

**EMBARGO: NOT FOR PUBLICATION  
BEFORE 1300 HRS GMT 19 NOVEMBER 1996**

PRESS/TPRB/48  
11 November 1996

**CANADA'S DOMESTIC AND EXTERNAL REFORMS HELP CREATE  
STRONGER BASE FOR ECONOMIC EXPANSION**

Canada's efforts towards trade liberalization at the regional and multilateral levels, complemented by a process of deregulation, commercialization and reduced government spending are helping to ease distortions in the incentive system and create a stronger basis for long-term economic expansion. The combined effects of domestic and external reforms have, in the recent years, touched virtually all sectors of the economy (with the exceptions of a few sensitive areas such as cultural industries and supply-managed agriculture), and a wide range of policy areas (tariffs, subsidies, investment).

According to a new WTO Secretariat report on Canada's trade policies and practices, Canada's economy in the last two years has essentially been driven by exports, which benefited from strong demand in the United States, currency depreciation and liberalization both under the NAFTA and the WTO. The report notes that economic integration with the United States has deepened during the last two years and that the United States' share in Canada's trade has continued to rise (to four-fifths of its merchandise exports and two thirds of its imports).

Bilateral tariff reductions under NAFTA have intensified North American market integration; Canada's tariffs on U.S.-made manufactures currently average only about 1 per cent (as against 6.6 per cent of m.f.n. imports), and 58 per cent of all tariff lines carry zero rates. Full bilateral tariff elimination, except for certain farm items, is scheduled for 1998. These reductions must be seen in the light of an ongoing general reduction of Canadian tariffs, including m.f.n. tariffs, in line with WTO obligations, and improvement in the General Preferential Tariff.

The process of gradual economic and trade liberalization is also reflected in a variety of policy initiatives aimed at revitalizing the economy and improving Canada's attraction for investment and production, including the reduction of subsidies and investment controls and the deregulation of services sectors. The opening of factor and goods markets to interprovincial competition has also proceeded under the Agreement on Internal Trade.

In this context, public assistance to the economy has been reduced. Under WTO Agreements and strong internal budgetary constraints, expenditure on agriculture has been reduced by 20 per cent since 1994, mainly because of the elimination of grain transport subsidies. The impact of such cuts has been offset by strong export growth. The more market-oriented environment for grain and major livestock industries contrasts, however, with the retention of supply management regimes



for dairy, poultry and eggs poultry products, which continue to be sheltered by high import barriers, now in the form of restrictive tariff quotas ranging up to 300 per cent for out-of quota rates for butter.

Conditions for foreign investors are also gradually improving, in particular through the multilateralization under the General Agreement on Trade in Services (GATS) of liberalization measures granted under NAFTA (such as lower investment review thresholds, and removal of ownership restrictions for some financial institutions). While the manufacturing sector is generally free from restrictions, investment monitoring and restrictions remain in some services sectors, considered sensitive for strategic, economic or cultural reasons.

Recourse to trade defense mechanisms, in particular anti-dumping, has declined in the wake of currency depreciation and booming exports. There is no evidence of Canada's imports being subject to any "voluntary" restraints. However, Canada undertook to impose an export charge above certain thresholds on shipments of softwood lumber to the United States. The arrangement is intended to safeguard Canadian exporters from the risks of high legal costs of trade remedy complaints in the United States. As a signatory to the Plurilateral Agreement on Government Procurement (GPA), Canada is committed to the principle of opening procurement markets among signatories, but its undertaking to include sub-federal procurement under the Agreements is linked to economically equivalent moves by the United States.

Deregulation has touched some of the largest, and previously most protected, services sectors of the Canadian economy. Competition has been introduced into large segments of the financial services, telecommunication and air transport industry, and transport infrastructures are being commercialized (ports, airports). While competitive pressures from deregulated U.S. services industries provided a stimulus to the reform, Canada's proceeded in a more gradual manner. As reform have been accompanied by new international commitments, first under the NAFTA, then under the GATS, foreign suppliers have benefited.

Overall, the regulatory environment governing growth and structural adjustment in Canada has changed significantly since 1994 as the NAFTA, WTO Agreements and the Internal Trade Agreement all removed barriers to economic integration both internally and externally. The economic implications of these agreements differ widely between sectors. While the WTO appears to have had a strong impact on agriculture, manufacturing seems at this time to have been more affected by NAFTA through reduced tariffs and strengthened rules of origin. U.S.-based companies currently account for 90 per cent of all cars and 60 per cent of all computers produced in Canada. Large foreign-owned plants are complemented by a network of small and medium-size Canadian firms that have often been able to develop competitive market niches. While capitalizing on certain size-related advantages, such as flexibility, SMEs in Canada generally operate from a limited economic and financial base and may experience difficulties in maintaining adequate international supply and marketing channels.

In its conclusion, the report notes that after decades of North American market integration, starting with the Auto Pact in 1965, most sectors are now exposed to, and perform well in, full competition with their U.S. counterparts. Concerns persist, however, about Canada's high reliance on one large trading partner, and the authorities recognize the need for diversification. New trade links are being forged, for example through APEC (Asian-Pacific Economic Cooperation) and the Free Trade Area of the Americas, and a free trade agreement with Chile, which seeks to complement and extend NAFTA. These initiatives have not, however, compromised Canada's actions at the multilateral level; Canada has sought to develop synergies between regional and multilateral integration, and Canada's trade policies remain firmly anchored in the WTO. The report notes, finally, that trade patterns

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in "sensitive" industries highlight the continuing importance for Canada to balance internal pressures in a federal system against its aims for broader regional integration and multilateral liberalization.

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The WTO Secretariat report and a policy paper by Canada will be the subject of two days of discussion at a meeting at the WTO's Trade Policy Review Body on 18 and 19 November 1996.

**Notes to Editors:**

The WTO Secretariat's report, together with a report prepared by Canada will be discussed by the WTO Trade Policy Review Body (TPRB) on 18 and 19 November 1996.

The WTO's TPRB conducts a collective evaluation of the full range of trade policies practices of each WTO member at regular periodic intervals and monitors significant trends and developments which may have an impact on the global trading system.

The two reports, together with a report of the TPRB's discussion and of the Chairman's summing up, will be published in due course as the complete Trade Policy Review of Canada and will be available from the WTO Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

The reports cover the development of all aspects of Canada's trade policies, including domestic laws and regulations, the institutional framework, trade policies by measure and by sector. Since the WTO came into force, the "new areas" of services trade and trade-related aspects of intellectual property rights are also covered. Attached are the summary observations from the Secretariat and government reports. Full reports will be available for journalists from the WTO Secretariat on request.

Since December 1989, the following reports have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Cameroon (1995), Canada (1990, 1992 & 1994), Chile (1991), Colombia (1990 & 1996), Costa Rica (1995), Côte d'Ivoire (1995), Czech Republic (1996), Dominican Republic (1996), Egypt (1992), the European Communities (1991, 1993 & 1995), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991 and 1994), Israel (1994), Japan (1990, 1992 and 1995), Kenya (1993), Korea, Rep. of (1992 & 1996), Macau (1994), Malaysia (1993), Mauritius (1995), Mexico (1993), Morocco (1989 & 1996), New Zealand (1990 & 1996), Nigeria (1991), Norway (1991 & 1996), Pakistan (1995), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992 & 1996), Slovak Republic (1995), South Africa (1993), Sri Lanka (1995), Sweden (1990 & 1994), Switzerland (1991 & 1996), Thailand (1991 & 1995), Tunisia (1994), Turkey (1994), the United States (1989, 1992 & 1994), Uganda (1995), Uruguay (1992), Venezuela (1996), Zambia (1996) and Zimbabwe (1994).

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**TRADE POLICY REVIEW BODY****CANADA****Report by the Secretariat - Summary Observations****Recent Economic Trends**

Exports and investment (principally in export oriented industries) have been the main elements in the strengthening of Canada's economy since early 1994. Both "traditional" industries such as minerals, lumber and automobiles, and "advanced" sectors have benefited from strong demand in the United States, currency depreciation vis-à-vis the U.S. dollar and liberalization under NAFTA and the WTO. During the period, the United States' share in Canada's trade has continued to rise, currently accounting for four fifths of merchandise exports and two thirds of imports.

External liberalization is being complemented by a process of internal deregulation, commercialization and government retrenchment. This has helped to ease distortions in the incentive system, consolidate public finances and create a stronger basis for longer-term economic expansion; in the meantime, however, unemployment remains high and domestic demand lags GDP growth. Under the new Agreement on Internal Trade (AIT), efforts are being made to harmonize conditions for trade and investment and facilitate factor flows among the provinces. The combined effects of domestic and external reforms touch virtually all sectors of the economy, with the exception of a few sensitive areas such as cultural industries and supply-managed agriculture.

**Trade Policy Developments**

Canada became a founding Member of the WTO on 1 January 1995. The WTO Implementation Act of November 1994 involved amendments to 29 federal statutes covering virtually all trade-related areas. In addition to changes in the Special Import Measures Act (SIMA) necessary to implement the WTO Agreements, a general review of anti-dumping provisions is currently under way. Canada has fulfilled most of its WTO notification obligations, but has yet to complete these in some areas of agriculture and subsidies.

Tariff liberalization has proceeded in line with both NAFTA and WTO obligations. Tariffs on U.S.-made manufactures currently average about 1 per cent as against 6.6 per cent on m.f.n. imports. Over 58 per cent of all tariff lines carry zero rates for U.S. supplies, with full bilateral tariff elimination, except for certain farm items, scheduled for 1998. To prevent further erosion of General Preferential Tariff benefits, a reduction in preferential rates on some 3,000 items and an extension in product coverage are being phased in.

Canada has also embarked on a tariff review process intended to simplify the present multi-layered tariff régime. To enhance industrial competitiveness, tariffs on some 1,500 items, mainly inputs for manufacturing, were reduced in June 1995. Performance-based duty drawback and remission schemes are being phased out under WTO and NAFTA provisions.

Anti-dumping remains a potentially powerful trade defence instrument, with over 90 measures currently in force (including price undertakings). However, the number of new initiations has declined in the wake of booming exports and currency depreciation, continuing a downward trend since the mid-1980s. Canada's only safeguard measure under Article XIX, concerning boneless manufacturing

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beef, expired as scheduled on 31 December 1994. Five out of six countervailing actions applied at end-1995 concerned processed food products from the EU.

There is no evidence of Canada's imports being subject to any "voluntary" restraints affecting prices, quantities or other supply conditions. The authorities reportedly refused to monitor cereal exports to the United States after the expiry of a bilateral Memorandum of Understanding in 1995. Under a recent bilateral arrangement on softwood lumber, Canada undertook to impose an export charge on shipments above certain thresholds to the United States; the arrangement is intended to safeguard exporters from the risks and legal costs, estimated at some US\$100 million over the past three years, of trade remedy complaints in the United States.

### **Other Policies Affecting Adjustment and Growth**

Given strong fiscal constraints, recent internal policies have relied strongly on non-budgetary measures to revitalize the economy and improve Canada's attraction for investment and production. A variety of policy initiatives are aimed at removing regulatory barriers to business expansion, reducing subsidies, and opening factor and product markets to interprovincial competition. While the provinces are fully associated with the fiscal consolidation process, it is difficult to identify its impact on individual subsidy programmes. In this area, the AIT continues to allow considerable leeway.

Reflecting concerns about Canada's performance in high-technology industries, strong attention continues to be paid to research and development. Support programmes have been restructured in recent years and have generally escaped the effects of fiscal tightening. The largest R&D scheme, the Defense Industries Productivity Program, was replaced in 1996 by "Technology Partnership Canada", a venture-capital fund investing in advanced-technology projects.

Conditions for foreign investors have improved. Liberalization under the NAFTA, including higher investment review thresholds and the removal of ownership restrictions for federally-incorporated financial institutions, was multilateralized under the General Agreement on Trade in Services. While ownership limits have been eased on holding companies in broadcasting, Canada continues to monitor and, in some cases, restrict foreign investment in sectors considered sensitive for strategic, economic or cultural reasons.

As a signatory to the Plurilateral Agreement on Government Procurement (GPA), Canada is committed to the principle of opening of procurement markets among signatories. Its undertaking to include sub-federal procurement under the GPA is, however, linked to economically equivalent moves by the United States. While the Agreement on Internal Trade seeks to remove provincial procurement preferences, significant reservations remain, in particular for Crown Corporations. Where no international commitments apply, AIT signatories are free to employ buy-Canadian policies.

### **Sectoral Developments**

#### **Primary industries**

Overall, Canadian agriculture benefited from favourable price and exchange rate developments in 1994 and 1995. Federal outlays for agriculture have been reduced by some 20 per cent since 1994, mainly through the elimination of transport subsidies under the Western Grain Transportation Act; and strong export demand has helped traditional export products, in particular wheat, to adjust to cuts in public support. The more market-based environment for grains and major livestock industries contrasts, however, with the retention of supply management régimes for dairy products, poultry and eggs. These products continue to be sheltered by high import barriers, now in the form of restrictive

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tariff quotas with excess supplies carrying prohibitive rates, ranging up to over 300 per cent for butter. The allocation of quota entitlements to individual importers is generally based on past performance; in areas such as butter, condensed and concentrated milk, historical monopolies remain.

Canada's oil and gas industries have performed well in recent years. Exports of electric power have compensated for the sluggishness of domestic demand and provided a favourable background for provincial deregulation policies. However, disagreement over the approach to liberalizing internal trade has delayed the adoption of the energy chapter of the AIT.

## **Manufacturing**

Bilateral tariff reductions under the NAFTA have intensified North American market integration. U.S.-based companies currently account for 90 per cent of all cars and 60 per cent of all computers produced in Canada. Large foreign-owned plants are complemented by a network of small and medium-sized Canadian firms, including producers of technically advanced niche products in such areas as information technologies and aviation.

In tandem with the implementation of the NAFTA, Canada has reduced protection on imports of selected products from m.f.n. sources. Thus, m.f.n. tariffs on car parts were eliminated in January 1996, to balance the termination of a duty remission programme in the sector, and autonomous tariff reductions on frequently used textile inputs are being phased in.

Canada has notified to the WTO its first stage of integration under the Agreement on Textiles and Clothing. Restraints are maintained with 31 WTO Members in Europe, Asia, the Americas and Africa. In the context of tighter origin requirements under the NAFTA, Canada may export additional amounts of non-originating clothing to the United States under a zero-tariff quota.

## **Services**

Concerns about economic and technical inefficiencies, and their budgetary ramifications, have encouraged deregulation, privatization and management reform in major services sectors. Competitive pressures from deregulated U.S. industries have provided additional stimuli. In recent years, competition has been introduced in large segments of the telecommunications industry, and domestic air transport has been liberalized. In a general climate of deregulation, interprovincial market integration in the telecommunications and financial sectors has increased with the relative expansion of federal control. Restrictions on sectoral diversification financial services have been removed, and infrastructural monopolies in air navigation and the port system are being commercialized.

Canada has generally pursued a process of gradual reform in the service sector. This may have cost some time, but has smoothed the transition process. As reforms have been accompanied by new international commitments, first under the NAFTA, then under the GATS, foreign suppliers have benefited. However, cultural industries remain largely untouched by reforms, while foreign ownership in areas such as telecommunications carriers and airlines is still subject to review and control provisions.

## **Trade Policies and Foreign Trading Partners**

As bilateral trade flows have continued to grow, a dominant policy theme has been to ensure smooth trade relations with the United States. After decades of North American market integration, starting with the Auto Pact in 1965, most sectors are now exposed to, and perform well in, full competition with their U.S. counterparts. Concerns persist, however, about the potential vulnerability

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of the Canadian economy deriving from such high reliance on one large trading partner, on a handful of "traditional" industries and on relatively few large-scale plants. Canadian policy thus seeks to combine external with stronger internal market integration and encourage sectoral diversification in production and trade.

In this connection, new trade links are being forged, for example through APEC and the Free Trade Area of the Americas, and a free trade agreement with Chile seeks to complement and extend the NAFTA. These initiatives have not, however, compromised Canada's actions at the multilateral level. Rather, Canada has sought to develop synergies between regional and multilateral integration, including by promoting WTO-compatible rules at regional level and, at the same time, binding its NAFTA services commitments externally under the GATS. Thus, Canada's overall trade policies remain firmly anchored in the WTO; however, trade patterns in "sensitive" industries highlight the continuing importance of balancing internal pressures in a federal system, regional integration, and multilateral liberalization.

## **TRADE POLICY REVIEW BODY**

### **CANADA**

#### **Report by the Government**

#### **EXECUTIVE SUMMARY**

The past two years have seen the Canadian economy, already one of the most open in the world, become even more performance dependent on its international economic activities. Exports have been the most dynamic component of the economy, leading the Canadian economy to an impressive pattern of sustained growth, albeit not spectacular, over the past two years. Underlying productivity increases, especially in the more-easily-measured manufacturing sector, have been dramatic in recent years, reflecting the adjustment of the Canadian economy to global developments, international trade arrangements, and to technological change. Progressively Canadian products have become increasingly more competitive in world markets. Foreign exchange rate fluctuations have not been a major factor impacting competition.

Canada's participation in both multilateral, regional and bilateral trading arrangements over the past ten years has been an important element in this generally successful adaptation of the Canadian economy. Vigorous involvement in international trade and in the conduct and advancement of the international trade agenda will continue to influence Canada's approach, strategies, and objectives with respect to Canada's trade policy initiatives in the coming months and beyond.

Canada continues to pursue trade liberalization objectives at the multilateral, regional and bilateral levels. In addition to this the fundamental and generally successful overall orientation of the Canadian economy to meet the new international context and challenges, Canada has been fully and effectively implementing and taking advantage of its international trade commitments to liberalize. Canada's approach to trade policy management over the past two years has been: managing a large number of trade disputes both in the WTO and NAFTA context and working to expand market access opportunities by reducing or removing barriers to trade in certain instances internally or with respect to certain trading partners.

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In particular, Canada has been actively engaged in discussions to extend the NAFTA beyond its three original members, including undertaking negotiations with Chile over the past nine months to establish a free-trade agreement, as well as in discussions to achieve a free trade agreement in the hemisphere by 2005 and to establish free trade and investment in the APEC region by 2010/2020. Further, in preparation for the Singapore Ministerial Conference in December 1996, Canada has initiated or participated in discussions with many of our trading partners in different fora on advancing the trade agenda to reflect globalization pressures, the changing international economic circumstances and to maintain the credibility, dynamism and effectiveness of the international trading system. Canada remains committed to pursuing an active trade policy agenda. The goal of this commitment is to help strengthen the framework of an open, rules-based global and regionally-consistent trade regime.

## **THE TRADE AND ECONOMIC POLICY ENVIRONMENT**

The Canadian economy over the past two years has continued the recovery that began in 1991. Exports have been the primary component of growth; the share of exports as a percentage of Canadian GNP has steadily increased (from 24 per cent in 1991 to 37 per cent in 1995), indicating the continued opening of the economy and reflecting its increasingly successful specialization within the North American and global economic order. This strong export performance has been helped by improved productivity, the continued economic expansion of Canada's principal trading partner (the USA), rising terms-of-trade for Canada's major export products, Canada's continued low inflation rate and a relatively undervalued currency. Further, reduced public debt and improved competitiveness have resulted in Canada's current account moving into a surplus position for the first time since 1984.

Continued steady growth in the USA market, and improved prospects in both Japan and most of the EU member states, as well as in certain other markets where Canadian-based firms are active, as well as higher investment at home and improved consumer confidence should underpin Canadian economic growth prospects in the period ahead.

## **TRADE POLICY DEVELOPMENTS 1994-96**

Canada's trade policy activities over the past two years have focused particularly on implementing the Uruguay Round and the North American Free Trade Agreement, advancing WTO-consistent bilateral and regional trade arrangements involving Israel, Chile, the proposed Free Trade Agreement in the Americas (FTAA) and APEC, and managing a large number of trade disputes, primarily with the USA. As well, a number of positive policy initiatives have been taken by the Canadian Government, including tariff simplification.

**These initiatives include developments in the following areas:**

- (i) Uruguay Round
- (ii) The North American Free Trade Agreement (NAFTA)
- (iii) The Canada-USA Free Trade Agreement (FTA)
- (iv) Canada-Israel Free Trade Agreement
- (v) FTAA
- (vi) APEC
- (vii) Government Procurement
- (viii) Tariff Simplification
- (ix) Rules-of-Origin
- (x) Anti-dumping and Countervail
- (xi) Safeguards
- (xii) The Internal Trade Agreement

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**FUTURE POLICY DIRECTIONS**

Canadian trade policy has been largely successful over the past fifteen years in building on an increasingly internationally-competitive economy to establish, with our trading partners, a global and regional framework for improved market access and a stronger rules-based system. For the future, the fundamental underlying economic philosophy of freer and more open markets rooted in internationally-agreed rules and practices will remain the basis of Canadian trade policy. As a result of a highly-publicized series of trade negotiations since 1986, recent export successes and media interest, it is clear to most Canadian stakeholders in the economy that trade is vital to Canada's economic well-being. Canada's economic growth, job creation, and maintaining its standard of living depend on its ability and success in attracting new investment and technology, to pursue important policies which do not place Canadian-based producers or services providers at a competitive disadvantage in the global marketplace, and to maintain and expand access to export markets for both goods and services.

**Canadian trade policy over the next several years will:**

- continue to be part of, and give effect to, the Canadian government's micro-economic growth and job creation;
- remain a central, and ever-more important, component of our foreign policy in the post-Cold War era. Trade policy is an important aspect of Canada's bilateral relations which it will wish to continue to use in building a more stable multilateral system to ensure international stability and economic growth; and
- will continue to reflect the profound transformation taking place in Canada and in the world economy both geographically and in terms of sectors and issues.

**In particular, in developing and conducting trade policy the Government of Canada will:**

- Ensure that Canada and Canadian companies capitalize on the business opportunities presented by an increasingly global market. This involves generating greater interest among companies in opportunities in international markets and attracting investment to Canada;
- Advance the liberalization of trade and the development of a rules-based trading system through the World Trade Organization, the NAFTA, and other regionally as well as bilateral arrangements; and
- Manage the Canada-USA trade relationship to preserve the benefits that Canada derives from its most important export market by far.

To achieve its overall economic and trade objectives, the Canadian Government intends to continue to pursue trade policies aimed at further market liberalization, reducing barriers to trade, strengthening the rules-based multilateral trading system, and tightening international disciplines on the use of direct and indirect subsidies. In addition, Canada intends to continue to exercise leadership in addressing new trade issues which are now emerging on the international scene.

**GATT/World Trade Organization**

Throughout the post-war period, the GATT has represented the cornerstone of Canadian trade policy. With the Uruguay Round negotiations and implementation of the results of the Round in the process of being implemented, the effective operation of the World Trade Organization is among the

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Canadian Government's top trade policy priorities. This involves participating in the on-going effective operation of the WTO, including its councils, committees, working parties, a dispute settlement body and appeal tribunal, and the Trade Policy Review Mechanism, all of which will be reviewed by Ministers at the upcoming Singapore Ministerial Conference in December of this year. Canada also continues to be actively involved in the almost thirty accessions to the WTO and in on-going negotiations in financial and telecommunications services. Canada proposes to continue to use the forum of the GATT/WTO and other appropriate institutional fora for discussions on the emerging or "new" trade issues, including with respect to trade and the environment, and trade and investment. As well, improved coordination and cooperation within processes such as the G-7, the QUAD and with other key international organizations, such as the IMF, the IBRD and the OECD, remain a key priority for Canada in ensuring that the global trade and economic system runs effectively and openly.

## **NAFTA**

NAFTA institution building continued at ministerial level through meetings of the Free Trade Commission. Officials from the three countries working through the various committees and working groups called for by the Agreement proceeded to further develop the NAFTA. The working groups and committees also provide a forum to settle trade irritants before they become disruptive. In addition to the formal NAFTA committees and working groups under NAFTA, each country has designated a sub-ministerial coordinator for NAFTA who consult regularly with each other on implementation matters. Sub-national units have now completed the process of registering reservations as provided under the Agreement. The Environmental and Labour secretariats created by the two North American Cooperation agreements, often referred to as the NAFTA side agreements, carried on with work programs developed under the authority of the ministers from the three countries.

In June 1995, negotiations on Chile's accession to the Agreement were initiated. These were later suspended when the United States administration failed to obtain unfettered negotiating authority from Congress.

## **Canada-USA Trade Relations**

In the context of the NAFTA and WTO rules and commitments, Canada will continue to pursue a trade policy approach that secures and enhances Canadian access to the U.S. market and defends Canadian trade interests.

- Careful management of bilateral trade disputes with the United States continues to be a key strategic priority. This currently includes managing the softwood lumber file and Helms-Burton Cuba trade embargo and the defence of the U.S. NAFTA challenge of Canada's supply managed sector. Canada is also resisting U.S. challenges to Canadian cultural industry trade interests.
- Through bilateral Ministerial contact, NAFTA Commission meetings and working groups and other occasions when Ministers meet, Canadian and Canada-U.S. trade policy interests will be reinforced.

## **Other Trading Arrangements**

Canada signed a free trade agreement with Israel on 31 July 1996. This agreement covers removal of tariffs from industrial products, provide duty free access or low duties to a variety of agricultural and fishery products and establishes a dispute settlement process.

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Since the US Administration was not in a position to effectively pursue accession negotiations with Chile without a proper mandate, Canada has undertaken to negotiate a free trade initiative with Chile. This is aimed at producing a bilateral interim trade accord agreement based on NAFTA principles and disciplines to facilitate Chile's eventual accession to the NAFTA and to enhance trade. This bilateral agreement will encompass trade in goods and services, investment and dispute settlement.

Canada is participating in the FTAA working groups created to prepare the upcoming hemispheric negotiations. Consultations have concentrated so far in the exchange of information and the identification of specific areas for negotiation.

In May 1996, Canada presented its APEC Individual Action Plan along with the other member countries as a first step towards further trade liberalization in the area.

## **Other Administrative Actions**

### **Review of the Special Import Measures Act**

The establishment of the Special Import Measures Act (SIMA) in 1984 represented the consolidation and modernisation of Canada's trade remedy laws by incorporating the results of the Tokyo Round as well as Parliamentary recommendations concerning the design of the Canadian system. As a part of normal government practice to review legislation from time to time, a Parliamentary Sub-Committee was established in the spring of 1996 to review the SIMA and determine whether it continues to adequately reflect the competitive needs of all segments of the Canadian business community. The Sub-Committee is scheduled to hold public hearings and make recommendations on any improvements to the law by the end of 1996.

In 1994, the government of Canada announced a three-year review of the tariff system in recognition of the fact that it has become increasingly complex over the years. The objectives of the review are essentially two-fold: to make the tariff regime more responsive to the competitive pressures facing Canadian industry as a result of freer trade; and to simplify the system and make it more transparent and predictable. As part of this review, MFN rate reductions on a wide range of manufacturing inputs were implemented in June 1995; these will benefit not only Canadian manufacturers but also foreign suppliers of these goods.

After over two years of study and consultations, a proposed new simplified Customs Tariff was issued for public comment in March 1996. The new Tariff would provide for further rate reductions, a significant reduction in the number of tariff provisions and a simpler rate structure. Under the new Tariff most goods would be classified in one Schedule where their dutiable status would be determined, rather than in several Schedules and a wide range of regulations as is currently the case. Other improvements would include streamlined legislative provisions, the elimination of the "not made in Canada" conditions under certain duty-free tariff provisions and of the related administrative procedures, and the replacement of the Machinery Remission Program with duty-free and dutiable provisions for unavailable and available machinery respectively. The new Tariff would be simpler and more transparent and predictable, thus lessening the regulatory burden and related costs associated with importing. Once the consultations launched last March are completed, implementing legislation will be prepared. The new Tariff is intended for implementation in 1998.

Among other international trade liberalization initiatives, Canada extended, in 1994, for a further ten year period, the General Preferential Tariff (GPT) aimed at helping less developed countries (LDCs) increase their export opportunities and earnings. It has also implemented, effective 1 January 1996, GPT rate reductions and expanded its product coverage.

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## The Emerging Issues

A number of trade-related issues have made their way onto the trade policy agenda over the past several years. The globalization of the world economy and the resulting impact on national policies will require the development of new or more precise rules to handle these emerging issues.

Several principles may be followed in defining these "new issues" as they relate to trade. First, Canada does not support as a general practice the use of trade sanctions to impose one country's standards of conduct on other countries; solutions must be found through a process of international consultation and rule making. Second, we must guard against the possibility that new rules can become a vehicle for protectionism. Third, the fundamental premise of Canada's approach will be that the rules of the multilateral trading system are complementary to, and not contrary to, the attainment of broader societal objectives.

Canada views the WTO as the ultimate focal point for most of this activity as these issues become more clearly understood and when or if the necessity of their being negotiated is agreed to following discussion and consultation. It is important that the WTO demonstrates that it can manage its immediate tasks of overseeing the full implementation of all Uruguay Round obligations, seeing that the new dispute settlement mechanism is used regularly and fully, and guiding negotiations both on unfinished Uruguay Round business and the accession of new members to an early and successful conclusion.

The WTO must also ensure, however, that it can respond effectively and in a timely manner to the needs of the world trading system as it evolves. In particular, the WTO will need to ensure that the appropriate preparatory work is undertaken to enable both the review and/or further negotiations called for under the built-in agenda are effectively undertaken and that the necessary work in areas such as investment and competition policy is conducted and/or coordinated to ensure that an up-to-date, credible and open rules-based system is maintained and strengthened as we prepare to enter a new century.

Once the appropriate analytical work is done in various appropriate fora, Canada, working with its private sector and the provinces, will want the WTO to proceed on these matters in a manner consistent with its competence and mandate.

The Singapore Ministerial Conference will be especially important in this context. There is a large agenda ahead that must be managed carefully and effectively to ensure that the world trading system and, beyond that, the world's international economic system, evolve in the broadest interests of us all.

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