrayed. No, betrayal is a very great understatement. We were sold out" (Kenna 1987, B1). Growers in British Columbia felt the same way: "We were traded off. Only God knows what was in the trade negotiations that made them decide we were expendable" (Kenna 1989, D5). "Fright and near-panic" were reported among the Ontario growers; one came into his bank wanting "to know if he should bother pruning his vines this fall ... He was weeping." There was even resort to patriotic appeals to the history of the Niagara peninsula, where most of Ontario's wine-grapes are grown: "Are we going to give up an area we fought for against the Americans in the War of 1812? We turned them back here. If it wasn't for our families fighting them then, there wouldn't be a Canada ... today" (Kenna 1987, B4). The differential treatment of beer and wine did not go unremarked. The executive director of the Wine Council of Ontario "wondered aloud why wine makers are told to 'march to this new and different, dare I say foreign, drummer, when we see that our major competitors, the beer industry, was granted privileged treatment and protected from the hazards of free trade'" (Walker 1988, H1).

At the same time, negotiations continued, primarily with the EU, about compliance with the GATT ruling. As a commentator noted, "the ruling ... raises questions about the ability of an international trading body to render decisions against such 'sub-national' governments as provinces and states"

(Lipton 1987, B10). The Ontario government, in Liberal hands (while the federal government was Conservative), was threatening to ignore the GATT ruling if its demand for a twelve-year phase-in of compliance was not met.

The weakness in the wine industry's position, compared to the beer industry's, was that it was located primarily in only two provinces, while "every province except Prince Edward Island has at least one sizeable brewery" (Sheppard 1988, B3). The predominant orientation of the industry up to that time to inexpensive and relatively low-quality wine was also clearly a losing proposition in the long run. The wine industry's common front was breached by small boutique wineries such as Hillebrand (Swan 1987) and Vineland Estates (*Toronto Star* 1988a), which publicly welcomed free trade.

Overall, the brewers could claim to generate considerably more employment than the grape growers, and they were also a source of support for the Canadian barley industry. The brewers also held trumps concerning the all-important province of Quebec, which had no important vineyards but whose provincial government "supported the exclusion of beer from [FTA] negotiations, given the particular nature of the brewing industry in Canada" (MacDonald 1988, n.p.). In connection with a meeting of federal and provincial trade officials to plan strategy, the *Toronto Star* (1988b, A8) noted that "some officials have suggested that Canada might sacrifice its wine industry, which is already threatened by the Canadian-us free trade agreement, in order to continue protection for the domestic brewing industry." Other reasons for the accommodation of beer producers might have been the size of the beer market and their power to generate revenue and provide jobs, their political clout, and their already established sponsorship of high-profile hockey, baseball, and football clubs.

In the end, agreement was reached with the EU in December 1988, just before the FTA went into effect. The EU's primary focus was on wine rather than beer, although it refused to exclude beer from the dispute (Sheppard 1988; Taber 1988). But initially the brunt of the FTA agreement and the resolution of the GATT dispute was seen as falling on the wine industry. According to one reporter in April 1988, at least fifteen Ontario grape growers had "walked away" from their vineyards that year (Barnes 1988).

But the federal government's agreement with the EU still left it with the problem of obtaining compliance from the provinces, and particularly from Ontario. The federal minister at first imposed a deadline and threatened to impose a settlement (Story 1989b). An Ontario government source commented that the federal minister's comments at a news conference "as good as invited the Americans to file a complaint under FTA" against Ontario. Then the federal government backed off, with the minister's spokesman insisting "there wasn't any ultimatum" (Story 1989a, A13). Finally, an agreement was reached in March 1989 (Adolph 1989). The federal government would provide \$5 million to promote Canadian wine exports, while Ontario

would contribute \$45 million for wine improvement and image, primarily money to root out inferior wine grapes and encourage planting of European varietal grapes. The \$45 million, however, would come from the new system of mark-up charges by the provincial liquor board, structured to avoid discrimination against foreign products (Adolph 1989). A similar solution was arrived at for British Columbia.

In effect, these developments amounted to a transparent replacement of a system of subsidy through discriminatory fees with a temporary system of direct subsidy, at the expense of buyers of imported wine. However, with its own system of wine subsidies, the EU was not in a good position to complain about this (Story 1989c). The US also decided to accept the deal; the American trade representative "dismissed suggestions that the Ontario and federal aid is a hidden subsidy for the provincial wine industry" (Hepburn 1989, C3). However, the fact that Washington was now involved in negotiations between Ottawa and provincial governments did not escape notice (Story 1989d).

In the following years, the Canadian wine industry largely transformed itself, with the support from the provincial and federal governments, into an industry producing a more "upscale" product. By 1994, one winery president was able to claim that "Ontario's industry is probably the healthiest it's ever been" (Austen 1994, E8). With the exception of specialty products such as ice wine, however, producers have not yet found significant export markets for their products, even after the introduction in Ontario, and later in British Columbia, of a quality assurance program to increase the quality of wine.

The Quebec arrangement, whereby designated local companies were permitted to sell in grocery stores bulk wine from elsewhere bottled in the province – "wine called Canadian – between quote marks," as a Quebec minister called it (Commission permanente du budget et de l'administration 1988, n.p.), was apparently not affected by the negotiations of 1988–89. However, the minister forecast that the issue of discriminatory favouring of local over foreign bottlers was likely to be raised again by the Europeans within ten years.

THE "BEER WARS" 1989–93

The Canadian beer industry may well have breathed a sigh of relief at escaping the storm over trade agreements and disputes in 1987 and 1988. But new clouds were on its horizon. The US brewing industry had substantial over-capacity, and the high margins in the Canadian market between the cost of US production of lower-cost beer and Canadian retail prices were tempting. Two marginal and threatened players in the US beer industry, Heileman and Stroh, made sustained efforts to improve their market position by entering the Canadian market, enlisting the US trade promotion apparatus in their interest. "Cheap US beer" became a factor in the Canadian market in 1989, with warnings from the Canadian brewers that it "will

erase jobs" (van Alphen 1989b). A Toronto writer, teacher, and historian pointed out that imported beer had an advantage over Ontario beer in carrying no container deposits, while buyers of domestic beer paid five cents on a can and a ten cents on a bottle. He suggested that, in the interests of the environment and of equity, all beer should bear the same refund costs (Raible 1989). The head of the Ontario liquor board "recommended that the government set a minimum price on American beers to prevent domestic brewers from being undercut so easily" (van Alphen 1989a, C1).

These recommendations foreshadowed the largely successful Ontario strategy of creating some breathing space for the Canadian brewers with a minimum price for beer and an environment charge for beer cans. In the meantime, in 1989 and 1990, the United States filed charges under the FTA and GATT against Ontario distribution and pricing policies and charges. In British Columbia the main strategy in 1991 was to secure an "anti-dumping" ruling that American brewers were charging less in British Columbia than in their home markets. This strategy was initially successful, with a February 1993 ruling in Canada's favour by the US-Canada trade panel operating under the FTA, allowing the imposition of special anti-dumping tax. However, this was countermanded by a GATT panel ruling in April 1994. Finally, in December 1994, a Canadian panel required that the anti-dumping tax be removed.

In May 1991 Canada carried the emerging battle back into US territory, filing a complaint with GATT claiming that US alcohol controls and taxes both at the federal and at state levels discriminated against Canadian beer, wine, and cider. The US delayed GATT action on this case, pointing out that, "because some of Canada's allegations are directed at the states rather than the federal level, it will take time for Washington to follow up on them" (*Toronto Star* 1991, D12). Eventually, in March 1992, the GATT panel ruled in Canada's favour, finding discriminatory practices at the federal level and in forty-four US states.

In the meantime, however, GATT had ruled in favour of the US complaint in October 1991 and, in accordance with US law, the US had threatened retaliatory tariffs if the Canadian restrictions were not removed by that December. In December the US moved the deadline to 10 April 1992 (Papoe 1991). By this time, the disputes were being referred to as a "beer war" (McGovern 1992).

In February 1992 Canada finally accepted the GATT ruling, but proposed a three-year phase-in of compliance. The US, however, wanted compliance by that summer. Ontario, now with a New Democratic Party government, maintained that, "despite federal scepticism," it had the right to "maintain a minimum price for beer for social and health reasons." The Ontario minister of consumer and commercial relations emphasized the importance of these social aspects, stating: "beer is not just another commodity. It's a drug and we want to maintain our social and health controls" (McCarthy 1992e, B3).

In the context of external threats from the United States, Canadian federal and provincial governments agreed at a 31 March 1992 meeting that most inter-provincial beer barriers would be eliminated by 1 July of that year, with foreign beer barriers to be eliminated by 1995. This spelled the end of requirements that Canadian beer sold in a province be brewed in that province and, thus, allowed the breweries to consolidate their brewing operations. However, the July 1994 formal agreement on reducing trade barriers among provinces – that is, the Agreement on Internal Trade – touched on alcoholic beverages only to the extent of specifying a process for dealing with existing disputes among provinces (Graham 1994).

The United States continued to object to the lengthy phase-in for opening the Canadian beer market and threatened retroactive border duties if the barriers were not dropped by the summer. In response to the threat of retroactivity, the Ontario liquor board instituted a boycott of us beer; that is, it stopped offering it for sale (McCarthy 1992d). In an atmosphere of deteriorating trade relations, the cross-border shipment of beer dried up in late April 1992 (McCarthy 1992f). Finally, the American president intervened to order a compromise on an eighteen-month phase-in period and Ontario was allowed to retain its minimum price level, which was now characterized as “a social control to prevent deep discounting, which would encourage over-consumption” (McCarthy 1992c, A24).

The peace in the beer wars, however, was short-lived. In late June the us negotiators rejected Ontario's proposed implementation of the agreement, which included adoption of a uniform ten cents environmental tax on beer cans. From the point of view of American brewers, the net result would be a 13 percent rise in the average price of Amerocan beer (Maggs 1992). On 15 July the GATT Council denied the us request to retaliate against Ontario. Touring Molson and Labatt breweries, the Ontario premier, Bob Rae, raised the rhetorical stakes, reiterating “his determination not to buckle to the Americans” (Ferguson 1992c, A1). On 24 July the us unilaterally imposed a punitive tariff on beer originating in Ontario, and Canada struck back with a tariff on beer brewed by Heileman or Stroh (Ferguson 1992a). The prime minister, Brian Mulroney, “condemned the Americans for making a mockery of international trade practices. ‘It's the kind of action which is unhelpful. And to say their timing is bad is a significant understatement,’” he added, since the actions were on the eve of negotiations for NAFTA (Ferguson 1992b, A6).

At the GATT Council meeting in October, both Canada and the United States were scolded for taking retaliatory actions outside the GATT framework (*Toronto Star* 1992). Since the Canadian brewers responded to the American actions against Ontario by shipping their beer from other provinces, the us action was more symbolic than effective. Perhaps because of this the United States periodically threatened to increase the sanctions

(*Toronto Star* 1993b). The dispute dragged on into the summer of 1993, with a new wrinkle added when American negotiators demanded that other provinces not adopt policies Ontario would be allowed to keep. Predictably, this drew a frosty response from Quebec: "What's good for Ontario is good for Quebec," Quebec's international affairs minister insisted (McCarthy 1993b, E3). Finally, a settlement was reached in early August 1993 (McCarthy 1993a): Ontario agreed to lower its minimum floor price somewhat but was allowed to maintain its environmental levy on beer cans.

The us seems to have backed off on its demand that Ontario's policies not be adopted elsewhere (Strauss 1993; McKenna and Fagan 1994), and, in late 1993, Quebec adopted a minimum price for beer, following the Ontario model. In response to a complaint by the us ambassador, Quebec's international affairs minister defended their decision by saying that this "social measure" was related to the objective of reducing alcohol consumption by 15 percent by 2002, announced by the minister of health and social services in order to "struggle against the ravages caused by the excessive consumption of alcohol." The international affairs minister noted that he consulted the ministers of health, transport, and public security since the "problems of alcohol (traffic accidents and sickness caused by excessive consumption of alcohol) related to all these ministries" (*Le Devoir* 1994, n.p.).

In the following years both Canada and the United States continued to complain about the non-compliance of the other side with the GATT rulings (e.g., McCarthy 1994; *Toronto Star* 1994), but the rhetoric remained restrained and any actions mostly behind the scenes. Although there had been high hopes on the Canadian side that the ruling against the us would "give Canada more bargaining room when it comes to bilateral talks" (McCarthy 1992b), the us succeeded in avoiding a linkage of the two rulings in the negotiations (McCarthy 1992a). In fact, Canada's complaint against the us is still far from resolved; even the discriminatory measures at the federal level have not been amended. A question from the Canadian delegate about us plans to remove discrimination against imported beer and wine drew the bland written response in 2000 that the us "repeatedly made concerted attempts to bring the relevant us federal and sub-federal measures into compliance" (World Trade Organization 2000, Section 8.1).

In the week of the August 1993 settlement of the beer wars, the Canadian government lifted the Canadian Wheat Board's monopoly on the Canadian barley market. Canadian brewers immediately switched to cheaper American barley, noting that the requirement to buy Canadian barley had added \$15 million to their annual costs. The president of the Canadian Federation of Agriculture linked the federal action to the resolution of the beer war – "I can draw a line from the beer war to cheaper barley" – although the federal agriculture minister denied any connection (*Toronto Star* 1993a, B2).

ACTORS, INTERESTS, AND STRATEGIES

Environmental and Public Health Interests: A Contrast

Ontario was able to maintain its "environmental levy" on beer cans against considerable odds. The timing of its levy on imported beer appeared to many observers to be highly suspect, coming, as it did, at the moment when the province gave way on previous discriminatory arrangements. Its effects were widely seen to be discriminatory in that American beer was primarily sold in cans, while Canadian beer was primarily sold in recycled bottles. Also, as US trade negotiators pointed out, the levy was applied to beer but not to soft drinks.

Part of the explanation for Ontario's success seems to have been cross-border action by environmental activists. At a crucial point in the negotiations, a number of US environmental groups asked the US trade representative "to drop his demand that the can tax be eliminated ... The groups said that the demand poses a threat to bottle and deposit laws throughout the United States. They linked the outcome of the Ontario case to their support for the North American free trade agreement" (*Toronto Star* 1993b, F1). With congressional support for ratifying NAFTA in the balance at the time, this linkage probably carried some real weight. Another factor in US thinking may have been Mexican insistence, in the context of the NAFTA negotiations, on treating imported beer in cans differently from beer in bottles (*Ottawa Citizen* 1992).

On the other hand, while Ontario was able to maintain the principle of a minimum price level for beer, it was forced to lower the level substantially. Here the natural constituency for support would have been the public health community and perhaps also police and public order advocates. While the responsible minister in Ontario did use public health arguments to defend the policy, there appears to have been no effort to involve these constituencies in the public discussion, and certainly no effort to undertake cross-border action on either side of the border. Nor did public health interests take the initiative. Public health-oriented agencies like the Addiction Research Foundation may have been sympathetic, but they did not become involved in the debate, despite discussions in the media that treated public health justifications as a joke (cf. Simpson 1993). The contrast with the international activism of environmental interest groups is quite stark.

Public Health Interests

It is notable that both the Ontario minister of consumer and commercial relations and the Quebec minister of international affairs used public health arguments to support their province's minimum price provisions for

beer. Despite the clear opportunity this provided, however, public health advocates, in contrast with us environmentalists, did not get involved in the trade disputes or promote a perspective that rulings on floor pricing and other trade issues had implications for public health and safety.

In addition to their role in promoting public health and order, governments have traditionally also become involved in the alcohol market to promote domestic economic activity, in part by favouring local production. But trade agreements, which often facilitate international business, normally operate to prevent such local benefits. In this situation, compliance with a trade agreement or ruling can also have the effect of reducing regulation to its lowest common denominator. There is nothing to stop a government from eliminating favours for domestic producers, but it is generally far easier politically to extend these favours to the foreign producers.

As discussed elsewhere (Ferris, Room, and Giesbrecht 1993), until the present, there has been little prospect of bringing public health interests into the discussion of alcohol matters in negotiations on trade agreements and in trade disputes. This situation has recently been changing somewhat, for instance in the context of trade within the European Union's internal market. But in matters of international trade, alcohol is still treated mostly as an ordinary commodity (Jernigan, Monteiro, Room, and Saxena 2000; Grieshaber-Otto and Schacter 2002). The World Health Organization Framework Convention on Tobacco Control may offer a nascent precedent for ways in which the public health interests in alcohol may be expressed in future trade agreements and disputes.

The Lack of Attention Paid to Public Health Research

Trade agreements and disputes involve highly complex issues, where all parties perceive a need to protect their national interest and to project the effects of particular decisions into the future. These effects potentially reach well beyond the scope of business projections or economic analyses. It is striking, however, how little connection there seems to have been between the events chronicled here and academic research and the individuals who conduct it. The role of the scientist appears to have been one of just another bystander, almost never consulted by the principal actors, rarely consulted by the media, and rarely taking the initiative to become directly involved in matters impinging directly on her/his specific area of expertise. The events described here, of course, occurred in the heyday of free trade ideology. In the wake of continuing demonstrations and organization against the primacy of multinational commercial interests in World Trade Organization negotiations and processes, there may be an opening to develop a closer relationship between research and the world of trade agreements and disputes.

There is extensive literature, going back several decades, on the associations between, for example, price and taxation and drinking-related problems (e.g., Bruun et al. 1975; Edwards et al. 1994; Babor et al. 2003). There is no known evidence that this line of research was examined closely or even noted in the trade deliberations affecting alcohol. Furthermore, there is no indication that alcohol researchers with specialized information on these topics were consulted by advisors or decision makers or, alternatively, that they sought opportunities to draw attention to the implications, based on their research and related literature, of the negotiations and the debates swirling around them.

Provincial and Federal Roles

The beer wars illustrate the difficulty international trade agreements and disputes have in dealing with subnational governments in federal nations. The signatories to the agreements are the federal governments, but they may lack the constitutional power to implement or enforce their decisions and agreements on the subnational governments. Even where they have the formal power, it is typically a fateful and extreme step to interfere in matters within, or impinging upon, another level of government's area of competence. As a result, subnational governments may wield considerable political power in the situation, as was illustrated publicly by the Ontario government during both the wine crisis and the beer wars. In both cases, acting on behalf of the industry and its provincial interests, Ontario was able to secure a better settlement than the Canadian federal government would otherwise have agreed to. In the view of an Ontario informant, although trade issues were a federal matter, federal officials "were useless in this fight. They wanted to basically sell out our beer industry ... they didn't think it was as important, say, as pigs and lumber and these bigger issues."

Why Ontario in particular played the leading role in both the wine and the beer disputes is an interesting question. Ontario's obduracy was helped, of course, by the fact that the party in power on each occasion was not the party in power nationally. But this would have been true also of British Columbia and Quebec, both of which are more usually cast in the obdurate role in the routine scenarios of Canadian politics. Ontario was the biggest Canadian market and was thus of most interest to foreign exporters. In one newspaper report on the beer wars, the Ontario government was described as acting "under pressure from Canada's major brewers, which are headquartered in the province" (Maggs 1992, B1). Clearly, important factors in Ontario's social democratic government's strong support in the beer wars were the issue of job losses, underlined by the labour unions, and the defence of the environment-friendly bottle recirculation system. One government informant said: "Number one, we were concerned about job loss.

And number two, we were concerned about losing our deposit/return system which has been in place in Ontario since the 1930s, and very successful ... If we had lost [our] case the beer industry in Ontario would have been dead ... There really wasn't a compromise. It was kind of a win or lose situation" (see note 1).

The fact of divided powers or federal systems, of course, can be used by national governments as a pretext for delays in implementation of any treaty dispute decision or settlement that is problematic for them. The United States has used its purported inability to ensure state compliance to explain its failure to comply so far with the GATT decision against it in 1992. The same dynamic has applied on the Canadian side, although the US was able to use its brute strength in the global marketplace to force a pace much faster than normal Canadian practice.

Under this circumstance, the Canadian negotiators found it necessary to bring all the provinces onto the negotiating team. In retrospect, one informant found the situation during the negotiations concerning the American demands on Canada somewhat comical:

Each of the provinces had a team composed of the government and liquor board. And they would travel with the federal government wherever they were having meetings to discuss policy issues and changes with regard to alcohol, because the main thrust of the agreements was to open the markets to foreign product and that meant rewriting virtually all policies related to listing practices, distribution practices [and] advertising practices. So all the liquor boards would have to be in attendance, which was rather amusing at some times, because ... the Americans were represented by three people and the Canadians were represented by about 40. (see note 1)

CONCLUSION

There are many ways in which a market may be, or may be thought to be, discriminatory. Countries pursuing complaints through the international trade agreement machinery must inevitably pick and choose which issues they pursue. To a considerable extent, what is chosen depends on the individual interests of different economic actors. If it had been left to the major American brewers, for instance, there would probably have been no beer wars. Their cross-licensing and cross-ownership arrangements with the Canadian brewers made them disinclined to engage in cross-border disputes, and they had bigger markets to pursue elsewhere. The beer wars with Canada, to a considerable extent, reflected desperate moves by the marginal and failing brewers in the US, supported by the US government.

Despite the thorough scrutiny and strong pressure, there are still elements in the Canadian alcohol market that, by the increasingly broad definitions in international trade law, are likely to be viewed as discriminatory.

Like some time bomb, these practices could be challenged in the future, exploding into another crisis. Obvious examples of such practices include Ontario's requirement for Ontario wine stores to be operated only by Ontario wineries, and Quebec's requirement that only wine bottled in Quebec can be sold in Quebec convenience stores.

Canadians are fond of quoting the Mexican lament, "poor Mexico – so far from God and so close to the United States." The "beer wars" provide a stark illustration that the country that is the larger market often holds the winning cards in trade disputes. Canada has been unsuccessful over a period of eight years in securing US compliance with the GATT ruling. Nor has the Canadian government been willing to threaten or use the same kind of pressure tactics that the US government used, first to get the Canadian governments' attention and then to extract important concessions, during the protracted beer wars.

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