The Canadian authorities are seriously concerned over the introduction by the British Steel Corporation of this loyalty rebate scheme. This measure has already drastically reduced Canadian sales of steel products covered by it. Canadian companies have advised that as a result of the rebate a number of sales contracts previously entered into had been cancelled. As regards volume of trade affected, Canadian exports of flat rolled products, i.e. the type of steel included in the loyalty rebate scheme amounted to between $10 to $13 million annually. The leading Canadian export is galvanized sheet amounting to almost 8 per cent of total Canadian factory shipments of this product in the first half of 1967. With respect to hot rolled sheet and strip, shipments in the first half of 1967 totalled over 1.2 million tons, accounting for close to 3 per cent of total Canadian factory shipments.

Canadian exporters are not able to defend themselves against the competition created by the loyalty scheme. They are only marginal suppliers and accordingly their British customers could not be expected to deny themselves the 30 shillings a ton on the bulk of their purchases. In addition, Canada is not in a position to supply the entire line of products included in the rebate scheme and as a result even if we were able to meet competition on practically every line, Canadian customers in the United Kingdom would be denied loyalty rebate for the other items not available from Canada. In addition, the rebate constitutes an effective discrimination in that we understand that special exemption has been worked out for motor manufacturers in the United Kingdom who we believe are not Canadian customers whereas manufacturers who buy from Canada have not been accorded a similar exemption.

While we are considerably concerned about the effects on our export trade to our most important overseas market, we would also want to associate ourselves with the comments made by our United States colleague regarding the underlying principles of the rebate scheme. As regards the legality of this scheme we feel that there is no question that it violates Article I of the GATT which states quite clearly that the CONTRACTING PARTIES recognize that laws, regulations and requirements affecting the internal sale, offering for sale, purchase, etc.,
should not be applied to imported or domestic products so as to afford protection to domestic production. Given the fact that the British Steel Corporation was set up under the Iron and Steel Act of 1967 and its powers and duties derived from the provisions of that Act, this is analogous to the powers to make regulations exercised by a government department. We are firmly of the view therefore that the regulations and requirements imposed by this nationalized industry are within the direct responsibility of the British Government. Should such a scheme be extended to other products or should other trading partners adopt such schemes, the international trading community would indeed be confronted with a very serious obstacle to international trade. Already we have heard reports that protectionist elements in other countries are regarding the scheme with longing eyes. This interest, I understand, goes beyond mere academic interest. I am reminded of a discussion under the old GATT Committee II on agriculture on the subject of mixing regulations on wheat. One of the new GATT countries innocently asked what were mixing regulations. The response - and I think it was the United Kingdom delegate who responded - was that if the representative of the new member country did not know what mixing regulations were then nobody should ever explain to him the workings of such a restrictive measure.

Restrictive measures such as loyalty rebates like mixing regulations have a tendency to spread, particularly now after a successful tariff negotiation when many industries are looking for alternative means of eliminating import competition. We feel that in the interest of entire international trading community and not only those interested in the United Kingdom market for steel, this Working Party must go on record as opposing this measure. We would strongly urge that the loyalty rebate be removed (1) because of the damage to the trading interest of the other countries, and (2) because of the principles involved.