TRADE POLICY REVIEW MECHANISM

CANADA

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the initial full report by Canada is herewith submitted.

NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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I TRADE POLICY FRAMEWORK

Others chose to live by trade, and were much better off...
William Langland, 1370

OVERVIEW

1. Canada is an open economy with a large amount of foreign trade relative to its Gross Domestic Product. Over a quarter of GDP and some three million Canadian jobs are directly dependent on exports. Much of that trade is with the U.S.A. (which accounts for approximately 70% of our total trade). Economic efficiency and the competitiveness of the Canadian economy are dependent to a large extent on unhindered access to foreign markets, and to foreign technology, machinery, equipment and other industrial inputs. At the same time, Canadian consumers are dependent on a broad range of imported goods. Therefore policies that either limit or encourage foreign trade are of immediate importance to Canadian economic performance and the standard of living of its citizens.

2. In the early 1980's the government adopted an agenda for economic renewal which encompassed major initiatives in tax reform, deregulation, privatization, investment development and trade policy. Underlying this policy thrust was a renewed commitment to the pursuit of economic efficiency through the reduction of distortions and barriers to the operation of free markets at home and abroad. Over time this strategy is intended to facilitate the reaction of Canadian industries to new economic developments and opportunities. It is based on the understanding that the future prosperity and viability of the Canadian economy can only be assured by making this country's competitive position a priority for economic policy-making.

3. In its trade policy stance this economic strategy has resulted in two major complementary initiatives: the negotiation and implementation of a comprehensive free trade agreement with Canada's principal trading partner, the U.S.A.; and Canadian participation within the GATT negotiations to reduce barriers to world trade and improve multilateral trade rules.

4. Both initiatives have at their root the orderly transformation of the Canadian economy through the progressive elimination of domestic and international impediments to competitiveness, so that the Canadian economy will be able to adapt dynamically, imaginatively and competitively to the profound and insistent changes occurring in the patterns of world production, technology and trade. The Free Trade Agreement has been successfully negotiated and is now in its implementation stage. Canada is
committed to a successful and substantial outcome for the Uruguay Round negotiations.

5. For Canada, the close links between economic prosperity and the maintenance of a liberal world trading system makes trade policy a key component of the government's economic development strategy which seeks to achieve a stronger, more competitive, non-inflationary and growing economy. Trade policy contributes to these objectives in a number of ways: the more efficient use of resources along the lines of comparative advantage; the greater scope for exploiting new technologies and the economies of scale which are closely related to this; and the realization of income gains, reduced prices and increased competition in the Canadian economy.

6. Trade policy also plays a decisive role in the creation of predictable, rules-based, transparent and secure domestic and international trading environments conducive to the taking of long-term economic decisions. This Canadian concern with the stability of the international trading system is all the more important given today's accelerating global interdependence.
TRADE POLICY OBJECTIVES

7. Recognition of the close links between Canadian economic prosperity and international trade has led to the following general objectives for trade policy:

- The development of a stronger, more efficient, productive, competitive, growing and non-inflationary domestic economy, the increased per capita wealth of which is shared by all Canadians from all regions of the country; and

- The promotion of a more stable and open international trading environment within which competitive Canadian and foreign firms alike are encouraged to plan, invest and grow with confidence.

8. These objectives are reflected in the stated objectives of Canada's two complementary trade policy initiatives, the Free Trade Agreement (FTA) with the U.S.A. and the ongoing GATT negotiations of the Uruguay Round.

9. Canada agreed, in the context of the FTA with the U.S.A., to:

- create an expanded and secure market for Canadian goods and services;

- adopt clear and mutually advantageous rules governing their trade;

- ensure a predictable commercial environment for business planning and investment;

- strengthen the competitiveness of Canadian firms in global markets;

- reduce government-created trade distortions while preserving our flexibility to safeguard the public welfare;

- build on our mutual rights and obligations under the GATT and other multilateral and bilateral instruments of cooperation; and

- contribute to the harmonious development and expansion of world trade and to provide a catalyst to broader international cooperation.

10. Canada is attempting to achieve the following objectives in the Uruguay Round negotiations:
- the fostering of a world trading environment with sufficient stability, predictability and transparency in international trade relations to inspire confidence in exporters and importers and thus encourage job-creating investment and dynamic economic growth;

- to enhance access for Canadian exports, particularly for agriculture and food products, resource-based products, a range of manufactured products including advanced transportation and communications equipment, high technology and certain services;

- to create better discipline on the subsidy practices of our major trading partners;

- to develop multilaterally agreed rules which protect Canadian producers against injurious import competition; and

- to improve the multilateral framework of rules that will encourage further orderly structural adjustment in the world economy, including Canada.
THE BROADER ECONOMIC BACKGROUND

(A) Overview of the Economy

11. Canada has a healthy, diversified, modern mixed economy. The fundamental structure of the economy is one of a free-market system which relies on market forces, initiative and entrepreneurship. Both the federal and provincial governments have, however, traditionally provided a relatively wide array of programs and support (including publicly funded health care, education and social security programs) which reflect the priority of successive governments of ensuring the provision of basic, essential services for its citizens. Canada's geographic and demographic characteristics (i.e., a large land mass and small population base) have also, to some extent, influenced the pattern of government regional development and support programs (e.g., in the area of transportation infrastructure and services).

12. Canadian real GDP grew at an average rate of 4.5% from 1983-1988, the fastest rate of growth among the major industrial countries. Real GDP growth was 2.6% in 1989. Employment growth, at 2.4 per cent between 1983 and 1988, was also second to none. The unemployment rate fell from 11.2% in 1984 to 7.5% in 1989. The increase in inflation in 1988 and 1989 was 4.1% and 5.0% respectively.

13. On a sectoral basis, contributions to Canada's GDP in 1989 were made up of transportation, utilities, trade, finance and other services (58.2%), public services (6.0%), construction (7.8%), manufacturing (19.2%), mining (5.6%) and agriculture, forestry and fishing (3.2%).

14. Canada's economy is relatively dependent, among developed countries, on export markets. Exports account for over one-quarter of Canada's GDP, and for about one-third of our national income. Canada has also traditionally relied on a large degree of foreign direct investment to contribute to the growth and development of the economy.

15. Canada's three largest export markets are the U.S. of America, Japan and the United Kingdom. The leading merchandise exports in 1988 were automotive vehicles and parts, newsprint paper, trucks and wood pulp. The leading imports for the same year were automotive vehicles and parts, electronic computers, apparel and telecommunications equipment.

Current Economic Policies
16. Against the general backdrop of Canada's mixed, open-economy described above, Canada's basic economic policy stance may be summarized as follows:

- The expenditure control plan set out in the February 1990 budget, together with the measures of previous budgets, will achieve two important goals. First, they will put the deficit back on a downward track, thereby helping to free up domestic savings needed to finance investment, reduce Canada's reliance on foreign savings and reduce the burden of debt on future generations. Second, they will contribute to lower inflation and, by assuming more of the burden in lowering inflation, will increase the scope for interest rates to decline.

- Transfer payments to persons, including elderly benefits, unemployment insurance benefits and family allowances, are the largest single program category, amounting to $32.5 billion in 1989-90 or 31 per cent of total program spending.

- The Bank of Canada is pursuing a tight monetary policy in view of underlying inflationary pressures.

- The goal of the government's structural reform program is to foster a dynamic and innovative private sector.

- The Labour Market Development Strategy will upgrade the skills and increase the flexibility of the work force, and help Canadians adapt better to new technology and structural change.

- Regional development policy focuses on the needs and opportunities of different regions and emphasizes local involvement and entrepreneurship.

- The unemployment insurance program is in the process of being reformed and will be directing more funds towards active labour market support, such as skills training activities. The program's equity and incentive provisions will also be improved.

- The energy and transportation sectors have been deregulated, in whole or in part.

- Crown corporations will continue to be privatized where Government ownership is no longer needed to meet public policy objectives.

- The personal and corporate income tax systems have been reformed: the tax base has been broadened and rates have
been lowered.

(C) National Economic Policy Objectives and Economic Reform

17. In 1984, the Canadian economy was facing several problems: growth in the federal deficit was large and rising; government spending was growing rapidly, outstripping, by a wide margin, the growth of the economy; private sector confidence was low; and, structural rigidities were hindering growth.

18. As a result, the Government of Canada established The Agenda for Economic Renewal in 1984 with the fundamental objective of achieving sustained non-inflationary economic growth. The basic approaches set out in the Agenda for realizing this objective were to restore fiscal responsibility, remove obstacles to growth and to promote private sector initiative.

19. Major economic reforms have been put in place over the last five years or are currently proposed, including:

- The Canada-U.S. Free Trade Agreement and participation in the current Uruguay Round of the Multilateral Trade Negotiations;

- Personal and corporate income tax reform;

- A New Labour Market Development Strategy designed to upgrade the skills and increase the flexibility of the work force;

- A new approach to regional development which focuses on the distinctive needs and opportunities of the different regions and emphasizes local involvement and local entrepreneurship;

- Deregulation of the energy and transportation sectors, in whole or in part, which will increase economic efficiency and productivity by reducing government interference in economic decision-making and encouraging entrepreneurship, innovation and competition;

- The privatization, in whole or in part, of twenty-two Crown Corporations;

- The reform of Canadian business framework legislation, including the passage of a new Competition Act that more effectively reviews mergers and emphasizes compliance, amendments to modernize the Copyright Act, and amendments to the Patents Act that strengthen intellectual property rights; and
- Replacing the Federal Sales Tax with the proposed Goods and Services Tax (GST).

20. The Free Trade Agreement has opened new opportunities for Canadian firms by providing them with access to the large U.S. market. It is expected that the stock of capital will rise and that gains in productivity will be achieved through larger production runs and a more efficient allocation of resources. Analytical studies conducted by the Department of Finance, and broadly supported by work of research organizations, estimate that once the Agreement is fully implemented and the economy has adapted to it, gains in real income and GDP will amount to 2.5 per cent and 3.5 per cent respectively.

21. In recent years, the Canadian government has adopted a considerably more positive stance toward foreign investment. The "open-for-business" approach to foreign investment recognizes the contribution foreign investment makes to Canada's international competitiveness through increased access to foreign technology, production processes, and management skills as well as to foreign markets.

22. As part of the Canadian business framework legislation, the Competition Act is designed to maintain and encourage competition in Canada. The Act gives recognition to this goal as a means of, among other things, expanding opportunities for Canadian participation in world markets while at the same time recognizing the role of foreign competition in Canada. In determining whether there has been an adverse effect on competition in Canada, qualitative factors such as foreign competition and barriers to entry have to be taken into account, in addition to market share and concentration date. The Act also provides special consideration for export consortia, specialization agreements and joint ventures. The Act also enables the Director of Investigations to intervene before regulatory bodies, including the CITI, to present observations pertaining to competition in the Canadian market.

23. Income tax reform has reduced distortions in the tax system by removing or reducing many tax incentives and reducing tax rates. This will increase the incentive to work, save and invest, thereby raising potential output. Investment decisions are now based more firmly on economic considerations and less on tax advantages. It is estimated by the Department of Finance that the labour force will increase 0.5 per cent due to the personal income tax measures, and total productivity 0.3 per cent due to the corporate tax changes.

24. The proposed replacement of the federal sales tax with the
GST in 1991 will further enhance the economy's ability to produce goods and services to meet demand at home and abroad. The GST will remove both the penalties to exporting and investing, and the bias against domestic producers in favour of importers inherent in the antiquated federal sales tax. Resource allocation will improve when relative price distortions inherent in the federal sales tax, with its narrow base and multiple rates, are significantly reduced. Analytic studies by the Department of Finance indicate sales tax reform will raise real GDP by 1.4 per cent once its impact is fully felt.

25. In the mid-1980's, it was widely expected that Canada's potential growth would be stuck at 2 3/4 per cent. Indeed, there was concern that the rate of potential growth would decline owing to slowing population growth, an ageing population, weak productivity, and weak investment growth. The government's structural initiatives since 1984 address many of these concerns. Canada's potential growth rate for the first half of the 1990's has been boosted to between 3 1/4 and 3 1/2 per cent. This will mean higher incomes and a higher standard of living for Canadians.

26. In the 1990's, Canadian economic policies will continue to be formulated with trade considerations in mind, given our economic reliance on export markets and our interest in working towards a more liberalized multilateral trading system.

(D) Fiscal Policy Developments in Canada

27. Since 1984, the government has steadily pursued its economic policy agenda to restore control over the fiscal situation in Canada and to implement complementary structural policies to increase Canada's growth potential.

28. Deficit reduction is required to break the dynamic of deficits and debt and get off the treadmill of growing debt and debt service costs. Putting the deficit back on a downward track will free up domestic savings to finance private investment, diminish our reliance on foreign savings and reduce the burden of the debt on future generations. Lower deficits will contribute to lower inflation and thereby ease the burden on monetary policy and increase the scope for interest rates to come down.

29. Through the Expenditure Control Plan, the substantial expenditure actions taken in the February 1990 budget reinforce the momentum of earlier measures and help to ensure that the goals of the April 1989 budget will be reached. The Expenditure Control Plan together with the management initiatives announced by the President of the Treasury Board in December 1989 result in fiscal savings of $3.0 billion in 1990-91 and $3.8 billion in 1991-92.
Over the 1990-91 to 1994-95 period, the cumulative fiscal savings total well over $19 billion.

30. Annex 1 provides a detailed picture of recent fiscal policy developments and prospects over the medium term.

(E) Interest Rate and Exchange Rate Developments

31. Canadian short-term interest rates and the Canadian dollar have been on a general uptrend since late-1986.

32. The rate on 90-day commercial paper rose from 9.16 per cent in 1986 to 12.21 per cent in 1989. The rise reflects the determination of the Bank of Canada and the government to resist inflationary pressures. The rise reflects as much strong money and credit demand growth as any direct tightening of policy. Final domestic demand growth has greatly exceeded forecasters' expectations over the past three years.

33. Until recently, the rise in short-term rates was not accompanied by any increases in long-term interest rates which declined slightly over the past three years. As a result, the yield curve has been steeply negative since early 1989.

34. The Canadian dollar appreciated strongly from a low of U.S. $ 0.71 in January 1986 to U.S. $ 0.86 in December 1989. The appreciation in 1987 and 1989 reflected vastly improved investor confidence in Canadian economic prospects and policy and the resultant strong capital inflows. The differential between Canadian and U.S. 90-day commercial paper rates was generally stable, averaging 1.60 percentage points in 1987 and 1988, not far off the average of the 1980s of 1.58 percentage points. Capital inflows more than financed the $10 billion current account deficit to the point that official international reserves doubled to U.S. $8.2 billion in 1987 and doubled again to U.S. $16.2 billion in 1988.

35. In 1989, U.S. short-term rates peaked in March and then fell sharply in the next three months. Canadian interest rates remained steady throughout the year in the face of continued strong employment, credit, and money demand growth. The differential with U.S. short-term rates widened sharply, providing further impetus to the appreciation of the Canadian dollar despite a doubling of the current account deficit to $19.7 billion. Capital inflows matched the current account deficit and official international reserves were largely unchanged in 1989.

36. In early 1990, the Canadian dollar began to come under some downward pressure in the face of worries about Canada's fiscal and
external imbalances and about rising international inflation pressures and interest rates. Canadian short-term interest rates moved up again, further widening the differential.

(F) Balance of Payments and Debt

37. The Canadian current account deficit virtually doubled in 1989 to $19.7 billion from about $10 billion from 1986 to 1989. In 1985 the deficit was only $2.0 billion. (See Annex III, Table 5)

38. The deterioration has been widespread by component. Since 1985 the value of net merchandise exports has fallen from $16.4 billion to $4.6 billion despite strong growth in the terms of trade as the Canadian dollar gained value and as world commodity prices increased strongly. The deterioration reflects primarily the strong growth in final domestic demand in Canada relative to demand in Canada's trading partners. Of particular importance has been the strength in the import-sensitive components of final domestic demand, particularly machinery and equipment investment. The deterioration in net exports of machinery and equipment accounts for over three quarters of the fall in the merchandise trade balance since 1985. As a result the value of merchandise imports has grown at an annual rate of 6.9 per cent since 1985, three percentage points faster than the 3.9 per cent rate for exports. Capacity constraints and the appreciation of the Canadian dollar have also played a role, as have special factors such as a $2 billion drop in wheat exports in 1989 due to the 1988 drought.

39. Since 1985, there has also been a significant deterioration in the services deficit, from a $4.9 billion deficit in 1985 to a $7.1 billion deficit in 1989, and in net investment income flows, from a $14.3 billion deficit in 1985 to a $22.4 billion deficit in 1989. The increased investment income deficit reflects the debt-service impact of cumulating external deficits as well as rising interest rates.

40. The only major category to show an improvement has been net transfers. Here, increased net immigration of entrepreneurs has resulted in a sharp increase in net inheritances and migrants funds from $1.4 billion in 1985 to $5.9 billion in 1990.

41. In 1987 and 1988, the $10 billion current account deficit was more than matched by capital inflows and official international reserves doubled to $8 billion in 1987 and $16 billion in 1988. In 1989, capital inflows increased to finance the $19.7 billion current account deficit, but official international reserves were largely unchanged.

42. The deterioration in Canada's current account since the 1970s
has been reflected by a significant increase in Canada's net international indebtedness. Net international indebtedness reached $228.1 billion in 1988 -- close to 40 per cent of GDP.

43. Since 1970, Canadian assets abroad have become increasingly in the form of direct investment (particularly in the U.S.), while the share of portfolio investment remained stable and the share of other assets (which include Canada's official international reserves) declined. Canada's liabilities to the rest of the world are increasingly in the form of Canadian bonds. Japanese investors were major purchasers, bringing their share of Canadian bonds from virtually nil in 1970 to 25 per cent in 1988, a close second to the U.S. as the largest foreign investor in Canadian bonds. The increase in foreign holdings of Canadian bonds has had a significant impact on the current account deficit through increasing debt-service payments to foreigners. Foreign direct investment in Canada has been declining while other liabilities have remained relatively stable over recent years.

44. Annexes II and III provide details regarding both Canada's terms of trade and major trends in its international trade.

(G) International Macroeconomic Situation

45. Average output growth in the G-7 is estimated at 3 1/2 per cent in 1989, compared to 4 1/2 per cent in 1988. Growth has slowed in North America and the United Kingdom during the past year, but remained relatively strong in Japan and continental Europe.

46. Progress at reducing the long-standing current account imbalances among the three largest industrial countries was uneven over 1989. Imbalances are receiving less attention, in part because financial markets have financed the U.S. deficit without difficulty over the past two years. Japan's surplus declined substantially, from 2.8 per cent of GNP in 1988 to 2 per cent in 1989. The U.S. current account deficit is estimated to have declined from 2.6 per cent of GNP in 1988 to 2.1 per cent in 1989. In contrast, the West German surplus rose to 4.4 per cent of GNP from 4 per cent in 1989. Most of the widening surplus came at the expense of Germany's European trading partners, the surplus with the U.S. was reduced significantly in 1989.

47. The rate of increase in consumer prices in the seven major industrial countries averaged 4.3 per cent in 1989, up from 3.1 per cent in 1988. More recently, inflation rates in the major industrial countries have tended to stabilize, as economic activity has slowed, commodity prices weakened, and various transitory factors (particularly indirect tax increases in several G-7
countries) have wound down. However, strong inflationary pressures are evident in Germany and Japan, where capacity utilization rates are at their highest levels since the early 1970's, and labour markets have tightened significantly over the past year. German aggregate demand is likely to be further stimulated by tax cuts equal to one per cent of GNP (introduced January 1st), and the impacts of immigration and unification.

48. The monetary authorities of most G-7 countries tightened credit conditions significantly throughout 1989 as inflationary concerns heightened over the year. The U.S. is a notable exception, easing over the later part of 1989 as signs of weakening growth emerged. The tightening of monetary conditions over 1988 and 1989 has reduced the risks of a significant acceleration of inflation. Nevertheless, inflation remains a cause for concern in several countries. The Japanese and German economies are currently operating at potentially inflationary levels of resource utilization. Furthermore, several countries, including Canada, the United Kingdom and Italy continue to post unacceptably high inflation rates. Finally, developments in Eastern Europe may put pressure on global savings, maintaining upward pressure on interest rates. Therefore, monetary policy will in all likelihood remain extremely cautious.
INSTITUTIONAL SETTING FOR TRADE POLICY FORMULATION

(A) Federal Parliamentary System and Framework

49. Canada is a federal parliamentary democracy. Central characteristics of this system include i) a parliamentary structure, ii) the sharing of legislative authority between the federal government and the Canadian provinces and iii) substantial consultations between the federal government, the provinces and the private sector in the formulation of policy.

Parliamentary System

50. The power to legislate in Canada is vested in a parliament whose members are democratically elected by different geographic regions. The executive power resides with the Prime Minister and his cabinet, who are in turn responsible directly to parliament, of which they are members. The present committee structure of the Canadian cabinet includes a Trade Executive Committee, which reports to the cabinet on specific trade policy issues. The administrative arm of the government, the bureaucracy, is responsible directly to the cabinet through the relevant Ministers, and indirectly, through the budgetary process, to parliament. It acts as both advisor and implementer in the policy formulation process.

51. Canada's legislative authority is divided between the federal government and the provinces by the Constitution Act, 1867. Section 91(2) of that Act confers on the federal Parliament power to make legislation in relation to "the regulation of trade and commerce". This has been interpreted by the courts to mean that in general that the federal trade and commerce power applies to (1) interprovincial and international trade and commerce and (2) general trade and commerce affecting the entire country (e.g., competition law).

52. Section 92(13) confers jurisdiction over "property and civil rights in the province" on the provincial legislatures. Intra-provincial trade and commerce is under provincial jurisdiction. Where the subject matter involves property and civil rights within provincial boundaries, the province has exclusive jurisdiction. However, the federal government may have concurrent jurisdiction over circumstances where inter-provincial trade or international trade is at issue. Moreover, in respect to these matters, the federal government would have authority to enter into international agreements but may in some cases require provincial cooperation for implementation of aspects falling exclusively within provincial jurisdiction.

Consultations
53. Extensive federal/provincial consultations are held on trade matters through a number of channels. These include regular First Ministers conferences between the Prime Minister and provincial premiers, regular consultations between the Minister for International Trade and his provincial counterparts and continuous consultations between technical experts in the respective federal and provincial bureaucracies. Specific federal/provincial committees meet regularly for the purposes of consultations on multilateral trade negotiations (i.e., the Committee on Multilateral Trade Negotiations (CMTN)), the FTA (i.e., the Committee on the Free Trade Agreement (CFTA)) and various bilateral trade irritants.

54. As well as the more informal representations by the private sector that exist in a parliamentary democracy, the great interest in ongoing trade policy issues among the private sector has given rise to more formal government/industry consultations on trade issues. The Minister for International Trade has instituted an International Trade Advisory Committee (ITAC) to provide advice on general Canadian trade policy concerns. The ITAC consists of prominent individuals representing various sectors and industries in the Canadian economy. Fifteen sectoral specific committees have been instituted as well (the Sectoral Advisory Group on International Trade (SAGITs)) to provide advice on relevant trade issues, including the large number of issues encompassed by the multilateral trade negotiations.

Federal Institutions Involved in Trade Policy Formulation

55. The concept of parliamentary supremacy ingrained in the Canadian system is the basis for the democratic control ultimately enjoyed by Canadian citizens over their public policy. The executive branch, made up of the Prime Minister and his cabinet, is responsible to parliament for its actions. Priority setting and policy formulation based on existing and evolving Canadian legislation is undertaken, on trade issues, by the Trade Executive Committee of Cabinet. This Committee presently consists of eight cabinet ministers from seven departments: External Affairs and International Trade (two ministers), Finance, Industry, Science and Technology (ISTC), Agriculture, Fisheries, Labour, and Communications. The Minister for International Trade chairs this committee.

56. The respective bureaucracies reporting to each minister are responsible for providing relevant advice on trade issues. Under the External Affairs Act, the Department of External Affairs and International Trade has been given the mandate for overall coordination of external economic and trade interests. Its responsibilities include undertaking multilateral and bilateral negotiations, trade policy development, export promotion and
administration of the Export Import Permits Act (see below). Its coordination responsibilities includes the areas of interdepartmental, federal/provincial and private sector consultations on trade issues.

57. The Department of Finance's responsibilities include the management of Canada's general economic policy and the health of the economy. Its predominant role in Canadian economic policy makes it another central actor in the trade policy area, which is itself a subset of general economic policy. The instruments of Canadian import policy, other than quantitative restrictions, fall within the mandate of this department as a result of its responsibilities for the Customs Act, the Customs Tariff and the Special Import Measures Act (see below). International macroeconomic and monetary matters are also within its responsibilities.

58. With the exception of the EIPA, day-to-day administration of Canadian trade legislation falls within the jurisdiction of Revenue Canada (Customs and Excise).

59. ISTC is the focal point for policies related to the industrial sector. Its focus in the trade area is primarily on production capability and competitiveness issues, domestic adjustment, and scientific, technological, industrial and regional development. Other sectoral departments, including agriculture, fisheries and oceans, and energy mines and resources play advisory roles on the impact of trade on their respective sectors, and are influential in their roles of provision of sectoral expertise.

60. Other institutions within the federal government, including the Department of Consumer and Corporate Affairs, Supply and Services Canada, the Canadian International Trade Tribunal, Investment Canada and the Export Development Corporation play important roles (described in following sections of this report) in the Canadian trading system.

(B) Trade Policy Legislation

61. Annex IV lists statutes of Canada which could affect trade. Canadian trade law is found in four main statutes: the Customs Tariff, the Customs Act, the Export Import Permits Act (EIPA), and the Special Import Measures Act (SIMA).

(i) The Customs Tariff

62. The Customs Tariff provides the authority to establish rates of customs duty on imports and sets out those rates in accompanying Schedules. The legislation also provides the authority for, inter
alia, the levying of surtaxes (Sections 59 and 60), the imposition of tariff rate quotas (Sections 42 to 45 and 59 and 60) and surcharges (Section 61) on imported goods. The Customs Tariff also contains provisions for the determination of the origin of goods, the withdrawal of preferential tariff rates, the rules for direct shipment, the marking of goods, for certain duty relief programs (e.g. Machinery Program, Inward Processing), and the drawback of customs duties on goods used in Canada for specified purposes.

63. Effective January 1, 1988, a new Customs Tariff based on the Harmonized Commodity Description and Coding System (HS) was implemented. The conversion to the H.S. was technical and revenue neutral. The legislation also provided authority for the amendment of the Tariff to restore tariff rates which were in effect prior to January 1, 1988 and were changed by the conversion. This authority expires on June 30, 1990.

64. The Customs Tariff was further revised extensively effective January 1, 1989 to implement Canada's obligations under the Canada/U.S. Free Trade Agreement.

(ii) The Customs Act

65. The Customs Act provides the legislative authority (for administration and enforcement) required to collect duties and taxes imposed on importations under the Customs Tariff, the Excise Tax Act, the Excise Act and the Special Import Measures Act. It also provides the means of controlling the movement of goods into and out of Canada and supports the administration and enforcement of other statutes that prohibit, regulate or control the importation or exportation of goods.

66. In 1986, the Customs Act was entirely revised to eliminate obsolete and inconsistent provisions and to restructure the statute in a logical sequence; to provide greater flexibility in order to cope with developments in transportation, communication, trade and business practices; and to redesign and modernize the provision for the collection of revenue and enforcement generally.

67. The Customs Act was also revised on January 1, 1989 to give effect to the Canada/U.S. Trade Agreement.

(iii) The Export Import Permits Act

68. The Export and Import Permits Act (EIPA) is a trade policy instrument which provides broad authority to the Government to control the import and export of designated products and technologies.

69. Under the provisions of the EIPA, the Government may
establish an Import Control List, an Export Control List and an Area Control List by order-in-council. Once a product has been added to either the Import or Export Control List or a country to the Area Control List, the Act gives the Secretary of State for External Affairs the authority to control the flow of goods through the issuance of import or export permits at his discretion.

70. The Act allows for the addition or deletion of products to the Import or Export Control List, and of countries to the area Control List for a variety of specific purposes detailed in the legislation.

(iv) The Special Import Measures Act

71. Authority for levying anti-dumping and countervailing duties is found in The Special Import Measures Act (SIMA). The SIMA embodies the principles contained in Articles VI, XVI, and XXIII of the GATT, as well as the interpretations of those articles contained in the Anti-dumping Code and the Subsidies/Countervail Code.

72. The objectives for the SIMA are to provide an internationally-accepted set of rules for the application of anti-dumping and countervailing duties against imported products in those circumstances where investigations of the facts have established that material injury has occurred, or is likely to occur, to Canadian production of like goods as a direct result of the importation of dumped or subsidized goods.

73. Anti-dumping and countervail investigations are generally initiated as a result of a complaint filed with Revenue Canada by a Canadian industry which alleges injury caused by dumped or subsidized imports. If the evidence warrants the initiation of an investigation, Revenue Canada is the responsible authority for making the preliminary determinations of dumping/subsidization and injury. Final determinations of dumping/subsidization are made by Revenue Canada while the Canadian International Trade Tribunal (CITT) has the responsibility for making the final injury determination (see Annex V).

74. The SIMA provides that injury findings will expire after five years unless they are reviewed by the CITT and continued on the grounds of the continued existence of or threat of material injury. Reviews of the injury finding may be requested at any time by an interested party.

75. The SIMA also contains provisions which permit the CITT to consider and report its opinion to the Minister of Finance as to whether the collection of the full amount of an anti-dumping or
countervailing duty permitted under the law is in the public interest. The Minister of Finance may, as a result of this opinion, reduce or eliminate the anti-dumping or countervailing duty. (See Annex V for details on anti-dumping/countervail procedures).

76. Amendments to the SIMA were introduced to implement the Canada-U.S. Free Trade Agreement. These new provisions affect the appeal procedures applicable to the assessment of anti-dumping or countervailing duties against imports of goods of the U.S.. Under these FTA amendments, affected parties may choose to pursue their appeals before a binational dispute settlement panel rather than in fora available under the domestic judicial review process.

(C) Trade Agreements and Arrangements

77. In pursuing its trade policy objectives, Canada has undertaken a number of multilateral and bilateral agreements and arrangements directly affecting trade. These include an active membership in the General Agreement on Tariffs and Trade, bilateral economic cooperation agreements with the U.S. of America, Australia, New Zealand, the Caribbean Commonwealth, and several multilateral and bilateral arrangements with regard to tariff preferences and quotas. Canada has undertaken as well bilateral economic and commercial cooperation agreements with 65 countries. These agreements do not normally include trade concessions, and are in many cases related to assistance to developing countries. These agreements normally include MFN clauses.

The GATT

78. The GATT is a cornerstone of Canadian trade policy. Canada has consistently supported the multilateral system, and has participated actively in its operation, especially under the auspices of the GATT following its inception in 1947. Canada's participation reflects an appreciation of the impact of international trade on the Canadian economy and the potential effectiveness of operating in a multilateral system under equitable and enforceable rules.

79. Prior to its extensive participation in the Tokyo Round of GATT negotiations in the 1970's, Canada had shown its commitment to the GATT system by its constant participation in GATT rounds and other activities since the inception of GATT. During the 1970's Canada made special efforts through the GATT to achieve the liberalization of tariff and non-tariff barriers to world trade in several important resource sectors, including forest products and non-ferrous metals, and covering the natural, processed and
finished forms of such products.

80. During the Tokyo Round, Canada advanced the sectoral approach to negotiations in order to deal with trade barriers in these areas. In 1979 Canada was signatory to the Geneva (1979) Protocol to the GATT of June 30, 1979, as well as the Protocol Supplementary to the Geneva (1979) Protocol to the GATT. These both entered into force for Canada September 1, 1981. Canada was also signatory to all but one of the other GATT arrangements and agreements related to the Tokyo Round, including the Tokyo Round Codes on Import Licensing Procedures, Technical Barriers to Trade, Subsidies/Countervail, Government Procurement, Trade in Civil Aircraft, Anti-dumping and Customs Valuation, and the Arrangement regarding Bovine Meat.

81. Canada's extensive participation in the GATT system is reflected in our adherence to the underlying concept of GATT as a contractual arrangement embodying an exchange of rights and obligations. Canada recognizes that it has greatly benefited from the far greater degree of openness of world trade that has been achieved within the GATT system. In recent years Canada has therefore made special efforts in GATT to achieve the liberalization of tariff and non-tariff barriers to world trade. Canada's extensive support in the launching of and participation in the Uruguay Round since its beginning in 1986 continues to reflect Canada's priorities.

82. Canada's interests, as a medium-sized trading country, are dependent on the stability of the multilateral trading system based on the rule of law. It therefore has a stake in the effectiveness of the GATT as an institution providing that legal framework. Canada supports strengthening the institutional foundations of the GATT; including strengthening its ability for information gathering regarding the trade policy of its members. The Trade Policy Review Mechanism is a good beginning to reaching this objective.

Canada-U.S. Free Trade Agreement (FTA)

83. The FTA went into effect on January 1, 1989. The accord provides a powerful signal against protectionism and for trade liberalization. The FTA does not raise barriers to imports from third countries; it lowers barriers between the two FTA countries. The FTA reflects Canada's commitment to liberalize trade on a global basis through multilateral trade negotiations under the GATT.

84. Briefly summarized, the FTA provides the following:

Tariffs: The agreement eliminates all tariffs on goods by
1998.

**Quantitative Restrictions:** Numerous restrictions will be phased out or grandfathered.

**National Treatment:** The agreement incorporates the fundamental national treatment obligation of the GATT into the Agreement, and extends it to sub-national governments.

**Technical Barriers:** The two governments will endeavour to make their respective standards-related measures more compatible and recognize each others' systems for accrediting testing labs and certification bodies located in the other country.

**Bi-national Dispute Settlement in Anti-Dumping and Countervailing Duty Cases** (Chapter 19): In anti-dumping and countervail cases involving goods imported from the U.S., the agreement provides the right for an interested Party to request the replacement of judicial review by domestic courts of countervailing and anti-dumping final orders by a binational panel, which must apply national law in rendering decision.

**General Dispute Settlement** (Chapter 18): The agreement establishes a bilateral commission to resolve disputes arising from the FTA, except for financial services, and countervailing and anti-dumping duty cases. Normal dispute resolution procedures under GATT would also continue to be available to deal with issues covered by GATT rules.

**Agriculture:** The agreement ends all export subsidies on bilateral trade, provides for the elimination of Canadian Western Grains Transportation Rail Subsidies on exports to the U.S. shipped through Canadian west coast ports; mutual exemption from restrictions under meat import laws; elimination of Canadian import licenses for wheat, barley and oats when U.S. grain support levels become equal to Canadian grain support levels.

**Wine and Distilled Spirits:** The chapter provides for the reduction of barriers to trade which arise from measures related to the internal sale and distribution of wine and distilled spirits.

**Energy:** All tariffs, as well as most non-tariff measures and trade restrictive practices, will be eliminated.

**Automotive Products:** Tariffs in the automotive sector will be phased out over a 5-10 year period. New rules of origin
provide that fifty percent of the direct production costs of any vehicle traded will have to be incurred in Canada and the U.S. to qualify for duty-free treatment.

Emergency Actions: After the transition period, no measure may be taken to counteract a surge resulting from the operation of the Agreement except by mutual consent.

Government Procurement: The agreement expands the range of government purchases open to suppliers from the other country.

Investment: The Agreement provides national treatment for establishing, selling, conducting, and operating most businesses. Canada retains the right to review acquisitions by U.S. investors but at higher threshold levels, - $150 million by 1992.

Services: The agreement commits both governments to a set of principles to discipline future policies and practices. Both governments agree to extend national treatment to the providers of a list of covered services. New regulations for covered services will not be more discriminatory than they are already and will conform fully to the national treatment obligation. Sectoral annexes clarify these principles with respect to telecom and computer services, tourism and architecture. The agreement also contains provisions that will allow easier border crossing by business travellers.

Financial Services: Canadian banks in the U.S. will be able to underwrite Canadian government securities. Canadian financial institutions will be treated the same as their U.S. counterpart under any changes in the Glass-Stegall Act. U.S. bank subsidiaries in Canada will be exempted from the current 16 percent ceiling on the size of the foreign bank sector, as are restrictions on U.S. portfolio ownership of Canadian banks.

Culture: The agreement exempts cultural industries.

FTA Implementation

85. The FTA is being implemented over a ten year phase-in period. Implementation proceeded smoothly during the first year of the Agreement. In terms of tariff elimination, the first year schedule for tariff reductions and/or full elimination were fully instituted for specified commodities, and the two governments are considering a recommendation from the Canada - U.S. Commission, which oversees the FTA, to accelerate tariff elimination in 1990 for some 400
tariff items, covering approximately $6 billion of Canada - U.S. trade. Another key implementation highlight for 1989 is the planned expansion of temporary entry eligibility categories for professionals and business persons seeking temporary work assignments in the other country.

86. Binational working groups are attempting to move towards the elimination of trade barriers in the areas of agricultural and fishery products, temporary entry of business persons, customs matters, tourism and services. Moreover, a bi-national private sector panel on automotive trade is examining issues relating to the global competitiveness of the North American automotive industry, and will recommend needed actions on automotive customs procedures, standards/regulations, statistics collection, and rules of origin applicable to FTA treatment for automotive goods. Preliminary talks have commenced on subsidies and trade remedies.

87. The trade dispute settlement mechanism established under the FTA is being used by both countries. The first panel decision under Chapter 18 panel involving a trade dispute, West Coast salmon and herring, has been recently announced. A second Chapter 18 panel is also reviewing U.S. size restrictions on lobster. Bi-national consultations are continuing under the auspices of Chapter 18 on several other trade irritants.

88. A total of twelve Chapter 19 binational panels have been struck in 1989 to investigate anti-dumping and countervail cases in such areas as pork, raspberries and steel rails.

The Canada/U.S. Automotive Products Trade Agreement (Auto Pact)

89. In 1965, the Governments of Canada and the U.S. formally agreed to liberalize Canadian and U.S. automotive trade with a view to rationalizing production on a North American basis. Total automotive trade between the two countries increased from $1.2 billion in 1965 to $63.8 billion in 1986. While the bulk of the current Canada - U.S. automotive trade is conducted on a duty free basis under the Auto Pact, a substantial and rapidly increasing amount of the trade between the two countries is conducted outside the Pact ($3.3 billion in 1984).

90. Under the terms of the Auto Pact there are conditions governing duty free imports into Canada and the U.S.:

(1) The key U.S. condition is that bona fide motor vehicle manufacturers, determined by the U.S. Secretary of Commerce, can import duty free Canadian made motor vehicles and original
equipment parts if the aggregate value of components and material imported into Canada from any foreign country (except the U.S.) for production of such articles was no more than 60 percent until January 1, 1968 and thereafter no more than 50 percent of the appraised customs value.

(2) The key Canadian conditions are that to be qualified as a bona fide manufacturer to import motor vehicles and original equipment parts duty free, the company must (a) maintain a production to sales ratio, in terms of net sales value, in any one year, not less than that ratio attained in the base year (1964), and (b) produce Canadian value added not less than that produced in the base year (1964).

91. Outside the context of the Auto Pact, major U.S. producers undertook, in their letters of understanding, to observe an extra Canadian condition to increase in each ensuing year Canadian value added by an amount equal to 60 percent of the growth in their market. As a one time commitment, they also undertook an absolute increase of Canadian Value Added by 1968 of $228 million in total.

92. For automotive products imported into Canada and the U.S. outside the Auto Pact, the MFN automotive tariff applies. These products include aftermarket automotive parts, and any vehicle and original equipment parts imported by any person including non-Auto Pact manufacturers.

Defence Arrangements

Canada-U.S. Defence Production Sharing Arrangements (DPSA)

93. This arrangement gives Canadian manufacturers the opportunity to provide defence supplies and services to the U.S. military and to U.S. defence contractors.

Canada-U.S. Defence Development Sharing Agreement (DDSA)

94. This program enables the Canadian Government to share in the cost of a U.S. Department of Defence development Project.

Research Development and Production Agreements

95. Canada maintains bilateral defence Research Development and
Production (RDP) Agreements with nine European partners (Belgium, Denmark, France, West Germany, Italy, the Netherlands, Norway, Sweden and the United Kingdom). The objective of these agreements is to find projects of interest which warrant bilateral support.

Trade and Economic Co-operation Agreement with the Caribbean Common Market (CARICOM) and CARIBCAN

CARICOM

96. The agreement was signed in 1979 and covers trade, aid, technical and industrial cooperation between Canada and the Caribbean Common Market (CARICOM). The trade section provides for an exchange of MFN status and for regular consultation. Canada remains open to reviewing trade issues within this forum; however, trade negotiations occur more regularly on a bilateral basis with Caricom-member countries.

CARIBCAN

97. Caribcan, an economic and trade development program in favour of Commonwealth Caribbean countries and territories was brought into effect on July 15, 1986. Its main feature was the broadening of what was already extensive duty free treatment to cover imports from beneficiary Commonwealth Caribbean countries. The program does not, however, cover textiles, clothing, footwear, handbags, leather garments, lubricating oils and methanol. Also included in the program are measures relating to scholarships and initiatives to strengthen the export marketing capabilities of the region.

126. Total merchandise trade with Caricom was approximately $648 million in 1984, but decreased to $552 million by 1987. In 1987 Canadian exports to Caribcan were $292.9 million and imports $260.9 million.

Multi Fibre Agreements-Protocol for the Extension of the Arrangement Regarding International Trade in Textiles

98. See section on textiles and apparel.

Canadian Generalized System of Preferences (GSP)

99. The Canadian GSP scheme, known as the General Preferential Tariff (GPT), was brought into effect on July 1, 1974 for an initial ten year period which was subsequently extended for a further 10 years in June 1984 (Sections 35 to 41 of the Customs Tariff refer). Under the GPT, rates of duty on most goods are
generally equivalent to the MFN rate reduced by one-third or lower. In the case of goods from the least developed of the developing countries (LLDC), Canada extended duty free entry to all GPT eligible goods.

100. The benefits of the GPT are extended to any country entitled to MFN rates of duty which the Government considers to be a developing country. These benefits have been extended generally to those countries which claim developing country status and which generally receive beneficiary treatment from other GSP donor countries. Currently, there are 160 countries and territories which are eligible for GPT.

101. The GPT is intended to support beneficiary countries attempts to increase foreign exchange earnings by developing their exports of manufactured and semi-manufactured goods, to promote industrialization, and to accelerate rates of economic growth thus facilitating their adjustment programs. There are certain product exclusions (e.g. most textiles, leather and footwear products and some electronics) in view of the sensitive nature of imports in these sectors. Over time, Canada has made improvements to the GPT by expanding product coverage to include certain raw materials, agricultural and some textiles products, increasing margins of preference and reducing GPT rates on certain products to "free".

102. Canada applies rules of origin to goods benefitting from the GPT. These rules stipulate that the goods must be wholly the produce or manufacture of the beneficiary country or, if imported materials are included, at least 60 percent (40 percent for least developed of the developing countries - LLDC's) of the ex-factory price of the goods must be value added in the beneficiary country, in other GPT beneficiary countries, or in Canada. Since 1984, Canada has permitted the cumulation of value added in two or more beneficiary countries to be used in meeting the eligibility criteria under the rules of origin.

103. Canada's scheme, like most other donor countries' GSP's, embodies safeguard procedures which provide for the withdrawal of GPT rates, either in whole or in part, from any country or countries should imports cause or threaten injury to domestic producers. A Canadian producer may submit a petition to the Canadian International Trade Tribunal (CITT), an independent, quasi-judicial body. If the Tribunal is satisfied that the petition has merit, it conducts a public inquiry and reports its findings to the Minister of Finance regarding the continued application of the GPT for that product. In addition to the views of Canadian producers, the Tribunal takes into account the views of exporting beneficiary countries, exporting firms or their representatives, and Canadian importers and consumers. The Minister of Finance tables the Tribunal's report in Parliament and,
following consideration of its conclusions, recommends a course of action for approval. A GPT safeguard investigation by the CITT examines whether imported goods at GPT rates are directly contributing to the cause of injury, indicates the relative importance of the GPT preferences as a cause of injury, determines if there are a number of factors contributing to a producer's difficulties, determines the source of the imports which are the cause of injury, and considers whether the withdrawal of the GPT on the product or products concerned would in fact provide significant relief for the Canadian producer.

104. Since 1980, there have been 24 petitions to the Tribunal and the Government withdrew the benefits of the GPT in eight cases.

105. The countries entitled to the GPT are listed in Schedule III to the Customs Tariff. The most recent additions to the list are Poland and Hungary which were accorded the benefits of the GPT in December, 1989. Canada has not graduated any beneficiary country from GPT treatment. Greece and Portugal were removed from beneficiary status on their accession to the EC.

Canada/Australia Trade Agreement (CATA)

106. As a result of this bilateral trade agreement which came into effect in 1960 (which is a continuation of preferential trade arrangements established in the Ottawa Agreements of the 1930s), Australia is entitled to British Preferential Tariff (BPT) treatment or special bound rates of duty as agreed between Canada and Australia (legislative authority - Sections 50 to 52 of the Customs Tariff). Reduction or elimination of margins of preference may occur following agreed notification/consultation procedures.

107. These rates appear separately in the MFN column of Schedule I to the Customs Tariff.

Canada/New Zealand Agreement on Trade and Economic Cooperation

108. As a result of a bilateral trade agreement with New Zealand in 1932, New Zealand is entitled to BPT treatment or special rates of duty as agreed between Canada and New Zealand (legislative authority - Sections 47 to 49 of the Customs Tariff). The present agreement entered into force January 1, 1982, superseding the 1932 Agreement. Article XI of the Agreement established the Canada/New Zealand Consultative Committee to discuss relevant trade issues.

109. These rates of duty appear separately in the MFN column of Schedule I of the Customs Tariff.
II TRADE POLICIES AND OTHER PRACTICES AFFECTING TRADE

110. Canadian commercial policy has historically focused on tariffs on imported goods. This focus has changed over time to include the specific application of other instruments, such as quantitative restrictions, licensing and domestic support programs.

CUSTOMS ADMINISTRATION

111. Revenue Canada has the mandate to control, regulate, manage and supervise the collection of customs duties and excise duties, and taxes. Since June 1983, the customs and excise jurisdiction of Canada applies to the outer limits of the continental shelf or to a distance 200 miles from shore, whichever is farther.

112. All goods entering Canada must be reported at the nearest customs office and made available for examination except under certain circumstances set out in regulations.

113. Goods, if not released at the time of importation, may be transported in bond within Canada to another customs office, or to a sufferance or bonded warehouse or duty-free shop licensed by the Department. Such transportation is subject to the deposit of security to cover the duties that are payable and to the maintenance of transportation records in Canada by the transporter.

114. Generally, goods cannot be released until they have been accounted for by the importer or owner and all the duties paid. However, the Customs Act provides for the release of goods prior to accounting and payment of duties if an interim accounting is made and is followed up by a final accounting and payment of duties within the prescribed time. Importers of commercial goods must also maintain records in Canada of all importations and make such records available to Revenue Canada on request.

115. The Customs Act sets out the methods for calculating the value for duty of imported goods and is in accordance with GATT Customs Valuation Code. The value for duty is usually determined by the transaction value method; this essentially means that the price paid for the goods is the basis for the calculation. Where the value for duty cannot be calculated in this matter, the Act specifies several other methods to be used and the order in which these methods shall be considered.

116. Once imported goods have been accounted for, an officer may
determine the tariff classification and appraise the value for duty of the goods within 30 days of the day of accounting. Customs duties are levied in the context of the Customs Tariff which sets out the tariff treatment accorded Canada's trading partners. Schedule I and II of the Customs Tariff contains approximately 8,000 tariff items and rates of duty applicable to goods imported into Canada. The legislation also provides for the determination of the origin of goods which in turn relates to the tariff treatment to which they are entitled. Canada has nine principle tariff treatments: Most-Favoured-Nation Tariff (MFN), General Preferential Tariff (GPT), including special preferences for the Least Developed of the Developing Countries (LLDC), the U.S. Tariff (UST), the British Preferential Tariff, Australia Tariff, New Zealand Tariff, Commonwealth Caribbean Country Tariff, and the General Tariff. Schedule III of the Customs Tariff sets out the tariff treatment to be accorded goods originating in various countries. Notwithstanding the rate of customs duties imposed under the various tariff treatments outlined in the Customs Tariff, goods may benefit from lower rates of duty or duty-free entry under other provisions of the Customs Tariff by special duty relief programs (e.g. special concessionary items, specified goods used in the production of goods in Canada, goods used for special purposes).

117. At the time of importation, goods may be assessed other charges apart from regular customs duties. These include anti-dumping duties and countervail duties under the Special Import Measures Act, sales tax under the Excise Tax Act and excise duties on alcoholic beverages, tobacco and tobacco products under the Excise Act.

118. Importers, or the persons who paid the duties may request a review of the tariff classification or value for duty by an officer designated by the Minister responsible for Revenue Canada. If not satisfied with the decision of the designated officer, a second request for review may be made to the Deputy Minister. Subsequently, the Deputy Minister's decision may be appealed to the Canadian International Trade Tribunal (an independent, quasi-judicial body) and the Tribunal's decision to the Federal Court. Reviews of the tariff classification or value for duty of imported goods may also be initiated by the designated officer or the Deputy Minister under the circumstances set out in the Act. In this regard, the Customs Act also provides for the deposit of security in lieu of payment of disputed monies, the payment of interest on amounts owed to the importer and the collection of interest on amounts owed to the Department. Similar appeal provisions apply to the duties imposed under the Special Import Measures Act, and Excise Tax Act.

119. The Customs Act permits the Department to grant relief from
duties in the form of abatements, refunds, drawbacks, or remission in certain circumstances such as goods that have suffered damage, deterioration or destruction, goods of inferior quality, goods deficient in quantity, goods diverted to a special use or user, goods imported and further manufactured which are then exported.

120. Most goods are permitted entry into Canada. However there are a number of statutes which control, regulate, or prohibit the entry of specific commodities. A list of specific goods which are prohibited entry into Canada is found in Schedule VII to the Customs Tariff and include such products as obscene literature or hate propaganda, reprints of Canadian copyrighted works, offensive weapons, counterfeit coins. The Export and Import Permits Act also provides for the control and restriction of goods exported from specified countries (e.g. South Africa) or for the restriction, control or prohibition of specified goods (e.g. textiles, wearing apparel, endangered species). Other products for which entry is prohibited or controlled are those identified under the Food and Drug Act and Narcotic Act (under Health and Welfare Canada). Such products include narcotics, drugs, food, cosmetics, medical and contraceptive devices. There is also legislation to control, by certificates, inspection and/or quarantine, the importation of animal and meat products, plants, fruits, vegetables and soil.

121. The following sections provide more detailed descriptions of issues summarized here.
THE TARIFF REGIME

Bindings and Tariff Treatments

122. Most imports enter Canada under tariff items with bound rates of duty. In 1988, of $130.8 billion (Cdn) total imports, $125.6 billion represented trade under bound tariff items (either wholly, partially or conditionally bound). Hence, in 1988 only 4% of Canadian imports fell under unbound tariff items. These unbound tariff items are concentrated in petroleum oils representing $3.8 billion (Cdn) of the total unbound trade of $5.2 billion (Cdn). In looking specifically at the agricultural sector, in 1988 total imports stood $6.9 billion (Cdn) of which $105.1 million (Cdn) were imported under unbound tariff items (i.e., 1.5%).

123. In looking at all imports, including duty free, the average rate of duty on total Canadian trade was 3.7% in 1989. The average rate of duty on imports into Canada under dutiable lines stood at 10.7%. In 1988, 71% of Canadian tariff lines (H.S. tariff) were duty free on an MFN basis and 65% of total trade into Canada was imported duty free. This latter figure has remained constant over the last three years.

124. Canada has three principal tariff treatments: Most-Favoured-Nation Tariff (MFN), General Preferential Tariff (GPT), and the U.S. Tariff (UST). In addition, Canada has in place preferential rates of duty under the British Preferential Tariff (BPT), Australia Tariff, New Zealand Tariff, Commonwealth Caribbean Country Tariff, and Least Developed of the Developing Countries Tariff (LLDC). Finally, under the General Tariff, goods are usually subject to a rate of duty of 35%. Schedule III of the Customs Tariff sets out the tariff treatment to be accorded to goods originating in various countries.

125. All Canada's trading partners which are signatories to GATT, or with which Canada has negotiated bilateral trade agreements, receive the benefit of MFN treatment. Additional preferences given to GPT, LLDC, and Commonwealth Caribbean countries derive from the 1979 Enabling Clause and Article XXV(5) of GATT and are granted under the authority of the Customs Tariff. The tariff preferences granted to Australia, New Zealand, and British Commonwealth countries are specifically allowed under Article I of GATT since they were in effect at the time Canada acceded to the Agreement. All these tariff treatments are described below.

Most-Favoured-Nation Tariff (MFN)

126. The MFN Tariff is the result of successive multilateral
trade negotiations under GATT and is applicable to all GATT members and dependent territories and other sovereign states with whom Canada has negotiated bilateral trade agreements incorporating an MFN clause. This tariff treatment is provided for under Sections 22 to 25 of the Customs Tariff. In November, 1988, Saudi Arabia became the most recent country to be extended the benefits of MFN tariff treatment.

127. To qualify for MFN treatment, proof of origin of the goods is required, the goods must be shipped direct to Canada from an MFN country and at least 50% of the cost of production of goods must have been incurred in an MFN country.

General Preferential Tariff

Developing Countries

128. The General Preferential Tariff (GPT) has been in effect since July 1, 1974. The legislative authority for GPT resides in Sections 35 to 41 of the Customs Tariff. Under the GPT, rates of duty on most goods are generally equivalent to the MFN rate reduced by one-third or lower.

129. In order to benefit from the GPT the goods must meet rules of origin which stipulate that the goods must be wholly the produce or manufacture of the beneficiary country or, if imported materials are included, at least 60 percent of the ex-factory price of the goods must be value added in the beneficiary country, in other GPT beneficiary countries, or in Canada. Proof of origin is required in the form of a certificate of origin (Form "A") and the goods must be shipped directly to Canada from a beneficiary country on a through bill of lading, unless an exemption has been granted. Since 1984, Canada has permitted the cumulation of value added in two or more beneficiary countries to be used in meeting the criteria under the rules of origin.

LLDCs

130. Under Sections 38 to 41 of the Customs Tariff Canada extends duty free entry to all GPT eligible goods imported from countries which are considered to be the least developed of the developing countries (LLDC) under Sections 38 to 41 of the Customs Tariff. Free entry can only be extended to goods for which there exists a GPT rate of duty. To qualify, a certificate of origin is required, at least 40 per cent of the ex-factory price of the good must be the product of either a GPT beneficiary country or of Canada and the goods must be shipped directly to Canada from a beneficiary country on a through bill of lading.
U.S. Tariff

131. The Free Trade Agreement (FTA) between Canada and the U.S. which came into force on January 1, 1989, provides for the elimination of tariffs on all goods originating in the U.S.. This is embodied under Sections 25.1 to 25.3 of the Customs Tariff. On some goods the tariffs were eliminated upon implementation of the Agreement (ie. January 1, 1989), others will be eliminated in 5 equal stages and hence be duty free on January 1, 1993 and the remaining products will see their tariffs eliminated in 10 equal stages, that is by January 1, 1998. Exceptions to this schedule of elimination are specialty steel where the first 10 step phase out started on October 1, 1989 rather than January 1, 1989, and central office switching apparatus and their parts where tariffs are being eliminated in 3 annual steps.

132. The FTA also provides for the accelerated elimination of tariffs where there is consultation and agreement between Canada and the U.S. An initial round of negotiations has recently been completed and as a result, some 400 tariff lines in each country will have duties eliminated more quickly than as provided under the Agreement.

133. The FTA provides product specific rules of origin which must be met if U.S. goods are to benefit from the lower rates of duty. Essentially, goods, other than those which originate wholly in either Canada and/or the U.S., have to incorporate some significant Canadian or U.S. content to be entitled to preferential rates of duty. Depending on the sector, a change in tariff heading would confer origin and in others, a "value added" test (usually 50%) would also be required. Proof of origin must also be furnished under the terms and conditions set out in regulations.

British Preferential Tariff (BPT)

134. The British Preferential Tariff provides for preferential rates of duty which apply to all BPT eligible countries listed in Schedule III to the Customs Tariff. The United Kingdom and Ireland no longer qualify for BPT rates since joining the EEC. Sections 26 to 31 of the Customs Tariff make provision for such tariff treatment.

135. The margins of tariff preference accorded under BPT have diminished significantly as successive reductions have been made to the MFN rates of duty as a result of multilateral trade negotiations. There are relatively few BPT rates which are still relevant and these appear as separate rates in the MFN column of Schedule I to the Customs Tariff.
136. The BPT remains relevant only for certain imports from Australia and New Zealand and a few imports from developing Commonwealth countries which are not covered by the GPT or the special arrangements with Commonwealth Caribbean countries.

137. To qualify for BPT treatment, proof of origin is required, the goods must be shipped directly to Canada from a port in a BPT beneficiary country without transhipment. In addition, at least 50% of the cost of production of the imported good must have been incurred in a country entitled to the benefits of BPT.

Australia Tariff

138. As a result of a bilateral trade agreement with Australia (CATA), Australia is entitled to BPT treatment or special rates of duty as agreed between Canada and Australia and this is provided for under Sections 50 to 52 of the Customs Tariff.

139. To qualify for the preferential tariff, proof of origin is required, the goods must be finished in Australia in the form in which they were imported into Canada and at least 50% of the cost of production of the goods must have been incurred in Australia (in the case of special rates of duty for Australia) or in one or more BPT beneficiary countries (in the case of BPT rates) or in Canada.

New Zealand Tariff

140. As a result of a bilateral trade agreement with New Zealand, New Zealand is entitled to BPT treatment or special rates of duty as agreed between Canada and New Zealand and this is provided for under Sections 47 to 49 of the Customs Tariff. To qualify for the preferential tariff, proof of origin is required, the goods must be finished in New Zealand in the form in which they were imported into Canada and at least 50% of the cost of production of the goods must have been incurred in New Zealand (in the case of special rates of duty for New Zealand) or in one or more BPT countries (in the case of BPT rates) or in Canada.

Commonwealth Caribbean Countries (CARIBCAN)

141. In addition to the tariff benefits for developing countries under the GPT, in February 1986, the government announced a special tariff arrangement to assist development in Commonwealth Caribbean Countries. Effective June 15, 1986, with some exceptions (e.g. textiles, clothing, footwear, lubricating oils, methanol and leather garments), goods imported from Commonwealth Caribbean
countries are entitled to duty-free entry into Canada as outlined in Sections 53 to 58 of the Customs Tariff. To qualify for duty-free entry, proof of origin is required, at least 60 per cent of the ex-factory price of the imported goods must be the product of a Commonwealth Caribbean country or of Canada, and the goods must be shipped directly to Canada from a beneficiary country on a through bill of lading.

General Tariff

142. The General Tariff applies to all goods of countries not entitled to MFN treatment, with the exception of certain petroleum products, some paintings and drawings, certain books and goods classified under Chapter 98 of the Customs Tariff. The General Tariff rate of duty is set at 35 per cent under Section 46 of the Customs Tariff. The countries or territories to which this rate currently applies are Albania, Balau Islands, Democratic People's Republic of Korea (ie. North Korea), Libya, Mongolia, and Oman.

Tariff Concessions

143. In addition to the tariff treatment preferences which are provided for in the Customs Tariff, Canada allows the duty-free entry or entry at reduced rates of duty under certain circumstances or under specific programs as described below:

Customs Duties Reduction

144. Section 68 of the Customs Tariff provides a mechanism by which customs duties may be reduced or eliminated. This action may be taken either by statutory amendments to the primary legislation (i.e., Customs Tariff) or by executive order.

145. In respect to the statutory concessionary items, the products and uses are set out in Schedule II to the Customs Tariff. Amendments to this list can only be made with the approval of Parliament. For example, the rate of duty for equine leather for use in the manufacture of baseballs has been reduced, on an MFN basis, from 10.2% to duty free (code 2605)

146. With respect to the elimination or reduction of customs duties by executive order, the products which can benefit are materials used in the manufacture of products and most chemicals and plastics. The products and uses are set out in the "Customs Duties Reduction or Removal Order" and the "Chemicals and Plastics Duties Reduction or Removal Order".
Drawbacks and Remissions

147. Canada has the legislative authority to put in place provisions which remit or otherwise waive customs duties, usually under certain conditions. These provisions can be broken out into four major areas of relief as follows: home consumption drawback, drawback for export and inward processing, machinery remission program, and specific remission orders.

Home Consumption Drawback

148. "Home Consumption Drawback" provides for a whole or a partial refund of duties on goods which have been consumed in the manufacture of certain products in Canada. The products and circumstances under which relief is provided are set out in Schedule IV and V to the Customs Tariff and include such products as materials used in the production of fertilizers and fire brick used in the construction or repair of coke ovens.

Drawback for Export and Inward Processing

149. Canadian legislation provides for a reimbursement of customs duties on imported goods which are exported without being used in Canada or which are used or consumed in the manufacture of goods subsequently exported. Similarly, the Inward Processing provisions of the Customs Tariff provide for the same kind of relief from duties as is available through the export drawbacks but allows importers to post security rather than pay duties and file for a drawback after exportation.

150. Under the terms of the Canada/U.S. Free Trade Agreement, the drawback for export and inward processing programs will be eliminated by January 1, 1994 for goods exported to the U.S.

Machinery Program

151. The Machinery Program provides for the relief of customs duties on a wide range of machinery when reasonably equivalent machinery is not available from Canadian manufacturers. The goods covered by this program must be classified under the tariff items as listed in Schedule VI to the Customs Tariff.

Remissions

152. Section 101 of the Customs Tariff provides the authority to remit customs duties by executive order. Remissions basically are
used only in exceptional circumstances, for example, to rectify short term anomalies or inequities in the tariff structure. In some cases, remission is conditional on importers meeting specified performance requirements; as a result of the Canada/U.S. Free Trade Agreement, these latter remissions are to be eliminated by January 1, 1998.

(A) Customs Valuation

153. Before January 1, 1985, Canada assessed customs duty on the higher of the "fair market value" or the selling price to the purchaser in Canada. The fair market value was the value of the good when sold for consumption in the country of export under fully competitive conditions, in like quantities and as far as practicable under comparable conditions, at the time when and from which the imported goods were shipped directly to Canada. Consequently, this previous system of valuation focused on the exporter's domestic market practices.

154. In 1979, Canada signed the "Agreement on Implementation of Article VII of the GATT" (i.e., the Valuation Code) and agreed to a five-year period within which to implement the Code.

155. This new system of valuation which came into effect on January 1, 1985, focused mainly on the value which a buyer and seller attach to goods in an open market, export transaction, without regard to circumstances prevailing in the exporter's home market. The primary basis of value for customs purposes is the price actually paid or payable for the goods when sold for export to the country of importation. This is referred to as "transaction value". When the customs value cannot be determined on this basis, there are five alternative methods of valuation which are applied in sequential order as set out in the Code.

(B) Rules of Origin and Marking of Imported Goods

Rules of Origin

156. Canada has in place eight (8) different preferential tariff treatments which might be applied to goods originating in designated countries.

157. In all cases, the rules of origin are based on a certain percentage of the price of the goods originating in beneficiary countries or Canada, except for the rules for the determination of U.S. origin goods.
158. The rules of origin applicable to each tariff treatment are outlined as follows:

Most-Favoured-Nation (MFN):

At least 50% of the cost of production of the good must have been incurred in an MFN country.

British Preferential Tariff (BPT):

At least 50% of the cost of production of the goods must have been incurred in a BPT country.

General Preferential Tariff (GPT):

a) Developing Countries:

At least 60% of the ex-factory price of the good from a beneficiary of the GPT must have originated in a GPT beneficiary country or in Canada.

b) Least Developed Countries (LLDCs):

At least 40% of the ex-factory price of the good from least developed developing countries must have originated in a GPT beneficiary country (not necessarily an LLDC) or in Canada.

New Zealand Tariff:

At least 50% of the cost of production of any good must have been incurred in New Zealand or Canada.

Australian Tariff:

At least 50% of the cost of production of the good must have been incurred in Australia or Canada.

Commonwealth Caribbean (CARIBCAN):

At least 60% of the ex-factory price of the good from CARIBCAN beneficiaries must be the product of an eligible Commonwealth Caribbean country or of Canada.

U.S. Tariff (UST):

Goods originate where:

a) goods are wholly obtained or produced in the territory
b) goods processed or assembled in the territory so that any third country components undergo a change in tariff classification and if
   i) no processing or assembling subsequently in a third country; and
   ii) meet the particular rules set out in the Annex to the FTA (e.g. change in tariff heading)

c) goods assembled in the territory where the tariff subheading for the goods provides for both the goods and their parts or the goods are imported into the territory in an unassembled or disassembled condition and are classified as such (note this whole provision does not apply to goods of chapters 61 to 63) if
   i) at least 50% of value of the goods (i.e., materials and direct cost) originate in the territory; and
   ii) the goods have not been further assembled or processed subsequently in a third country.

Goods do not originate in U.S. if they have only undergone:

a) simple packaging or, except as expressly provided by the rules set out in the Annex to the FTA, combining operations

b) dilution

c) an operation solely to circumvent the provisions of the FTA rules of origin.

Marking of Imported Goods

159. In principle, the purpose of the marking is to inform the consumer, ultimate purchaser or end-user of the country in which the imported goods were made.

160. Only certain specified goods imported into Canada must be marked, stamped, branded or labelled in legible English or French words, in a conspicuous place so as to indicate the country of origin. The types of imported goods which must be marked fall under one of the following categories: personal or household use, hardware, novelties and sporting goods, paper products and wearing apparel. The complete detailed list is specified in regulations.
OTHER TARIFF RELATED MEASURES

Tariff Rate Quotas

161. Canada has the legislative authority under Sections 42 to 45, 59 and 60 of the Customs Tariff to impose tariff rate quotas as a retaliation measure to enforce Canadian rights under a trade agreement or in response to practices implemented by other countries which, as a result of discrimination, adversely affect trade in Canadian goods and services or as a safeguard measure.

162. Canada has never imposed a tariff rate quota under these provisions.

163. Canada has put in place a quasi-tariff rate quota in the context of the Canada/U.S. Free Trade Agreement (FTA). Under FTA the rules of origin, articles of apparel and clothing accessories which are both cut and sewn in the U.S. from fabric produced or obtained in a third country do not qualify for the preferential FTA rates of duty. Nevertheless and in accordance with the FTA, such apparel is entitled to the preferred rates of duty up to specified annual amounts.

Withdrawal of Concessions

164. Under Section 59 of the Customs Tariff, action can be taken to enforce Canadian rights under a trade agreement or to response to practices implemented by other countries which adversely affect trade in Canadian goods and services. The action may take the form of the withdrawal of rights or privileges granted a country under a trade agreement, the application of a surtax on the goods of any country, or the imposition of quotas or tariff rate quotas on imports of any product. These are mechanisms of last resort to be used only when countries cannot arrive at a negotiated settlement.

165. In recent years, Canada has invoked this provision only twice. In January, 1984, in response to the U.S. implementation of supplementary tariffs on imports of specialty steel products, Canada imposed a surtax on imports of certain stainless steel products from the U.S. pending the U.S. passage of amending legislation. The Canadian surtax action was terminated in June, 1984. In the second instance, in the context of the implementation of the Canada-U.S. Free Trade Agreement in January 1, 1989, Canada used this provision to delay the elimination of tariffs on certain plywood and related products as a result of the fact that the U.S. decided to delay the elimination of its tariffs on comparable products.
Surcharges

166. The Customs Tariff (Section 61) permits the imposition of a surcharge on imported goods where it is considered that such a measure is required because of Canada's external financial position or by the state of its balance of payments. The surcharge may vary for different goods.

167. The last time Canada invoked this provision was 1962.

QUANTITATIVE IMPORT RESTRICTIONS

168. Quantitative controls administered under the Export and Import Permits Act are determined by taking into account a variety of factors (inter-governmental negotiations, historical import levels, domestic prices and supply) and quota amounts are usually allocated to domestic importers for a fixed period of time. Subsequent to the allocation of quota, importers are required to obtain import permits on a single entry basis.

169. Other than textiles and clothing, imports are restricted to a predetermined level only for agricultural products in support of federal government programs to regulate domestic supply or support prices.

170. At the present time, quotas are in effect for cheese, dry or liquid buttermilk, condensed milk, turkey, eggs, chicken, ice cream, yoghurt and broiler hatching eggs and chicks for chicken production. Permits may also be issued in an exception basis only for animal feeds containing more than 50% non-fat cow's milk solids, butter and butterfat, dry casein and caseinate, dry or liquid skimmed milk, dry whole milk, dry whey and dry blends.

171. The Free Trade Agreement (FTA) with the U.S. increased the Canadian import quota levels for chicken, turkey, eggs and egg products.

172. Quantitative global controls on imports of textiles and clothing usually take the form of voluntary export restraints incorporated in bilateral agreements negotiated pursuant to the Multi-Fibre Arrangement (MFA). The MFA also provides for the imposition of unilateral country specific import restraints by the importing country.

173. Restraint levels for textiles and clothing included in bilateral agreements are the result of a negotiating process. Unilateral import restraint levels are established taking into
account criteria contained in the MFA. Presently only two unilateral restraints are in place: winter outerwear from the United Arab Emirates; all clothing from North Korea.

**IMPORT LICENSING**

174. The Export and Import Permits Act authorizes the Secretary of State for External Affairs or his designate to issue import permits to residents of Canada who apply to import goods that are on the Import Control List.

175. Imports may be placed on the Import Control List and subject to licensing for the following reasons:

a) to ensure an adequate supply of a scarce good;

b) to implement an intergovernmental arrangement or commitment;

c) to support actions taken under certain named agricultural acts designed to support the price or control the supply of domestically produced agricultural products;

d) to remedy injury or the threat of injury to the production of any goods in Canada pursuant to an inquiry by the Canadian International Trade Tribunal Act;

e) to collect information or to facilitate implementation of actions taken under the Customs Tariff;

f) to collect information on the import or export of steel that is traded under certain named conditions.

g) for national security reasons.

176. The EIPA and associated regulations provide for a system of import permits to control the importation of specifically named products. An import permit is required to permit an entry of controlled products listed on the Import Control List. Certain products require an import permit for monitoring purposes only and are not subject to any other restriction. Other products, while still requiring an import permit, may be further restricted due to quantitative limits, sourcing conditions or product category and are therefore treated on a case by case basis.

177. The setting of quotas and their allocation form part of the administration of import controls, but the effective legal exercise of authority rests in the issuance of permits.
178. The following is a brief list of the products subject to licensing (see Annex IX for a detailed list):

- Poultry and poultry products;
- Certain dairy products;
- Endangered species;
- Goods of South African origin;
- Raccoon Dogs;
- Elephant Ivory and articles containing elephant ivory;
- Textiles and clothing;
- Carbon and specialty steel.

IMPORT PROHIBITIONS

179. Canada maintains a specific list of products which are prohibited entry into Canada and these are set out in Schedule VII to the Customs Tariff. These prohibitions are in accordance with Article XX or XXI of GATT or, in a few instances, cover products for which Canada has invoked the GATT Protocol of Provisional Application. Examples of products which are prohibited entry into Canada include used or second hand vehicles, obscene literature, hate propaganda, certain live birds of the Starling family.

180. As a result of the FTA, Canada is removing the prohibition on some products imported from the U.S.. These are:

- periodicals containing more than 5 per cent advertising space aimed specifically at Canadians was prohibited (see code 9958 of Schedule VII to the Customs Tariff). With the FTA, this prohibition has been removed in respect of periodicals published and edited in Canada and typeset and printed in the U.S..

- used motor vehicles with certain exceptions (e.g. returning residents) -- (see code 9963 of Schedule VII to the Customs Tariff). The FTA amended the legislation by phasing out, in five equal stages, the import prohibition on used motor vehicles imported from the U.S.. Hence, effective January 1, 1993, used motor vehicles imported from the U.S. will no longer be prohibited.

181. Other products the import or export of which is either absolutely or conditionally prohibited pertain to (1) consumer safety (absolute and conditional prohibitions on the import into Canada of hazardous products on the Schedule to the Hazardous Products Act) (2) the use of atomic energy (conditional prohibition of imports and exports of "prescribed substances" in the Atomic Energy Control Act) (3) strategic goods or other goods, e.g., goods pertaining to the implementation of an intergovernmental
arrangement such as the Convention on Trade in Endangered Species (conditional prohibition of exports contained in the Export Control List to the Export and Import Permits Act) and (4) human health (conditional prohibition on the import or export of any narcotic contained in the Narcotic Control Act; several conditional prohibitions under the Fish Inspection Act and absolute prohibition on the import or export of any fish intended for human consumption that is tainted, decomposed, or unwholesome; conditional prohibition on the export of any prescribed control product under the Pest Control Products Act.)

SAFEGUARDS

182. Canada's legislative authority to take safeguard action under Article XIX of GATT resides in Section 60 of the Customs Tariff and Section 5 of the Export and Import Permits Act.

183. Section 60 of the Customs Tariff permits the imposition of a surtax or tariff rate quota by executive order either as a result of a report to the Minister of Finance or an inquiry by the Canadian International Trade Tribunal (CITT) in situations where imports are causing or threatening to cause serious injury to Canadian producers. The surtax or tariff rate quota can remain in effect for up to three years except in those situations where the safeguard action is imposed on the basis of a report by the Minister of Finance, then it can only remain in effect for a maximum of 180 days. Since 1977, the Government has taken safeguard action once under the Customs Tariff and this was in respect to the importation of yellow onions in 1982 when a surtax was imposed.

184. Under the Export and Import Permits Act, Canada also has the legislative authority to impose quotas as an emergency safeguard action to limit the volume of imports. This provision has been invoked on footwear. In 1977, global quotas on imports of footwear (excluding rubber and canvas) were imposed for a three year period. In 1980, the quotas were extended for an additional year with an exemption for 500,000 pairs of specialty footwear. In 1981, new quotas were imposed on non-leather footwear including canvas (rubber, leather, waterproof plastic, downhill ski boots, certain specialty footwear and beach type sandals were not subject to quotas). In addition, in 1982, global quotas were re-imposed on leather footwear for a period of two years. In 1984, quotas on leather and non-leather footwear were extended for a period of one year. In 1985, quotas were limited to women's and girls footwear. In 1988 footwear ceased to be covered by global quotas.

185. There have been changes made recently to the safeguard
provisions as a result of the Canada/U.S. Free Trade Agreement implemented on January 1, 1989. At that time, the safeguard mechanism was amended to provide for the exclusion of the U.S. from a particular safeguard action if its imports are not substantial or contributing importantly to the serious injury or threat thereof.

186. A bilateral safeguard measure was introduced under the FTA as well. The FTA provides for the gradual elimination, by January 1, 1998, of all tariffs as they apply to U.S. origin goods. The bilateral safeguard mechanism provides that the MFN rate of duty can be re-imposed or the tariff cuts suspended on a product if, as a result of the reduction or elimination of tariffs, goods are being imported from the other party so as to cause serious injury (these rights expire in 10 years unless there is mutual consent to continue them between Canada and the U.S.).

187. The FTA provides a special safeguard mechanism for fresh fruits and vegetables where temporary duties, not exceeding the MFN rates, can be imposed provided certain conditions relating to import prices and acreage are met. This mechanism is known as "snapback" and expires in 2009.

188. In accordance with the terms of Article XIX of GATT, Canadian legislation (section 62 of the Customs Tariff) also provides for reduction or removal of customs duties on goods by way of compensation for any safeguard action taken under the Customs Tariff or the Export and Import Permits Act.

Government Directed Safeguard Inquiries

189. If the government considers that imports of a particular product are causing or threatening to cause "serious injury" to Canadian producers of that product, it may ask the Canadian International Trade Tribunal to conduct an inquiry into, and report on, whether injury has occurred or is likely to occur. The government may also ask the Tribunal to make recommendations, if it finds serious injury, on how that injury might be alleviated, for example, by import quotas or surcharges or by adjustment assistance measures. The decision on whether to provide relief rests with the government. Until January, 1989, these functions were performed by the Canadian Import Tribunal and the Textile and Clothing Board.

Producer Requested Safeguard Inquiries

190. Since January, 1989 and the establishment of the Canadian International Trade Tribunal, a new program, sometimes called
"direct access", has been introduced into the Canadian safeguard system. Previously, direct access was only available through the Textile and Clothing Board, and limited to the textile and clothing industries.

191. This new feature gives Canadian producers, if they form a "major proportion" of an industry and furnish the Tribunal with a "properly documented complaint", the right to have the CITT conduct an inquiry into whether imports of goods, like or directly competitive with those which they produce, are being imported in such quantities as to cause or threaten serious injury to Canadian production.

192. As in government-directed safeguard inquiries, the Tribunal must conduct an inquiry and report its finding to the government. Similarly, the government then must decide whether to provide relief to the Canadian industry, if the Tribunal has found injury. The government has the option also, if the Tribunal has undertaken a producer-directed inquiry, to ask it to make recommendations, if the Tribunal finds injury.

VOLUNTARY RESTRAINT ARRANGEMENTS

193. Canada negotiated an understanding with Japan in 1981, with regard to automobiles, which was renewed on an annual basis until 1986/87. Since April, 1987 the practice of negotiating restraint levels was discontinued. It was replaced with an informal understanding that Japan would continue to exercise prudence in its exports. Regular consultations are held aimed at ensuring that Japanese exports do not disrupt the Canadian market.

194. Negotiations took place with Korea which established export levels for automobiles for calendar year 1986. For 1987/88, an informal understanding was reached to the effect that Korea would exercise prudence in its exports of vehicles to Canada. This understanding has not been renewed.

ANTI-DUMPING AND COUNTERVAILING ACTIONS

195. The Special Import Measures Act (SIMA) contains the authority for Canada's anti-dumping and countervailing duties. The Act is based on internationally-accepted GATT rules governing the conduct of anti-dumping and countervail investigations and the application of anti-dumping and countervailing duties against injurious imports.
Anti-dumping Investigations Initiated Between July 1, 1980 and January 1, 1990

196. Between 1 July, 1980 to 1 January, 1990, Canada initiated 279 anti-dumping investigations. The number of initiations has steadily decreased over the past four and one-half years from a high of 34, during the period July, 1984 to June, 1985, to our current level of 11 initiations, during the period July, 1989 to January, 1990.

197. During the same time period noted above, the number of definitive duties decreased dramatically. During the most recent recorded period Canada imposed one definitive duty, which stands in stark contrast to the period July, 1985 to June, 1986, when 25 definitive duties were imposed.

198. Canada has not made extensive use of price undertakings and only ten undertakings have been accepted over the period July, 1980 to January, 1990. This may be attributable to the time constraints which restrict negotiation and acceptance of a price undertaking to the time period preceding the imposition of preliminary measures. After that time, undertakings may not be accepted.

Countervail Investigations Initiated Since the Introduction of the Special Import Measures Act (December 1984)

199. Canada has not made extensive use of countervail investigations. Since the introduction of the Special Import Measures Act in December 1984, nine investigations have been initiated. Of those nine, two are currently under investigation, two resulted in no injury findings by the Canadian Trade Tribunal and five resulted in positive injury findings.

Products Subject to Definitive Anti-dumping or Countervailing Duties as of January 10, 1990

200. Currently, there are fifty five products subject to anti-dumping or countervailing definitive duties as a result of a finding of material injury. A number of these products pre-date the introduction of the Special Import Measures Act. All findings are subject to the sunset clause.

Canadian International Trade Tribunal Review Of Findings

201. Any finding of material injury issued by the Canadian
International Trade Tribunal\textsuperscript{1} (CITT) expires after five years, from the date of the original finding, unless a review of the finding is conducted within the prescribed time period. Findings may be rescinded, altered (amended) or maintained.

202. Between January, 1980 and January, 1990 the CITT reviewed 58 findings. Thirty-one findings were rescinded, 11 maintained and 16 were altered. Currently, the CITT is conducting a review of 11 previous findings.

203. See Annex VI for details on Canadian anti-dumping and countervail actions.

**EXPORT RESTRICTIONS**

204. The Export and Import Permits Act authorizes the Secretary of State for External Affairs or his designate to issue permits to residents of Canada who apply to export goods that are on the Export Control List or to countries on the Area Control List.

205. Exports may be placed on the Export Control List and subject to licensing for the following reasons:

\begin{itemize}
  \item a) national security;
  \item b) to ensure that any action taken to protect further processing in Canada is not rendered ineffective by reason of unrestricted exports;
  \item c) to limit or keep under surveillance the export of raw materials (non-agricultural) in circumstances of surplus supply and depressed prices;
  \item d) to implement an intergovernmental agreement or commitment;
  \item e) to ensure adequate supply and distribution of articles in Canada for defence and other needs.
\end{itemize}

206. Export controls may be divided between strategic and non-strategic controls.

**Strategic**

\textsuperscript{1}Formerly known as the Canadian Import Tribunal
207. Canada controls the export of military, atomic and industrial strategic goods as a member of COCOM for national security reasons. In addition to goods and technologies identified by COCOM, controls also have been implemented on certain chemical weapons precursors, missile technology and equipment and nuclear goods for purposes of non-proliferations.

208. Military goods, as defined on the Export Control List, are subject to particular scrutiny with a bias to deny exports to countries engaged in conflict or in imminent danger of conflict, to countries with a persistent record of human rights abuses of its citizens and to countries which are subject to embargo by the United Nations.

Non-strategic

209. Canada also controls the export of certain goods of a non-strategic nature under the Export and Import Permits Act. Area Controls are an extraordinary remedy applied in special circumstances.

210. The following non-strategic goods are on the Export Control List:

(a) Specimens of endangered wild fauna or flora the Convention on International Trade in Endangered Species of Wild Fauna and Flora.

(b) Exports of Pancreas Glands, Human serum albumin, logs of all species, pulpwood of all species, red cedar materials are controlled to all destinations.

(c) Goods of U.S. origin are controlled by bilateral agreement to ensure that U.S. origin goods are not re-exported in contravention of U.S. regulations.

(d) Exports of carbon steel and specialty steel products are controlled for the purposes of monitoring export levels. Specialty steel is controlled for the U.S. only.

(e) Exports of sugars, syrups and molasses are controlled for export to the U.S. only for the purpose of allocating quotas imposed by the U.S..

211. Controls over the export of chemicals used in the manufacture of narcotics and the export of domestically prohibited substances as well as hazardous wastes may be added to the lists of controlled substances.
212. Periodic adjustments are made to the lists of strategic goods and technologies that are subject to controls.

213. Exports of all goods to countries listed on Canada's Area Control List are controlled. South Africa and Libya are currently the only countries subject to controls under this provision.

**EXPORT FINANCE**

214. The Export Development Corporation (EDC) is Canada's official export credit agency, responsible for providing export credit insurance, loans, guarantees, and other financial services for Canada's export community. EDC's financial services assist Canadian exporters to compete effectively in international markets by reducing the financial risks associated with export sales, or by funding foreign buyers of Canadian exports. EDC also offers insurance for Canadian foreign investment, and bonding and surety services for Canadian exporters bidding on export contracts.

215. The EDC is a state enterprise wholly-owned by Canada. EDC funds itself on international and domestic capital markets. Securities issued by EDC are direct unconditional obligations of EDC and as such constitute direct and unconditional obligations of Canada.

216. Loans signed on the corporate's own account were $1 billion in 1989. The EDC funds its requirements at advantageous terms appropriate to its AAA credit status and maintains a sound liquidity position. The Corporation is active throughout the world's financial markets and is well received by investors, not only on the strength of its financial position, but also for its use of innovative methods.

217. The government through the Minister for International Trade also provides support to Canadian exporters under the EDC's Canada Account which matches concessional financing offered by other countries to their exporters and extend loans to countries that the EDC does not consider credit-worthy. Financing in 1989 was about $208 million under this Account. The terms and conditions of Canadian concessional financing is consistent with Canada's commitments under the OECD Arrangement on Guidelines for Officially Supported Export Credits (the Consensus). The main sector covered by the Account is capital projects for public infrastructure requirements of developing countries. Over half of the total financing concluded last year was provided to assist Canadian exporters selling to buyers in Africa and Asia.

218. The objective of EDC export insurance is to promote the
growth of Canadian exports through the provision of a complete portfolio of insurance and guarantee services which protect exporters against export and foreign investment risks. Such services are available to cover short-term credit of up to 180 days relating to the sale of general commodities and services; agricultural products sold on credit terms of up to three years; goods and services transactions made on medium credit terms of up to three years; goods and services transactions made on medium credit terms of up to five years; as well as Foreign Investment Insurance. In 1989 the EDC provided insurance guarantees of $4.4 billion on its own account and $90.2 million against the Canada Account.

219. Including Corporate and Canada Accounts, a total of 431 insurance claims were paid by EDC in 1988. These payments amounted to $38.3 million. The Corporation also collected $43.1 million in recoveries from claims previously paid.

**EXPORT MARKETING ASSISTANCE**

220. The major program that falls under this category is the Program for Export Market Development (PEMD). It encourages new exporters to get involved in exporting, and existing exporters to expand in new markets, by sharing the costs of export marketing activities. These include specific project bidding, market identification, participation in trade fairs abroad, incoming foreign buyers and assistance with the formation of export consortia. Contributions are repayable based on sales generated. Estimated assistance to business under PEMD for 1988/1989 was $17.3 million. See Annex VII for further details.

**STANDARDS**

221. The Canadian policy on standards and standardization is premised on three key instruments: the Standards Council Act, the Federal Regulatory Policy and the GATT Agreement on the prevention of Technical Barriers to Trade.

222. The Standards Council Act, which was established in 1970, mandates the Council to foster and promote voluntary standardization as a means of advancing the national economy, benefiting the health, safety and welfare of the public, assisting and protecting the consumers, facilitating domestic and international trade and furthering international cooperation in relation to standards. To carry out its mandate, the Council is empowered to, inter alia:
(a) promote cooperation among organizations concerned with voluntary standardization in Canada;

(b) promote cooperation between organizations concerned with voluntary standardization in Canada and departments and agencies of government at all levels in Canada with a view to achieving compatibility and maximum common usage of standards and codes;

(c) recommend criteria and procedures relating to the preparation, approval, acceptance and designation of voluntary standards in Canada;

(d) accredit, in accordance with criteria and procedures adopted by the Council, organizations in Canada or in the U.S. (as defined in section 2 of the Canada-U.S. Free Trade Agreement Implementation Act) that are engaged in testing and certification in those fields;

(e) accredit, in accordance with criteria and procedures adopted by the Council, organizations in Canada that are engaged in standards formulation;

(f) approve standards in those fields submitted by organizations accredited by the Council as national standards where appropriate.

223. In addition, the Federal Regulatory Policy and "Citizens Code" state that the use of regulation benefits should outweigh costs, the minimum possible burden should be imposed on industries, and those affected should be given the opportunity for full consultation. Within this framework, individual government departments exercise their responsibilities for the protection of health, safety and the environment.

224. The GATT Agreement on Technical Barriers to Trade serves as the foundation of Canada's international trade policy on standards and related issues. Since 1980, it has been the Canadian government policy that all federal departments and agencies comply with the provisions of the GATT Agreement and participate fully in the preparation of Canadian and international standards for the products they expect to regulate. The directive also encourages the federal organizations to make use of the National Standards System and consensus standards developed by the System.
GOVERNMENT ASSISTANCE TO NON-AGRICULTURAL BUSINESS

225. The principal forms in which Canada provides assistance to non-agricultural business are direct grants, selective tax measures, credit programs, and provision of services. The section describes the use in Canada of each of these types of assistance and gives an indication of assistance levels where possible. It should be noted that these levels are estimates only and should not be interpreted as definitive. Moreover, the estimates of assistance levels provided in this section do not indicate the impact of assistance on economic activity (e.g. production costs, output, trade flows). The following section gives an overall assessment of the quantitative significance of assistance to business.

Direct Grants

226. These measures can take the form of cash grants or contributions that are repayable in whole or in part or, in some cases, conditional upon specified terms and conditions. The assistance provided may be related to current production or to the purchase of capital assets. The major programs offering assistance of this type are described below with an indication of funding levels for 1988/1989.

- The Industrial and Regional Development Program (IRDP), which expired in 1988 but for which commitments are still being paid out, was aimed at promoting regional industrial development in more disadvantaged areas of Canada; the level of assistance under this program is estimated at $195.7 million for 1988/89.

- Economic and Regional Development Agreements (ERDAs), a framework mechanism under which specific initiatives are implemented by means of subsidiary agreements developed jointly by the federal provincial governments; assistance under this mechanism is estimated at $390.2 million for 1988/1989.

- The Action Program of the Atlantic Canada Opportunities Agency (ACOA), which supports entrepreneurship and small and medium-sized business development in Atlantic Canada; ACOA was initially established in 1987 with $1.05 billion in funding over five years (including direct grants and all other instruments).

- The Western Diversification Program, whose objective is to promote economic expansion and diversification in Western Canada; initially established in 1987 with five year funding
of $1.2 billion (primarily repayable contributions).


- The Defence Industry Productivity Program, which is aimed at assisting viable defence or defence-related products with a view to providing a defence industrial base and developing and maintaining a defence technological capability; $248.6 million in 1988/1989.

Payments to Government Business Enterprises

227. This category includes measures other than direct grants that cover losses resulting from explicit directives to provide particular services at less than full cost. The major instances of this type of assistance in Canada are payments to agencies involved in the provision of transportation services. For 1987/88, the most significant such payments were to CN Marine ($126 million) primarily in respect of the provision of ferry services, and to the St. Lawrence Seaway Authority ($32 million) for the operation of the Seaway.

Selective Tax Measures

228. A list of the selective tax measures remaining post-tax reform is in Annex VIII.

The Impact of Tax Reform in Canada

229. Recently, the Canadian government has introduced significant changes in the corporate income tax system in two phases, one beginning in 1986 and the other in 1988. As noted in the 1987 White Paper on Tax Reform, these changes were designed to promote efficiency by reducing corporate tax rates. Lower tax rates are financed by broadening the tax base through the reduction of selective tax preferences and through the curbing of artificial tax avoidance. These changes have the additional benefit of reducing the variation in effective tax rates among different industries.

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230. The first phase of tax reform in Canada resulted in the following changes to the Canadian corporate income tax system:

- The general corporate tax rate was reduced from 36 per cent to 28 per cent. The tax rate applicable to manufacturing and processing income will be reduced to 23 per cent when fully phased in (July 1, 1991). A single preferential tax rate of 12 per cent was established for income eligible for the small business deduction.

- The general investment tax credit (the 7 per cent and 10 per cent rates) was phased out and the regional investment tax credits have been reduced, reflecting the drop in corporate income tax rates.

- The Small Business Development Bond program expired at the end of 1987.

- Phase 1 also eliminated the inventory allowance. However, this provision is not considered to be a selective tax measure.

231. Phase 2 introduced the following changes:

- Earned depletion was eliminated as of January 1, 1990.

- The types of flow-through shares were restricted to avoid the more obvious tax avoidance schemes. In particular, shares "that offer any entitlement to a payment, repayment, loan or dividend or any retraction or conversion right" were excluded from flow-through share treatment.

- The excess bad debt reserve provision was dropped.

- Many of the more generous capital cost allowance provisions were reduced (but not entirely eliminated).

3 The 40 per cent rate for manufacturing in specified areas was reduced to 30 per cent. The Atlantic region ITC was reduced from 20 to 15 per cent and the Cape Breton ITC was reduced from 60 per cent to 45 per cent.


5 Including the fast write-offs for manufacturing and processing machinery and equipment (two year write-off to 25% declining balance), resource extraction assets (30% declining balance to 25% declining balance), drill ships
- The capital gains inclusion rate was increased to two-thirds in 1988 and will be increased to three-quarters in 1990.

**Loans and Loan Guarantees**

232. The government of Canada uses a range of instruments to reduce financing costs for private-sector firms. Direct lending by governments and their agencies at concessional rates provides an indirect financial transfer to the private borrower. Similarly, government guarantees of loans arranged between private-sector agents reduce interest rates and increase access to credit.

233. The aggregate amount of assistance provided by these instruments is measured for present purposes on the basis of their net cost to the government. The net cost of direct loans is composed of: i) the product of the loan stock and the wedge between the government's cost of funds and the interest rate that it charges; plus ii) losses on defaulted loans; less iii) any recoveries realised from sales of assets pledged as security. The net cost of loan guarantees is composed of: i) claims for repayment of defaulted loans; less ii) any fees charged to the borrower; and less iii) the government's share of proceeds from any asset sales that follow defaults.

234. The major credit programs are the Federal Business Development Bank (FBDB) and the Small Business Loan Act (SBLA). The FBDB provides financing not otherwise available on reasonable terms and conditions to commercially viable businesses. The SBLA provides loan insurance to assist new and existing small businesses to obtain intermediate-term loans from conventional lenders to help finance specified fixed assets. Based on the above measurement techniques, the cost of these government credit programs is estimated at $96 million for 1987/1988.

**Quantitative Assessment of Assistance to Business**

235. This section provides a quantitative assessment and overview of the trends in the use of government assistance to business in Canada. It is based on comprehensive analyses conducted for the and offshore platforms (30% declining balance to 25% declining balance), earth moving equipment (50% declining balance to 30% declining balance), satellites (40% declining balance to 30% declining balance), and Canadian films (100% write-off to 30% declining balance plus immediate write-off up to film income).
years 1979-80, 1984-85 and 1987-88. Table 1 provides a summary comparison over time of the relative magnitude and the composition of total assistance to non-agricultural business.

236. Two key points emerge. First, total assistance provided was quite small relative to GDP in each of the three years examined. Second, a major decline occurred in the relative importance of total assistance between 1984-85 and 1987-88, dropping the assistance rate to only two-thirds of the 1984-85 value. The principal cause was elimination of the National Energy Program (NEP), which induced a steep decline in the relative importance of direct grants. Selective tax measures were also reduced through tax reform beginning in 1986, although quantitative estimates of the value of assistance provided by these measures are not available.

237. These estimates are only snapshots of relative assistance levels in particular years. Indeed, policy developments have already changed the relative importance of assistance in each category and will change it further. The two key points - that assistance is small overall and declining - will continue to characterize Canadian policy toward assistance to business. In particular, the government instituted, as part of the February 20, 1990 budget, a policy that will, with limited exceptions, eliminate straight grants to business, and subject government contributions to more rigorous repayment terms.
Federal Financial Assistance to Non-Agricultural Business in Canada (as a % of GDP)

<table>
<thead>
<tr>
<th></th>
<th>Canada</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>79-80</td>
</tr>
<tr>
<td>Direct Grants(^1)</td>
<td>1.0</td>
</tr>
<tr>
<td>Selective Tax Measures(^2)</td>
<td>n/a</td>
</tr>
<tr>
<td>Contributions to Govt Bus Ent's</td>
<td>0.1</td>
</tr>
<tr>
<td>Cost of Loans and Guarantees</td>
<td>0.0</td>
</tr>
<tr>
<td>Below Cost Services</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1.2</strong></td>
</tr>
</tbody>
</table>

**NOTE:** - "0.0" denotes a positive value of less than 0.05; "0" denotes zero.
- totals do not add due to rounding

\(^1\) Includes payments to other levels of government that are ultimately transferred to business

\(^2\) No quantitative estimates are available for the value of assistance provided by means of selective measures.
GOVERNMENT PROCUREMENT

238. The main objectives of contracting by the Canadian government are to achieve an optimal combination of quality, timeliness and total costs of acquisition and to reflect fairness in spending public funds. When appropriate, government contracting also relates to national policies and objectives such as those for industrial and regional development.

239. Canadian federal government procurement is governed by the following acts, regulation and policies:

(a) The Department of Supply and Services Act establishes Supply and Services Canada (SSC) as a common service agency with a broad mandate to provide departments, boards and agencies of the Government of Canada with material and a range of services.

(b) The Financial Administration Act provides the statutory framework for the collection and expenditure of public monies including specific provisions in the form of Government Contracts Regulations (GCRs) and Treasury Board Contract Directives. The GCRs set out the conditions under which contracting authorities may enter into contracts. The Treasury Board Contracts Directives prescribe policies and guidelines for government contracting, including contracting authority dollar limits.

(c) The Defence Production Act assigns the Minister of SSC with exclusive authority to acquire defence supplies.

(d) The SSC Supply Policy Manual sets out the general and administrative policies which guide departmental procurement.

240. Canada's obligations under GATT and FTA, when they apply, override procurement policies internal to the federal government such as the Canadian Content Premium Policy which allows for the application of a permissive premium of up to ten percent of the difference in foreign content on competing bids in favour of those with greater Canadian content. Goods procurement subject to GATT and FTA are generally handled by SSC. Such procurement involves those purchases by specified entities valued from Cdn$ 31,000 to under $210,000 for the FTA, and Cdn$ 210,000 and over for the GATT Government Procurement Agreement.

241. Services procurement, with some exceptions, are handled by all government departments and agencies.
242. Since 1984, consistent with the Canadian government efforts to liberalize trade, a number of initiatives have been undertaken by SSC to improve access for suppliers to federal government procurement:

(a) implementation of the Free Trade Agreement which builds on the GATT Code by opening a further portion of government contracting to competition between Canada and the U.S., and establishment of a Procurement Review Board which is empowered to receive complaints, conduct investigations and determine the appropriate remedy regarding cases in which a bidder feels he has not been fairly treated.

(b) publication of procurement notices in a more user-friendly document, Government Business Opportunities; and

(c) expansion of open bidding, on a pilot basis, for contracts valued at Cdn$25,000 and over for goods and some science and informatics services procurement; electronic bulletin boards are used to advertise those procurement opportunities.

243. Canada is currently participating in the work of the GATT Committee on Government Procurement aimed towards broadening the coverage of the GATT Code and improving Code procedures.

244. Out of the estimated total Canadian government procurement of 16 billion dollars, approximately 26 percent comprises direct and indirect imports. With respect to procurement awarded under the GATT Code (threshold value $213,000 Cdn.), the following statistics are available for 1988 (in Canadian dollars):

<table>
<thead>
<tr>
<th>Total Value of Contracts Awarded</th>
<th>Canada</th>
<th>EC</th>
</tr>
</thead>
<tbody>
<tr>
<td>648,358,485</td>
<td>607,352,713</td>
<td>17,132,197</td>
</tr>
<tr>
<td>100%</td>
<td>93.8%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Austria</th>
<th>Switzerland</th>
<th>U.S.</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,852,320</td>
<td>2,469,084</td>
<td>15,822,071</td>
<td>730,000</td>
</tr>
<tr>
<td>0.7%</td>
<td>0.4%</td>
<td>2.4%</td>
<td>0.1%</td>
</tr>
</tbody>
</table>
245. Canada recognizes the importance of intellectual property to the Canadian economy and is committed to stronger intellectual property laws throughout the world. This is reflected in Canada's membership in the World Intellectual Property Organization (WIPO) and its adoption and implementation by way of domestic legislation of the following conventions:

(a) Paris Convention for the Protection of Industrial Property;

(b) Berne Convention for the Protection of Literary and Artistic Works;

(c) Universal Copyright Convention; and

(d) Patent Cooperation Treaty.

246. Canada is an active participant in intellectual property fora working to ensure a successful TRIPs outcome at the GATT and to ensure WIPO negotiations on: the development of treaties on patent law harmonization; the revision of the Paris Convention; the development of a model copyright law; the WIPO dispute settlement treaty; and expert policy reviews in key areas such as patent and trademark law harmonization, protection of life forms, and measures against counterfeiting.

247. Canada is a net importer of technology and other goods, services and cultural and entertainment products with a significant intellectual property right component. The vast majority of Canadian patents are granted to foreign inventors.

248. Canada has traditionally supported effective intellectual property protection and has continued to strengthen intellectual property laws and their administration. Recent developments include the revision and modernization of two critical statutes, the Patent Act and the Copyright Act.

249. The Patent Act was revised by the Canadian Parliament in May 1987. The amendments bring the Canadian patent system into closer agreement with those countries that have adhered to the Patent Cooperation Treaty. The principal changes provide for the following:

(a) move from a "first to invent" to a "first to file" system, thus eliminating contests as to priority of actual dates of invention,
(b) a deferred examination system,

(c) a patent term of 20 years from the Canadian filing date instead of previous 17 years from date of the issue of the patent,

(d) a system of renewal fees, the fees to be less for small entities than larger ones,


250. Amendments to the Patent Act affecting patented medicines established a new balance between domestic and international intellectual property rights, industrial benefits, Canada's health care system and consumer interests. As part of this balance, a period of exclusivity was established during which a holder of a Canadian pharmaceutical patent can be assured the exclusive right to sell that medicine in Canada. In addition the amendment contained provisions restricting the use of compulsory licenses. These licenses are not to be exploited or used for pharmaceutical products for a minimum of seven to ten years after the drug has been approved for sale by Health and Welfare Canada.

251. Important changes have been made to the Copyright Act by virtue of Bill C-60, which came into effect 8 June 1988. The bill extends protection to computer programs. There are provisions enabling users, without infringement, to copy a computer program for back-up purposes. The bill also clarifies the law with respect to infringement of copyright of useful articles and moral rights.

252. New legislation called the Integrated Circuit Topography Act was introduced in the Canadian Parliament on December 18, 1989 to protect the topography of integrated circuits. The protection granted by the registration of the topography will be for a 10-year period commencing on the earlier of date of filing of the application or the date of first commercial exploitation. The rights under the Act will provide the owner with control over the unauthorized reproduction, commercial exploitation and importation of infringing products.

253. Intellectual property in general is not covered by the Canada-U.S. Free Trade Agreement. However, as part of the implementation of the FTA, Canada provided a right of payment for retransmissions of broadcast signals. Canada and the U.S. also agreed to cooperate in the Uruguay Round and elsewhere to improve intellectual property protection.
SECTORAL IMPLEMENTATION

AUTOMOBILES

254. The motor vehicle sector is the largest manufacturing and traded component of the industrial sector of the Canadian economy. Nevertheless, in most years over 80% of the domestic sales of new motor vehicles are imported and a similar proportion of the domestic production of new motor vehicles is exported. This is a direct consequence of Canadian automotive policies which have encouraged rationalized production on a North American basis. For example in 1988, the total value of shipments was C$41.9 billion consisting of C$26.8 billion in vehicles, C$1.4 billion in truck bodies and trailers and C$13.6 billion in parts. Of these shipments, C$35.4 billion were exported and imports were valued at C$33.8 billion. In 1988, production in Canada amounted to 1,977,000 vehicles consisting of 1,028,000 cars and 950,000 trucks.

255. Under the Canada-U.S. Free Trade Agreement (FTA), the Canada-U.S. Automotive Products Trade Agreement of 1965 (Auto Pact) remains in place (see section on the Auto Pact). As part of the FTA, Canada grandfathered membership in the Auto Pact to existing companies or those who could qualify by the 1989 model year. As well, under the FTA various duty remission programs will be phased out and all tariffs for bilateral trade will be eliminated for products which meet the rule of origin requirement. Automotive tariffs on original equipment products - parts and vehicles are being eliminated in equal increments from 1989 to 1998. For aftermarket parts, the tariffs will be phased out in equal increments from 1989 to 1993. Canada is phasing out, as well, its prohibition on the import of used vehicles from the U.S.

256. As tariffs are eliminated, Canada's various duty remission programs are being phased out according to the following schedule:

a) U.S. export-based duty remission programs ceased as of January 1, 1989;

b) duty drawback on exports to U.S. will be eliminated after January 1994;

c) performance-based duty remission programs will cease as of January 1, 1996, and

d) third country export-based duty remission programs will cease as of January 1, 1998.

257. Specific rules of origin have been established under the FTA to determine eligibility for duty-free treatment of products moving
between Canada and the U.S. For most automotive products, a change of tariff heading as well as a test measuring the value of North American content are involved. As provided by the FTA, direct costs of processing plus the value of components sourced in either Canada or the U.S. must equal at least 50% of the value of the goods when exported to the other party.

258. Canadian Auto Pact producers grandfathered under the FTA continue to remain eligible to import duty-free from the U.S. and from third countries over the next ten years and, subsequently from third countries when all bilateral tariffs on eligible automotive products are eliminated between Canada and the U.S.

259. Under the FTA, Canada also agreed to phase out over five years the prohibition on the entry of used vehicles originating from the U.S. In order to facilitate such imports, Canada has also amended its safety and emission regulations to recognize the near complying nature of vehicles certified to U.S. standards and to provide for their modification.

260. Canada maintains no local content requirements and no quantitative restrictions on new vehicle or parts imports. The most-favoured-nation tariff on most passenger vehicles, commercial vehicles and automotive parts is 9.2%. The GPT rate is 6.0%.

261. In 1982, Canada entered into an informal arrangement with Japan to provide the automotive industry with a breathing space to modernize. This arrangement was discontinued in March 1987. The impact of these policies in Canada and three other countries was the subject of a 1987 OECD study entitled The Costs of Restricting Imports: The Automobile Industry.

262. In 1987, several Canadian producers alleged injurious dumping into Canada of cars of South Korean origin. In the subsequent proceedings before the Canadian Import Tribunal to determine the issue of material injury, the federal government under authority of the Competition Act intervened and argued that Korean imports had been a positive influence on competition in the Canadian market and that they had filled a market niche essentially abandoned by domestic producers, and by Japanese suppliers who moved up-market as a result of voluntary export arrangements. In March 1988, the Tribunal announced its finding that dumping by Korea had not caused, is not causing and is not likely to cause material injury. The Canadian producers subsequently abandoned their appeals.

STEEL

263. The primary Canadian trade policy objective for steel is to
promote the elimination of managed trade on steel and to promote orderly restructuring of the industry in the global context. In this regard Canada has a competitive steel industry and has been participating actively in key international fora to foster fair and free trade in steel. In 1988, the industry had shipments valued at $8.8 billion and employment of 43,500. Exports in the same year were $2.8 billion, 31.8% of shipments, while imports totalled $3.1 billion.

264. In the Spring of 1987, Canada reiterated its policy in free and fair trade in steel and declined the American request to become a VRA country. The subsequent conclusion of the FTA has provided a stable environment for the sector. The elimination of tariffs over a ten year period will benefit both countries. The Agreement also provides for the accelerated reduction of tariffs on a number of major inputs such as mill machinery and computer equipment which will help reduce input costs and enhance the Canadian steel industry's international competitiveness.

265. In terms of trade policy actions, Canada commenced, on September 1, 1986, monitoring of carbon steel imports for three years under the Export and Import Permits Act to meet the need for more timely and accurate information to facilitate preparation and processing of unfair trade complaints under the Special Import Measures Act. This measure was adopted following the recommendation of the Canadian Import Tribunal which had found a potential for diversion of steel imports to Canada from other countries as a result of severe world overcapacity, widespread subsidization and restrictive import regimes in other countries. The steel import monitoring program has been extended for a further three years beyond its initially scheduled expiry on September 1, 1989 following a determination that global industry conditions, giving rise to its initial adoption, were still unsettled.

266. On June 1, 1987, Canada began, as well, to monitor steel exports under the Export and Imports Permits Act to help respond to concerns that Canada was being used as a back door for foreign steel shipments destined for the U.S.. This program is scheduled to expire on June 1, 1990 an no decision has yet been taken on whether it will be extended.

267. The steel trade monitoring program has been trade neutral in its impact as intended. Permits are issued on demand to exporters and importers. The program has succeeded in meeting objectives of providing more timely and accurate information on steel trade.

268. Canada withdrew the General Preferential Tariff applied to steel imports beginning in February 1987, following a determination by the Tariff Board (superseded by the Canadian International Trade
Tribunal) made in response to a complaint filed by the steel industry and labour representatives. The Board found that the Canadian steel industry was being seriously affected by excess supply, depressed world demand and low prices.

TEXTILES AND APPAREL

269. The Canadian government is committed to the maintenance of a viable level of textile and clothing production in Canada. One of the means to achieve this objective is by limiting the disruption to the Canadian market caused by imports of textiles and clothing from low-cost sources.

270. The priorities which Canada has established for the textile and clothing sectors were set out in the Government's textile policy announcement of July 30, 1986. They include a more moderate growth rate for clothing imports which, between 1981 and 1985 had averaged 11% each year in a market that grew by only 2% annually. As a result of the growth of imports, the market share fell from 69% in 1981 to 59% in 1986.

271. These policy objectives have been implemented through bilateral export restraint agreements concluded under the Multi-Fibre Arrangement (MFA). The MFA has been in force since 1974. It was renewed for a 5-year period in 1986 and is scheduled to expire in 1991. The MFA allows participants to restrain trade in textiles and clothing which are disrupting or threatening to disrupt the market of the importing country.

272. These restraints can be achieved either through the conclusion of voluntary export restraints or through unilateral import restrictions imposed by the importing country. All measures are subject to review by a Textiles Surveillance Body established under the Arrangement.

273. Following the extension of the MFA in 1986, Canada renegotiated its existing 25 agreements. Since that time, three more agreements have been concluded and two unilateral restraints have been established. In addition, Canada has expanded the coverage of existing agreements to include new products not previously restrained, the export of which from these sources was disrupting the Canadian market. Bilateral export restraint levels are the product of a process of negotiation with exporting countries which takes account of a variety of factors (historical trade performance, the domestic market situation international relations, domestic and import prices). The MFA establishes a floor level below which unilateral restraints should not be imposed.
274. In general, these measures are administered on an export basis by the exporting country. There are three exceptions where the measures are administered by Canada on an import basis with quota shares allocated to Canadian importers. These pertain to the two unilateral import restraints and to one bilateral agreement where the exporting country has requested that Canada allocate import quotas. Allocation of quota shares among Canadian importers takes account of a number of factors (historical performance, outstanding orders, new entrants).

275. The Textiles Surveillance Body has commented that Canada and the U.S. have applied MFA provisions more strictly than in agreements negotiated prior to 1986 and have thus followed a trend contrary to that followed by other importing countries. It should be noted, however, that the trend under MFA IV may simply be the reverse of that under previous agreements. For example, the EC took a strict approach under MFA II and III while Canada was more liberal. Furthermore, the TSB has approved all of Canada's agreements.

276. All imports of textiles and clothing from countries other than the U.S. have been placed on the Import Control List (ICL). As well, all imports of clothing and imports of four textile products from the U.S. are on the ICL. Import permits are issued upon application for imports from non-restrained sources.

277. Import permit applications for restrained products must be accompanied by an original export license issued and endorsed by the authorities of the exporting country. Import permits for restrained products are automatically issued upon presentation of a properly-documented application, unless restraint levels are exceeded.

278. In the event that unilateral measures are taken, quota shares are then allocated to Canadian importers. Import permits are issued only to importers in possession of quota shares and providing that imports are within importers' quota share.

279. The statutory tariffs on textile and clothing range on average from 8.3% for fibres to 12.5% for yarns and 19.3% for fabrics. The Canadian International Trade Tribunal (CITT) has conducted an inquiry to provide advice on the Government's plan to reduce Canada's tariff on textile products to levels comparable to those of other industrialized countries and has recommended a substantial reduction in the overall level of textile tariffs. In its report, the CITT proposed a simplified tariff structure with maximum rates of 5% for fibres, 10% for yarns and 16% for fabrics and a 33% reduction in tariffs on specialty textiles.
280. The Canada-U.S. Free Trade Agreement established 5 Tariff Rate Quotas (TRQ) under which FTA tariff treatment is provided for certain apparel and textile products that would not otherwise qualify for such treatment under the rules of origin established under the FTA. These TRQ's were established to compensate for particularly onerous rules of origin in the FTA for textiles and clothing.

281. Two of these tariff rate quotas pertain to imports into Canada and are administered on a first-come-first-serve basis. The remaining three TRQ's pertain to Canadian exports of certain apparel and textile products to the U.S.. These TRQ's do not limit the quantity of goods that can be imported or exported, rather they restrict the quantity of goods that are eligible for FTA tariff treatment.

282. The EIPA, as amended by the Act implementing the FTA, provides at Section 9.1 that the Minister may issue certificates of eligibility in respect of goods eligible for TRQ treatment upon import into the U.S., stating the specific quantity of goods that is eligible for such tariff treatment.

283. The integration of textiles and clothing into the GATT is one of the key elements of the Uruguay Round of Multilateral Trade Negotiations. Canada is committed to the achievement of the MTN mandate for this sector which seeks to formulate "modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines, thereby also contributing to the objective of further liberalization of trade."

FOOTWEAR

284. Access to the Canadian footwear market has been liberalized in the last few years. The industry has undergone structural adjustment and rationalization and is now better able to compete with fairly traded imports. The footwear sector, unlike the apparel and textiles industries, is subject to the normal rules of GATT, it is not protected by any special trade measure.

285. The footwear sector was under quota protection in one form or another from 1977 to 1988, justified under Article XIX of GATT. Import controls were entirely eliminated by December, 1988. Existing quotas were eliminated on the remaining women's and girls' footwear categories following a comprehensive domestic industry inquiry that concluded that significant industry rationalization and structural adjustment had taken place and that Canadian manufacturers could compete with fairly traded imports.
286. Canadian tariffs on footwear are on average in the 20 to 22 percent range. In the case of trade with the U.S. under the FTA, tariffs are to be phased out over 10 years. The FTA rules of origin for footwear require that Canadian or U.S. uppers be used and that 50 percent of production cost be incurred in Canada or the U.S. Both countries must also harmonize standards and testing and certification methods.

287. Other policies that exist which may affect footwear imports include standards certification for safety footwear and specific government procurement policies and practices (e.g., for military and police forces).

ENERGY

288. The development of Canada's energy policy regime, including its international aspects, recognizes the important relationship between the Canadian energy sector and the forces of international energy supply and demand. Internationally, Canada is a price taker for virtually all energy commodities. As a result, neither Canadian domestic policies nor Canadian supply and demand circumstances appreciably alter world energy markets.

289. In 1988, Canada adopted a market-oriented approach to energy policy which emphasized primary reliance upon competitive markets, a minimum of government intervention and a stable climate in which the market can operate.

290. In making the transition the government initiated a number of policy changes over the post-1984 period. Specifically, the government has deregulated energy markets, adopted profit based taxation, adopted non-discriminatory and non-interventionist land management regimes and established a predictable investment climate. These measures aim to achieve five major goals: flexibility and diversity of energy resources, economic growth, security of supply, Canadianization, and national reconciliation.

291. In this vein, Canadian energy trade policy is focused towards pursuing economically attractive opportunities to increase the level of international trade while protecting Canadian consumer's interests in security of supply and equitable access on non-discriminatory terms. Currently Canada's energy trade policy environment is typified by:

- a strong emphasis upon the reliance on competitive markets as a first guide to achieving the optimal level and terms of energy trade;

- a commitment, both through GATT and under the Canada-U.S.
Free Trade Agreement (FTA), to endorse policies and programs advancing the elimination of unnecessary barriers to trade; and

- a framework for the expression of the Canadian public interest.

292. The FTA provides in the energy sector for:

- the removal of all existing tariffs (some immediately, others over a period ranging up to ten years).

- the prohibition of new tariffs.

- the prohibition of export taxes unless they are also levied on domestic consumption.

- the prohibition of most restrictions on energy exports and imports, taking into account the existing GATT agreement. Reasons for which such restrictions may be applied include short supply, conservation of an exhaustible resource, and national security.

- if any of the above restrictions are applied, the exporting country will assure the other country of the opportunity to purchase, on commercial terms, a share of the commodity which is proportional to the share purchased in the preceding three years. In addition to this proportional access provision, the exporting country will refrain from price discrimination and normal channels of supply will be respected.

- the Agreement also includes a formal right of consultation if either party thinks that it has been discriminated against as a result of regulatory action in the other country.

- in its investment provisions, the FTA grandfathers existing Canadian legislation and published policies affecting energy investment.

293. With respect to electricity trade, the Government of Canada has undertaken to introduce amendments to the NEB Act (see Annex IX) governing electricity exports and international power lines in a continuing effort to create a more efficient regulatory regime. The adaptation of existing regulations governing electricity trade is necessary to reflect changing market conditions, to remove unnecessary duplication from the federal and provincial regulatory process and to take into account the impact of electricity on the
Energy Trade Policy by Energy Commodity

Crude Oil and Petroleum Products

294. Canada's trade policy, with respect to oil, is intended to promote the efficient and environmentally sound development and utilization of Canada's oil reserves. It is also intended to balance potentially conflicting interests of consumers and producers. Canadian oil markets were effectively deregulated with the implementation of the Western Accord in 1985. The FTA offers secure and expanded access for Canadian oil in the U.S. market.

295. Foreign trade plays an important role for the Canadian oil industry. Almost 40% of Canadian crude oil production was exported in 1989 while about 40% of oil consumed in Canada was derived from foreign crude oil. The economy benefits from this two-way trade since it generates higher revenues for crude producers and provides lower-cost crude oil feedstock for eastern Canadian refiners than would otherwise be the case. Furthermore, a large portion of the domestic crude oil production is very heavy and high in sulphur, of which only limited quantities can be refined in Canada. Trade permits this resource to be developed without the need for investing in upgrading facilities, whether in the field or at refineries.

296. In the downstream sector, refinery operations are optimized by allowing the free movement of refined products as required to balance markets in each region. Canada has traditionally been an overall net product exporter, which has both improved refinery rates of utilization and lowered average processing costs.

297. Canada imposes no tariffs on crude oil or petroleum products, with the exception of import tariffs on lubricating oils and greases, which are considered as specialty manufactured products. Under the FTA, these are being progressively eliminated over a ten year period, which began January 1, 1989. The FTA also provides for the phase-out of import tariffs and customs user fees presently levied by the U.S. on Canadian exports of crude oil and petroleum products. The elimination of these tariffs and fees will result in higher netbacks for Canadian oil producers and refiners.

Natural Gas

298. Canadian natural gas policy emphasizes streamlined regulation and reduced government intervention; provides for enhanced access to supply and to markets; and supports market-
driven negotiations between sellers and buyers. Natural gas policies are directed at making the transition from a highly regulated market to a more competitive market in which only the transportation component of the market is regulated.

299. In 1989 natural gas export volumes - at 1.34 trillion cubic feet (Tcf) - reached their highest level ever. This exceptional export performance has resulted mainly from:

- the resurgence in U.S. natural gas demand;
- a more competitive U.S. natural gas market;
- enhanced access to U.S. transportation systems; and
- highly competitive export prices.

300. The FTA has not changed the earlier deregulation process established by the Western Accord and the Agreement on Natural Gas Markets and Prices (see Annex X), however, some export and import licensing requirements remain in place for the following reasons:

1) to ensure orderly marketing;
2) to ensure that public interest criteria are met; and
3) to ensure that there is no discrimination in the access to supplies.
4) to monitor supply and demand trends;
5) to obtain statistics on trade.

Electricity Export Policy

301. The federal government regulates electricity trade and international transmission lines in the Canadian public interest. The National Energy Board is the federal body with jurisdiction over these regulations. A new federal electricity policy was introduced in 1988, to streamline the regulation of electricity exports so as to eliminate the overlap of federal and provincial regulation, and to update the criteria that the Board is to take into account in assessing applications.

302. Electricity exports, under existing legislation, require National Energy Board approval in the form of a licence (see Annex IX). International power lines are lines constructed or operated for the purpose of transmitting power from or to a place in Canada to or from a place outside of Canada. Under existing legislation, all major international power lines must receive NEB certification. In addition, the Board must approve the detailed route.

303. Under the new electricity policy, exports of electricity will continue to require authorization by the Government of Canada. However, authorizations will now be of two kinds: i) permits, which will not require a public hearing or Governor-in-Council
approval, or ii) licences for exports (or certificates in the case of international power lines) which will require a public hearing and Governor-in-Council approval.

304. The new policy has resulted in proposed amendments to the National Energy Board Act and Regulations. These changes are now in the final phases of consideration by Parliament. No further changes in electricity trade policy are anticipated in the near future.

Uranium Export Policy

305. Canadian uranium export policy has been designed and modified over the years with the primary objective of maintaining Canada's role as a reliable and competitive long-term supplier for its trading partners, while seeking to obtain optimum benefit for Canada from the development of its uranium resources. There is as well an overriding policy objective that Canada's uranium not be used in connection with the production of nuclear explosive devices.

306. Export policy requirements are in place which seek to ensure adequate supplies of uranium for domestic needs, to provide fair returns to Canadians from exportable surpluses, and to realize opportunities for further processing.

307. With the implementation of the Canada-U.S. Free Trade Agreement, exemptions will be granted in cases where the Canadian uranium will be refined and converted in the U.S. for actual consumption in a reactor in the U.S., or in cases where the Canadian uranium will be refined, converted and enriched in the U.S. prior to export to a third country.

308. All uranium export contracts are reviewed by federal government authorities (Uranium Export Review Panel) to ensure that they meet the intent of these export policy objectives. In order to export uranium under a contract that has been found to be consistent with these objectives, the exporter must apply to the regulatory authorities (at the time of export, or annually in the case of multi-year contracts) for the necessary export licence and export permit.

MINERALS AND METALS

309. In 1987, the Government of Canada issued a policy statement aimed at promoting the exploration, development, production and utilization of the nation's mineral resources. The statement set
out six broad objectives:

a. to provide a fair and balanced fiscal and regulatory framework;

b. to foster the development of the minerals and metals sector as a foundation for regional economic development;

c. to promote improved technological performance and increased international competitiveness in all facets of the industry;

d. to assist workers and communities affected by industrial adjustment;

e. to facilitate enhanced mineral and metal exports and access to new and traditional markets; and

f. to provide timely and accurate economic, technical and scientific information required by the industry and by the federal and provincial governments, labour and the general public.

310. Although not enunciated in the statement, environmental protection has become an integral part of mineral development and conservation. Canada also recognizes that many metals can be recycled; hence it adopts pragmatic approaches to domestic and transboundary movements of waste and scrap.

311. The role of the federal government in relation to minerals and metals arises principally from its broad constitutional responsibilities for management of the economy, international and interprovincial trade, and matters affecting the national interest. The provinces have jurisdiction over mineral lands disposition, and hence the exploitation of minerals.

312. The federal government has jurisdiction in the Northwest Territories and Yukon. Consistent with these responsibilities, a Northern Mineral Policy has been released. Its objective is to further encourage investment in northern mining and to ensure that the industry retains its international competitiveness. It seeks to take into account the special circumstances and needs of the mineral sector in the Yukon and Northwest Territories.

313. Canada is a large producer and exporter of non-fuel minerals and metals; it is also a large importer of these products. About two-thirds of its trade in this sector is with the U.S.. For the most part, the industry has been founded on, and has been a strong proponent of, free trade principles. Nevertheless, tariffs have been maintained for certain products to sustain a degree of
protection commensurate with tariff levels maintained by Canada's main trading partners.

314. The private sector is considered the best placed to allocate resources among alternative activities and investments. To survive and prosper in international mineral and metal markets require speed and flexibility, with decisions taken on the basis of sound commercial considerations. Canada, although a significant producer of many mineral and metal commodities, will remain a price-taker in world markets and will have to compete on the basis of the costs of production. In such a highly competitive world environment, the viability of the Canadian minerals and metals industry cannot be maintained through subsidies or other artificial support. Ultimately, it is the private sector that must assess the risks, marshal the resources and deal with the outcome of its investment decisions. In directing the Canada's own resources towards the minerals and metals industry, policies are aimed at a greater responsiveness to priorities identified by the private sector.

315. The development, conservation and management of Canada's mineral resources are governed by a series of Mining Acts and Regulations enacted and administered by the respective political jurisdictions -- the federal government in the Northwest Territories and the Yukon and the 10 provinces within their boundaries. These acts and regulations provide rules for acquiring rights to explore, develop and mine minerals as well as for safety and mine abandonment. They also specify where applicable, levels and rates of mining taxes and/or royalties.

316. The minerals and metals industry is subject to a broad range of federal and provincial fiscal and regulatory policies that influence investment and competitiveness (for examples see section on "Government assistance to non-agricultural business").

317. Investment and competitiveness in the minerals and metals sector are also influenced by a variety of regulatory requirements and government-mandated programs which can impose significant costs on mining and processing operations. Consequently, new federal legislation and regulation are reviewed to ensure that federal regulatory action is aimed at promoting greater economic and administrative efficiency, while maintaining protection for the public.

318. Foreign capital has played a significant role in developing the country's resource potential. For a number of years the federal government had a general policy of seeking 50 per cent Canadian equity in new non-fuel mineral resource projects. In 1985, the federal government passed the Investment Canada Act which created a positive climate for new equity investment in virtually all sectors of the Canadian economy.
319. The preservation of environmental quality is essential to the protection of Canada's resource base. Acid rain, toxic waste management, and land management and rehabilitation raise important issues and responsibilities for the minerals and metals industry and for government. Canada supports the incorporation of environmental principles into mineral development and fosters a philosophy of sustained growth that integrates renewable resources and environmental imperatives with economic, commercial and technological considerations. Canada recognizes that measures to deal with existing environmental questions may impose on the industry additional costs that are not faced by many of our international competitors.

320. Canada is committed to fostering the development of the minerals and metals sector as a foundation for regional economic development. Federal-provincial Mineral Development Agreements (MDAs) serve this objective by strengthening and diversifying the minerals and metals sector of the provincial and territorial economies. The agreements provide for a range of initiatives within provinces and the territories primarily in geoscientific, mining and mineral technology, and mineral economic development fields. A system of industry advisory forums has evolved within each agreement to guide the planning and execution of MDA programs. There is also an increasing trend toward industry cost sharing where this is appropriate.

AGRICULTURE

321. Canada's overall food and agricultural industry policy rests on four pillars, namely: market responsiveness, self-reliance, sustainability, and regional sensitivity.

a) Market Responsiveness:

Canada's food and agriculture industry needs to improve its ability to respond to consumer demands, at home and for the export market. It must increase its efforts to identify and pursue opportunities for diversification and greater value-added processing.

b) Self-Reliance

The government remains firm in its commitment to Canadian farmers and the agriculture industry, and will continue to play an important role in support of the industry. Federal policies and programs are designed to nurture a climate of opportunity without undermining independent industry-based
decision making. Government programs, like finance, research and development, food inspection and crop insurance are tools for the industry to get the job done.

c) **Sustainability**

A clean, healthy environment is essential to the long-term economic prosperity of the agriculture and food industry. Sustainable agricultural production should ensure the continued production of safe and nutritious food. It must conserve and enhance Canada's natural resources for future generations. And it must be economically viable.

d) **Regional Sensitivity**

Canada's national agriculture policy takes into account the country's diverse regions and has due regard for comparative advantage. It builds on regional strengths and resources as well as ensuring that the industry continues to contribute to the well being of all regions.

322. Canada's agricultural trade policy is balanced taking into consideration the interests of an export-oriented industry, a domestically-oriented industry as well as the realities of regional diversity and the diverse interests of the primary sector and the processing sector. Canadian agricultural trade policy is based upon the premise that the global marketplace ought to provide enhanced opportunities for trade development. It should not be an area of conflict. Canada's goal is to work towards the progressive reduction of trade distorting measures, be they subsidies, tariffs, non-tariff barriers or phytosanitary barriers. The fundamental and underlying long-term goal is to bring agricultural trade under comprehensive GATT rules which apply equally to all. Canada is committed to further export market development, increasing market access through trade liberalization, and increasing the value-added component of exports.

323. The need to reduce measures that distort international trade and to establish a comprehensive set of equally applicable rules for international trade of agricultural products has become a priority in recent years. As a result of undisciplined international trade in the grains and oilseeds sector, Canada has been required to increase support expenditures to the extent that they totalled approximately $12 billion in direct and indirect support between 1985 and 1989. To ensure the survival of our grains and oilseeds farmers in the face of this highly subsidized, destructive international environment, payments increased from an average of $326 million between 1981 and 1984 to $4.2 billion in 1987-88.
324. With certain exceptions, Canada's agricultural production capacity far exceeds its domestic food consumption requirements. Exports of farm and food products are equivalent to about 50% of gross farm income. Nearly 65% of approximately $10 billion of farm exports are made up of grains and oilseeds. Over two-thirds of Canadian farm output is priced on an international basis. This is largely accounted for by grains, oilseeds, livestock and meats. Dairy products, poultry and eggs are subject to regulated prices and supply controls and output is about equal to domestic consumption requirements. Canada is in a substantial deficit position with respect to horticultural products, sugar and processed foods.

325. Historically, there has been close co-operation between the federal and provincial governments on the development of agricultural trade policy. The federal government holds the constitutional power to regulate trade but the provinces retain important economic powers that can impinge on trade and trade policy.

326. To implement agricultural trade policy, there exists a broad range of laws and regulations that have evolved over time to meet Canadian agricultural requirements.

**Tariffs**

327. Through successive rounds of GATT negotiations, Canadian tariffs on agricultural products have been reduced and bound at relatively low levels (see section on the Tariff Regime). The Canada-U.S. FTA will see the complete elimination of tariffs between the two countries within ten years.

328. The FTA provides a special safeguard mechanism for fresh fruits and vegetables where temporary duties, not exceeding the MFN rates, can be imposed provided certain conditions relating to import prices and acreage are met. This mechanism is known as "snapback" and expires in 2009.

**Non-Tariff Measures**

329. Non-tariff measures are used to control imports of certain commodities in support of domestic supply management programmes operated at the farm level. These import restrictions are identified in the Import Control List of the Export and Import Permits Act. Margarine imports have historically been prohibited. The Meat Import Act (1982) authorizes import restrictions to be placed on beef and veal under specified conditions. This Act was invoked in 1985 in accordance with the provisions of Article XIX.
In this regard, Canada has a global minimum access undertaking for beef and veal, arising out of the Tokyo Round, which currently stands at about 69,000 tonnes. Import licences are required for imports of wheat and barley and their principal derivatives. Such licences are not usually issued unless there is a domestic shortage. Such licenses are granted automatically, however, for products in retail packages assigned to retailers.

Export Assistance

330. The Canadian Dairy Commission provides assistance to exporters to cover the difference between internal support and world market prices of dairy products. These payments are financed by levies paid by milk producers on all shipments of industrial milk.

Export Credit

331. Canada has been selling grain on credit since the 1952-53 crop year. A revised and expanded credit grains sales programme was instituted in 1968. The Canadian Wheat Board, which has special responsibilities for marketing western Canadian grains, is empowered to finance sales of grain on credit terms of three years or less, at commercial rates of interest. The funds are provided by Canadian chartered banks, under lines of credit to the banks guaranteed by the Minister of Finance. Up to one-third of Canadian wheat sales in recent years have been on government-guaranteed credit.

332. The Canadian Export Development Corporation has authority to provide insurance, guarantees and export credits to support the sale of some agricultural products. These facilities are provided for terms of less than six months.

333. There is also a transport subsidy paid to the railroads in western Canada under the Western Grain Transportation Act. This reduces the cost of moving prairie grains to export positions on the West Coast.

Summary of Agricultural Legislation

Canadian Wheat Board Act (CWB)

334. The Act establishes the Board as the sole marketing agent for wheat and barley grown in western Canada as regards interprovincial and international trade. The CWB also administers a delivery quota system which regulates all grain and oilseed
deliveries by farmers into the grain elevator system. The CWB operates a price pooling mechanism based on the returns from all domestic and international sales. It recommends annual initial payment levels for wheat and barley to the government. The Act provides the authority for the control of imports of wheat and barley through the import licensing regime. The Department of External Affairs and International Trade administers import permits for barley and barley products and the CWB administers those for wheat.

Western Grain Transportation Act (WGTA)

335. The program is intended to ensure adequate compensation to railways for the movement of western grain and to promote a cost-effective and efficient grain transportation network in western Canada. It replaces the Crow's Nest Pass freight rates for moving grain. The payment recipients are Canadian National Railway Company, Canadian Pacific Limited, BC Rail, and Central Western Railway. The legislation provides for producers sharing in transportation cost increases.

336. The geographic boundaries of eligible movements are:

(a) from any point on any line of railway west of Thunder Bay or Armstrong to Thunder Bay or Armstrong;

(b) from any point on any line of railway west of Thunder Bay or Armstrong to a port in British Columbia for export, or

(c) from any point on any line of railway west of Thunder Bay or Armstrong to Churchill for export.

337. Actual payments under this measure since the 1983-84 year are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Payment ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983-84</td>
<td>142,000</td>
</tr>
<tr>
<td>1984-85</td>
<td>619,100</td>
</tr>
<tr>
<td>1985-86</td>
<td>496,000</td>
</tr>
<tr>
<td>1986-87</td>
<td>672,100</td>
</tr>
<tr>
<td>1987-88</td>
<td>941,200</td>
</tr>
<tr>
<td>1988-89</td>
<td>777,300</td>
</tr>
</tbody>
</table>

Source: Farm Income Data Book; April 1, 1990.
Special Canadian Grains Program (SCGP)

338. The program, which applied initially to crop year 1986/87, was an interim measure to cushion the impact on farmers of an international subsidy war which had caused international grain prices to decline to record lows. Program benefits were calculated on the basis of farmers' seeded acreage of grains and oilseeds and on representative regional yields. Assistance rates for each commodity were set according to the drop in price directly attributable to the international trade war.

339. An extension to the SCGP was announced December 15, 1987, and applied to crop year 1987/88. It provided payments to farmers totalling $1.1 billion in 1988 to cushion them from low commodity prices, assisted those in financial difficulty and built toward long-term stability. This short-term measure was implemented to ensure that grain farmers' receipts were maintained at a level similar to previous years. It was required to counteract the negative impact on Canadian farmers of low prices caused by the continuing international subsidy war. It was designed to be production and market neutral.

340. On a fiscal year basis, actual payments under this measure over the period since its inception are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Payment ($,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986-87</td>
<td>296,000</td>
</tr>
<tr>
<td>1987-88</td>
<td>1,368,000</td>
</tr>
<tr>
<td>1988-89</td>
<td>372,000</td>
</tr>
</tbody>
</table>

Source: Farm Income Data Book; April, 1990.

Western Grains Stabilization Act (WGSA)

341. The WGSA stabilizes returns to producers of grains and oilseeds in the CWB designated area at a level not below the previous five-year average. Participation in the program is voluntary and producers and the federal government contribute to its costs on a one-third/two-thirds basis respectively. Payouts, when required, are made on the basis of producer contributions during the previous three years.

342. Actual payments under this measure over the years 1983-84 to 1987-88 are as follows:
### Canadian Dairy Commission Act

343. The Canadian Dairy Commission Act establishes the Canadian Dairy Commission with the mandate to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment, and to provide consumers with a continuous and adequate supply of high quality dairy products. The Commission has the power to buy and sell dairy products on both domestic and export markets, to collect levies and to make stabilization payment to producers. It also administers a national milk supply management program which ensures a balance between milk suppliers and domestic requirements for dairy products.

344. Under this measure, producers receive direct payments from the Commission on deliveries of industrial milk and cream. These monthly payments are part of the target price and are intended to moderate the price that consumers pay for dairy products. Actual payments over the last three year period are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Payments ($,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984-85</td>
<td>222,900</td>
</tr>
<tr>
<td>1985-86</td>
<td>521,800</td>
</tr>
<tr>
<td>1986-87</td>
<td>854,800</td>
</tr>
<tr>
<td>1987-88</td>
<td>1,395,700</td>
</tr>
<tr>
<td>1988-89</td>
<td>954,100</td>
</tr>
</tbody>
</table>

Source: Farm Income Data Book
April 1990

### Farm Products Marketing Agencies Act

345. This legislation establishes the authority to create
marketing agencies such as the Canadian Egg Marketing Agency, the Canadian Turkey Marketing Agency, and the Canadian Chicken Marketing Agency. These particular agencies regulate, from a supply management perspective, the egg and poultry sectors.

**Agricultural Stabilization Act**

346. This Act provides authority for the Agricultural Stabilization Board to take action necessary to stabilize prices of specified agricultural (cattle, hogs, sheep, industrial milk and cream, corn, and soybeans and oats and barley grown outside the designated area of the CWB). The resultant prices are based on the average of market prices in the previous five years adjusted for changes in cash costs during this period. The Act also provides for the establishment of the tripartite stabilization programs funded by the federal government, provincial governments and producers. To date, tripartite programs have been established for cattle, hogs and lambs and certain specialty crops.

347. The Board's payments over the most recent five year period, minus payments related to the Canadian Dairy Commission, are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Payment (S.000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984-85</td>
<td>83,537</td>
</tr>
<tr>
<td>1985-86</td>
<td>30,766</td>
</tr>
<tr>
<td>1986-87</td>
<td>85,939</td>
</tr>
<tr>
<td>1987-88</td>
<td>222,532</td>
</tr>
<tr>
<td>1988-89</td>
<td>165,959</td>
</tr>
</tbody>
</table>

Source: Annual Report, Agricultural Stabilization Board; Year ending March 31, 1989

**Health and Sanitary Legislation**

348. Health, safety and quality assurance standards are applied to both domestic products and imports under the authority of several different Acts. The Plant Quarantine, Food and Drug, Animal Disease and Prevention, Feeds, Canada Agricultural Products,
Fertilizers, Livestock and Livestock Products, Meat Inspection, Pest Control Products, Pesticide Residue Compensation, and Seeds Acts all authorize the enforcement of standards in their respective areas.

Policy Developments

349. Considerable liberalization has occurred in the Canadian agricultural sector since 1984. Among the more noteworthy changes are tariff reductions undertaken both as a result of the FTA and as part of Canada's MTN offer on tropical products. The two-price wheat program which acted as a tax on domestic consumption of wheat was phased out in the 1988-89 crop year. The traditional marketing of oats by the Canadian Wheat Board and the associated import permit system for that product were discontinued in 1989. In addition there have been increases in import quotas for poultry and eggs, and the elimination of the government contribution to export assistance for dairy products. Broiler hatching eggs were placed on the Import Control List in early 1989 in support of a supply management system in this sector.

FORESTRY

350. The federal government has a major interest in ensuring the continued vitality and competitiveness of the forestry and forest products industries. This interest is manifested in various initiatives in such areas as forest management, trade and investment, research, employment, as well as environmental issues which impact on the forestry or forest products industries.

351. Promotion of the sustainable development of the forestry sector is also a government priority. Sustainable development of the forests and their multiple environmental values involves fostering, without unacceptable impairment, the productivity, renewal capacity, and species diversity of forest ecosystems.

352. Canada's forest area, estimated at about 453 million hectares, provides the basis for an extensive forest products industry. Activities of the forest sector range from the harvesting of wood through to the manufacture of a variety of wood and paper products. In 1989, the harvesting and processing of Canada's forest resource supported the direct employment of over 275,000 Canadians and accounted for about 14% of the total employment in the goods-producing industries.

353. Canada's forest products sector is comprised of three major
sub-sectors; the logging industries, the wood industries, and the pulp, paper and allied industries. The three groups may be characterized as falling into primary producers (logs, pulpwood), secondary producers (lumber, plywood and other wood-based panels, market pulp, newsprint and shingles and shakes), and producers of converted wood and paper products (paper products, packaging material, doors and windows, kitchen cabinets, furniture parts and manufactured housing, etc.).

354. World trade in forest products has grown faster than world consumption over the past four decades. The Canadian forestry industry has shared in this growth in trade and has emerged as the world's leading exporter of newsprint, softwood lumber and softwood pulp. The forest industry is highly dependent on export markets, with exports amounting to $22 billion in 1989 or about 55% of the value of total output. Imports of forest products amounted to $2 billion in the same year, leaving a net trade balance of $20 billion in Canada's favour.

355. Canada's exports of forest products accounted for over 22 per cent of all forest products traded in world markets. Trade with the U.S., the EC and Japan accounts for over 90% of the Canadian total. Canadian forest products are also sold to smaller markets in other Asian countries, the Middle East, Latin America and Oceania. This overall export pattern is unlikely to change dramatically in the next decade.

356. The U.S. is the most important export market for forest products. In 1989, it accounted for $15 billion in sales, or 68% of total exports. Canadian exports to the U.S. are largely secondary products with newsprint, lumber and pulp the predominant products. As world demand for Canada's major export items is expected to grow more slowly over the next few decades the U.S. will continue to be Canada's most important export market for the foreseeable future.

357. The federal government adopted a new Forest Industry Policy in 1988. The policy was developed with both an industry and government perspective to encourage the industry's international competitiveness through the development and application of new technologies, the development and diversification of new markets and products and the enhancement of Canada's forest resource. Other than in exceptional circumstances related to regional development, native people and small business, capital assistance is not provided for modernization and expansion requiring conventional technology. Federal government financial assistance under this policy has been reoriented towards support for forest industries R & D and innovation programs with $18 million earmarked over three years and $12.2 million, also over three years, for market development and diversification. Other grants and
contributions to support research include $4.8 million to Forintek Canada Corporation, and $1.6 million to the Forestry Research Institute of Canada.

358. The Canada-U.S. Free Trade Agreement provides Canadian industry with greater security of market access and a more expedient and predictable mechanism for resolving trade disputes. The main impact of the FTA on the forest industries has been the imposition of effective disciplines on the use by U.S. industry of contingency protection measures such as the one currently in place for shakes and shingles and the countervail action avoided by the imposition of Canada's 15% export charge on softwood lumber. The elimination of tariffs are of less importance as over 85% of Canada's exports previously entered duty free from tariffs. Those tariffs that remain in place will be largely phased out in five equal annual steps ending January 1, 1993.

359. Under the British North America Act of 1867, the provinces of Canada were granted ownership of unalienated forest land and exclusive legislative authority including the right to levy royalties over these lands. Consequently, forest land in Canada is owned primarily by the provinces whose governments have full authority over the management and utilization of over 90 per cent of Canada's over 453 million hectares of prime forest resources. The federal government owns or administers about 95 million hectares but most of this land is located outside of provincial boundaries in the Northwest and Yukon Territories which are largely unsuitable for commercial lumber production. Federal ownership of lands within provincial boundaries is 5.2 million hectares of which 2.6 million hectares is located on Indian reserves while the balance is made up of lands devoted to the national park system as well as military reserves. In addition, a small percentage of land is controlled by private interests in each of the provinces, predominately in the eastern region of Canada.

360. The provincial governments perform the leading role in domestic forest policy development and exercise full authority over the management, protection and utilization of forest resources

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3Canada and the U.S. entered into this understanding on January 8, 1987, in order to resolve differences with respect to the conditions affecting trade in softwood lumber products. This understanding is without prejudice to the Canadian position that stumpage programs and practices do not constitute subsidies under U.S. law or any international agreement. Canada agreed to collect a charge of 15 percent (ad valorem of the F.O.B. first mill price) on certain softwood lumber products exported to the U.S. including softwood lumber and softwood siding.
within their boundaries. The federal government transfers resources to the provinces under a series of forest resource development agreements ($145 million in 1988-89 fiscal year) to encourage forestry renewal on public and private lands; to encourage long-term timber supplies; and to improve forest management techniques.

361. Provincial governments allocate cutting rights to private sector companies through a variety of arrangements including both long- and short-term leases and third party agreements. In most cases, the "lessee" assumes responsibility for all aspects of forest management including access, harvesting and silviculture. In the remaining cases, the province retains all obligations for forest management with the exception of harvesting. Prices for cutting rights are set by the provinces using various formulas to reflect the value of the standing timber, taking into consideration final product prices and processing costs.

Log Export Controls

362. Under the authority of the Export and Import Permits Act, an export permit is required to export logs, pulpwood and pulp chips.

Environmental Control

363. The federal and provincial governments undertake environmental impact assessments of proposed forest industry investments to ensure that the quality of the environment is protected. Regulations also control the use of chemical preservatives and treatments for wood products, and pulp and paper mill effluent and emissions.

FISHERIES

364. Canada's general fisheries policy objective is to undertake policies and programs in support of Canada's economic, ecological and scientific interests in the oceans and inland waters; and to provide for the conservation, development and sustained economic utilization of Canada's fisheries resources in marine and inland waters for those who derive their livelihood or benefits from these resources. These domestic objectives are pursued internationally in the GATT and through the FTA with the U.S. and other bilateral agreements.

365. Commercial fishing accounts for approximately 0.5% of
Canada's GDP and employs over 135,000 people. It encompasses the groundfish, shellfish, pelagic, freshwater and aquaculture subsectors. Commercial fishing is extremely important industry when considered on a regional basis. In Atlantic Canada for example, it generates 40,000 processing jobs and has a total production value of $2.2 billion. Over the last decade, the historical trend of cyclical shortages has been exacerbated by domestic and foreign overfishing and the significant increase in harvesting capacity.

366. In 1987, Canada had 94,000 registered fishermen and 39,000 commercial fishing vessels with total landings of $1.6 billion. Processed fish products were valued at $3.2 billion, as the industry has concentrated on more value-added products in recent years. The rapidly growing aquaculture sector's commercial production was valued at $50 million for 1987, an increase of 66% from 1986.

367. Canada exports over 80% by value of its commercial production. In 1988, the U.S. overtook Canada's leading position for the past ten years as the world's largest fish exporter in terms of value. In 1988, Canadian exports amounted to $2.7 billion with the U.S. being the major market. Other important markets include Japan and Western Europe.

368. The basic principles of fisheries policy in Canada are the conservation, restoration and management of fisheries resources, the protection of freshwater and marine habitats and the long-term sustainability of the fishing industry. The Government of Canada facilitates the orderly harvesting of marine resources by issuing licences, regulating the fisheries' seasons, vessel size and gear type and setting quotas for each specie and stock.

369. Canada has a liberal tariff and trade policy for fish. Tariffs on fish products are less than 9% ad valorem on an F.O.B. basis. Canada does not have any import quotas on fish, nor do we have minimum import prices. Canada does not use size restrictions to curb imports.

370. As a signatory to the North Pacific Fisheries Convention (INPFC), Canada applies an import embargo against high seas salmon of North American origin caught by fishing vessels "other than a fishing vessel of Canada, the U.S. or Japan".

371. Under Article 62(2) of the U.N. Law of the Sea Convention, Canada is required to "give other states access to the surplus of the allowable catch" if it "does not have the capacity to harvest the entire allowable catch". Canada provides access to these stocks to vessels from nations which consistently cooperate with Canadian and international conservation and management decisions.
372. Since 1908, Canada maintained export restrictions on Pacific salmon and herring in the unprocessed forms to ensure adequate supplies to Canadian processors. In 1987, a GATT panel ruled that these export restrictions were inconsistent with the GATT. In response to the panel decision, landing requirements were introduced by Canada for these species in 1989 as a means of carrying out data collection and biological sampling for conservation and management purposes. This matter was examined by an FTA panel which concluded that Canada could require 80 to 90% of Pacific salmon and herring catches to be landed. Canada subsequently reached agreement with the U.S. on the implementation of the panel's decision.

373. Canada's fisheries sector is governed by 15 acts of parliament, including the Fisheries Act, the Coastal Fisheries Protection Act, the Fish Inspection Act, the North Pacific Fisheries Convention Act and the Canada Oceans Act under the general direction of the Department of Fisheries and Oceans.

374. The interprovincial and international trade in fish, including importation is governed by the Fish Inspection Act and its regulations to ensure the production and distribution of safe, wholesome, properly identified fishery products by prescribing grades, quality and standards of fish.

SERVICES

375. Services of all types are an increasingly important component of the Canadian economy. In 1989, services accounted for over 70 percent of Canadian employment and gross domestic product. Nine out of ten new jobs in the last decade were created in the service sector. In 1989, Canadian exports of services (excluding investment and transfers) totalled $20.5 billion, or 11.6% of total international receipts while imports were $27.5 billion, or 14% of total international payments. These trade flows are relatively small compared to the overall significance of services in the Canadian economy.

376. Canada's major services trading partner is the U.S. where approximately 62% of Canada's global services trade conducted. Under the Canada-U.S. (FTA), the two governments have agreed to apply the principle of national treatment with respect to future measures affecting services and to avoid discrimination against each other in those services industries specifically covered by the Agreement. Existing regulations remain in place and can be amended provided they do not become more discriminatory. New regulations
affecting services shall not require a supplier of the other country to establish a local presence in order to provide services.

377. The FTA Chapter on services includes three sectoral annexes covering architecture, tourism, and computer services and enhanced telecommunications services.

378. The architecture annex provides for mutual recognition of architect professional qualifications subject to the details being worked out by the professional associations. The non-discrimination obligation is applied to tourism services.

379. The annex on telecommunication services commits both parties to maintain the present open, competitive and non-discriminatory environment in and between Canada and the U.S. for computer services and enhanced telecommunications services. Moreover, the two governments must maintain safeguards against anti-competitive practices by their telecom monopolies.

380. Under the FTA Chapter on Financial Services both Canada and the U.S. have agreed to continue liberalizing the rules governing their respective financial markets and to extend the benefits of such liberalization to institutions controlled by the other country.

381. The services component of the Canada-U.S. FTA shows that it is possible to negotiate a general framework of rules for services incorporating principles of general application such as those embodied in the GATT for trade in goods. Canada is firmly committed to building on this achievement to develop multilateral rules for services trade in the Uruguay Round.

Sectoral Developments

Financial Services

382. Canada's interests are in striving towards open and liberalized financial markets, both domestically and abroad. On both fronts, we are working towards increased liberalization.

383. Domestically, the last decade has seen a dramatic opening of financial markets. As a result of the 1980 amendment to the Bank Act, there are now roughly 60 foreign banks operating in the country. There are two classes of banks: Schedule I banks which must be widely held in terms of ownership, and Schedule II banks which may be closely held. Once established, foreign banks operate with the same powers as domestic institutions. Foreign securities firms have been welcome to establish in Canada since July 1987. These firms, as well as foreign insurance companies, also operate,
once established, with the same powers as domestic concerns.

Transport Services

384. Recent reforms to the regulation of transportation in Canada, include: National Transportation Act (1987), Motor Vehicle Transport Act (1987), and the Shipping Conferences Exception Act (1987). The thrust of these new laws is to encourage competition, primarily within and between transportation modes; to provide for a wider range of transportation services and prices; and to support the growth of key sectors of the Canadian economy. Regulation of the industry has been reduced or modified to promote competition and innovation.

385. Transportation services (marine, air, trucking, rail and bus) are not covered by the FTA Agreement. In effect, existing national and international arrangements, such as ICAO and the various air bilateral agreements, will continue to govern bilateral relationships.

Telecommunication Services

386. As the provision of telecommunications services has primarily been oriented to the national market, Canada does not have in place any trade-specific policies such as services export subsidies. However, recognizing the "trade-ability" of a growing number of value-added telecom services, Canada is committed to maintaining its current open and competitive environment for the provision of these services.

387. Canada's telecommunications policy sets a 20% ceiling on foreign ownership in facilities-based carriers. Carriers which were foreign-owned or controlled at the time of the 1987 statement on telecommunication policy by the Federal Minister of Communications are exempted. Entry into the carrier sector will be controlled by the federal government to ensure that network facilities are operated efficiently. There are no ownership restrictions, regulations, or entry limitations for resellers.

388. Under the Canada-U.S. FTA (FTA) the Services Chapter on "Computer and Telecommunications Network-Based Enhanced Services" commits both parties to "maintain and support the further development of an open and competitive market for the provision of enhanced services and computer services".

Cultural Industries
389. Canada seeks to develop its cultural industries in a manner consistent with multilateral commitments and obligations recognizing the role played by creators and artists in promoting Canadian national identity.

390. Canada has an open market for cultural products and is overwhelmingly a net importer in this sector. For example, seventy-six percent of books sold in Canada are imported, 97% of cinema screen time goes to imported films, 89% of earnings in the record industry accrues to foreign firms. Canada maintains diverse measures to encourage domestic cultural industries. These include intellectual property protection, bilateral Film and Television Co-production Agreements, domestic Canadian content rules, investment review provisions, and specific tax provisions.

391. Cultural industries are exempt from the provisions of the Canada-U.S. FTA, except for the elimination of tariffs on cultural products, specific provisions relating to investment, tax deductibility of advertising costs, and cable retransmissions of broadcast programming.
IV. MARKET ACCESS BARRIERS TO CANADIAN EXPORTS

392. High tariff rates as well as non-tariff barriers such as quotas, import licensing and restrictive procurement practices impede Canadian exports of agricultural (e.g. grains, oilseeds and meats), resource-based, (e.g. fish, forest products, metals and minerals, and petrochemicals) and manufactured products (e.g., transportation and telecommunications equipment) in overseas markets, and to a lesser extent because of the Canada-U.S. FTA (FTA), the U.S. market. For many of Canada's primary products, for example, even low tariffs such as exist in Europe and Japan can represent a significant access barrier. Escalating tariffs (where rates increase with the degree of manufacture) are a disincentive to investment in Canada for those value-added industries producing commodity bulk-trade products. And for the diverse group of manufacturing and their related service industries, ranging from machinery and transport (e.g., automobiles) to electrical/energy equipment (e.g., microelectronics), consumer products, and textiles and clothing, important economies of scale and scope for Canadian-based producers are lost by high and effective tariffs and non-tariff barriers in foreign markets.

393. From a geographical perspective, there are significant tariff and non-tariff barriers on Canadian resource products such as agricultural, fish, wood and paper products, minerals and non-ferrous metals, as well as chemical and petrochemicals in the Asia Pacific region (e.g. Japan, Korea, Australia/New Zealand, and the Association of South East Asian nations). With respect to Europe, (including the European Communities), Canadian exporters of agricultural, fish, forest and other resource products, particularly in their more processed forms, have been treated differently from Scandinavian and other preferred suppliers. Discriminatory regional product standards, testing and certification, as well as restrictive procurement markets (e.g. affecting Canadian heavy electrical equipment) within the European Communities also remain a problem. High and in some cases unbound tariffs, as well as import prohibitions, quotas, discriminatory import licensing and other NTB's in South Korea, Mexico, Brazil, India and many other developing countries also continue to adversely affect a wide range of Canadian resource and manufactured products.

394. The current MTN market negotiations within the Uruguay Round should provide an opportunity to reduce many of these trade barriers in Canada's overseas markets, particularly the EC, Japan and the newly industrialized countries. They will also provide an opportunity to resolve with the U.S. a number of outstanding issues that were only partially addressed in the FTA such as government purchasing practices.
## ANNEXES

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FISCAL POLICY DEVELOPMENTS

1. Since 1984, the government has steadily pursued its economic policy agenda to restore control over the fiscal situation in Canada and to implement complementary structural policies to increase Canada's growth potential.

2. Since 1984, much has been achieved. Restraining the growth in program spending has been the cornerstone of fiscal consolidation. After peaking at 19.5 per cent of GDP in 1984-85, program expenditures declined to 16.0% in 1989-90. This 3.5-percentage-point reduction in program expenditures accounts for the bulk of the 3.9-percentage-point decline in the deficit over this period. Over the five-year period ending in 1989-90, the average annual growth in program spending was held to 3.6%. This was less than half the growth in the economy and 0.7% per year less than the rate of inflation. This stands in sharp contrast to annual growth of program expenditures of 14% per year in the previous fifteen years, or close to 6% per year in real terms.

3. The revenue yield had been declining in the late 1970s and into the early 1980s and was part of the fiscal problem. The revenue yield fell from a peak of 19.2% in 1974-75 to 15.9% in 1984-85. This reflected the proliferation of selective tax expenditures, ad hoc tax cuts, the endemic flaws in the manufacturers sales tax and the direct and indirect impacts of the 1981-1982 recession. With the measures introduced since November 1984, the revenue yield has increased to 17.2% by 1989-90, about the revenue yield that prevailed, on average, in the 1970s.

4. The strength of the fiscal actions taken is apparent. From 1984-85, the deficit has been reduced from its peak of $38.3B to $30.5B in 1989-90, a decline of almost $8B. Relative to the size of the economy, the deficit has declined almost 4 percentage points from 8.6% of GDP in 1984-85 to 4.7% in 1989-90, a drop of 45%. Financial requirements -- the borrowings by the federal government in capital markets -- are also down almost $8B since 1984-85. In concert with the reduction in the annual deficit, the growth in public debt has been brought roughly into line with the growth in the economy. From growth of almost 24% in 1984-85, growth in public debt has declined steadily to less than 10% in each of the last two years -- close to the growth of GDP. Five years ago, growth of the debt outpaced GDP growth by 14 percentage points.

5. The extent of progress in improving the fiscal situation is

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1 Program spending refers to expenditures made on programs resulting from the implementation of government policies and excludes expenditures on items such as debt servicing.
underscored by the improvement in the government's operating balance. In 1984-85, the operating balance was in deficit: program expenditures were about $16B higher than revenues. Reflecting mainly measures to restrain program spending, the operating balance is now in a surplus with program spending $9B less than revenues. Relative to GDP, this $25B swing in the operating balance is equivalent to 5 percentage points. Of this 5-percentage-point improvement, 3.5 percentage points, or 70%, is due to program expenditure restraint.

6. Although substantial progress has been made, the task is not yet complete. The enormous build-up of debt over the last 15 years means that the fiscal situation is dominated by the dynamics of high deficits and growing public debt and debt servicing costs. With an annual deficit of $30B, debt interest costs increase $3B just to service the annual build-up in debt. This means that the operating surplus has to improve by $3B each year just to keep the overall deficit from rising. This problem is compounded by the vulnerability of the government's fiscal situation to increases in interest rates. Reflecting this dynamic of deficits and debt, debt charges have grown rapidly and hampered efforts to reduce the deficit and slow the build-up of debt. Of the $25B improvement in the operating balance over the past five years, about $17B was required simply to pay the increased interest charges on the public debt.

7. In the April 1989 budget, the government set out a five-year fiscal plan to cut the deficit in half by 1993-94, to eliminate government borrowings in capital markets after 1993-94 and to stabilize the debt-to-GDP ratio over the 1990-91 to 1991-92 period, with declines thereafter. In order to sustain and strengthen the economic expansion through the 1990s, these fiscal objectives must be met.

8. Economic developments have put the achievement of the April 1989 budget objectives at risk. Inflation pressures proved to be more entrenched than anticipated. In the face of these strong inflation pressures, monetary policy remained restrictive. This meant higher-than-anticipated interest rates, leading to increases in public debt charges, principally in 1990-91 and 1991-92. The fiscal challenge facing the 1990 budget was to get over the hurdle posed by these upward pressures on the short-term deficit track, and still achieve the medium-term economic and fiscal objectives set out in the April 1989 budget.

9. Deficit reduction is required to break the dynamic of deficits and debt and get off the treadmill of growing debt and debt service costs. Putting the deficit back on a downward track will free up domestic savings to finance private investment, diminish our reliance on foreign savings and reduce the burden of the debt on
future generations. Lower deficits will contribute to lower inflation and thereby ease the burden on monetary policy and increase the scope for interest rates to come down.

10. Through the Expenditure Control Plan, the substantial expenditure actions taken in the February 1990 budget reinforce the momentum of earlier measures and help to ensure that the goals of the April 1989 budget will be reached. The Expenditure Control Plan together with the management initiatives announced by the President of the Treasury Board in December 1989 result in fiscal savings of $3.0B in 1990-91 and $3.8B in 1991-92. Over the 1990-91 to 1994-95 period, the cumulative fiscal savings total well over $19B.

11. For next year, the deficit will be reduced to $28.5B. In 1991-92, the deficit falls further to $26.8B. Excluding the transitional costs of the Goods and Services Tax (GST), the deficit declines to $26.7B in 1990-91 and $24.8B in 1991-92. Thereafter, as a result of the ongoing impacts on government spending and revenues of the measures introduced in this and previous budgets, the operating surplus grows quickly. This provides the basis for substantial declines in the overall deficit and the elimination of financial requirements over the medium term.

12. The deficit will be cut by more than half, to $14B in 1993-94. The following year it is projected to fall to $10B, or about 1% of GDP, the lowest level in 25 years. Financial requirements will be in surplus by 1994-95, allowing the government to begin paying back the debt it previously borrowed on capital markets. The burden of the debt will be reduced: the debt-to-GDP ratio stabilizes in 1991-92 and declines thereafter, the first decline since 1974-75.

13. Since coming to office in 1984 the government has worked consistently to regain control over the fiscal situation in order to ensure the capacity of the economy to grow, and of the government to meet the priorities of Canadians. The fiscal framework in the budget, together with the structural initiatives taken by the government since 1984, firmly put in place the fiscal and economic environment required for sustained, non-inflationary economic growth in the 1990s.
1. As a medium-sized open economy, Canada is a price-taker in world commodity markets and its terms of trade is significantly affected by changes in the global price of many commodities. Through the middle part of the decade, Canada's terms of trade recorded annual declines as world prices for commodities, most notably, wheat, oil and metals, fell. In addition, the depreciation of the Canadian dollar over this period contributed to rising import costs and the deterioration in the terms of trade.

2. Beginning in 1987, the terms of trade increased by 1.9%, the first annual increase since 1982. The increase was attributable to a rise in export prices for raw and fabricated materials and the appreciation of the Canadian dollar against the U.S. dollar.

3. The terms of trade continued to improve in 1988 and 1989 as export prices rose 2.6% and 2.3% respectively while import prices declined in 1988 by 1.6% and increased by 1.4% in 1989. Over this period, on average, commodity prices continued to increase and the Canadian dollar appreciated further by almost 4% in 1989 against the U.S. dollar. (The Canadian dollar has appreciated by over 17% since 1986 against the U.S. dollar.)

4. International prices for industrial raw materials have fallen relative to the prices for end products for most of the early 1980s due primarily to weak demand conditions attributable to the modest expansion of industrial production over this period and the long-term structural decline in the use of raw materials relative to overall production levels. In 1987, international demand for raw materials increased resulting primarily from accelerated industrial production in the larger economies, strong increases in construction activity and heightened expectations of increased inflation. Capacity utilization rates rose and in some cases such as woodpulp and metals, world-wide supplies became limited which increased prices further. A partial impact of the increase in the price of raw materials was the substantial rise in the export prices of industrial materials beginning in 1987.

5. Modest declines in the early part of the 1980s in the international export price for wheat resulting from growing supplies of wheat were followed by small increases from 1983 to 1985. In 1985, the U.S. strengthened its Export Enhancement Program which increased export subsidies and led to increased competition among international suppliers. In response, the U.S. program, the EEC increased its price supports under the Common Agricultural Policy. As a result of these policies and increased competition, the export price for Canadian wheat fell by over 18% in both 1986 and 1987.
6. The export price index for wheat increased by over 46% in 1988 as drought conditions in the U.S. and Canada depressed the 1988 harvest and consequently global stocks of wheat. As a result, wheat exports in 1989 were down 44% but prices increased by over 9%.

7. Since the early 1970s, the prices of Canadian energy exports and imports have generally followed the international price of crude oil. As reflected in the export price index of crude petroleum, the price of crude oil on international markets almost tripled between 1978 and 1981. Beginning in 1982, the price of crude petroleum declined modestly, then remained fairly stable through 1985. During this period non-OPEC countries increased exploration and production efforts such that crude oil production increased by over 30% between 1979 and 1987 from non-OPEC sources. Over the same period, oil consumption in OECD countries fell by 15% attributable primarily to increased conservation efforts and conversions to other forms of energy. This resulted in OPEC's share of world oil production falling from 60% in 1979 to 40% in 1987.

8. In 1986, the international crude petroleum price declined sharply as supply strongly outstripped demand. Prices rebounded strongly in 1987 as OPEC countries attempted to remain within agreed upon quota limits, however, prices fell again in 1988, as individual countries exported higher levels of oil than agreed upon. In 1989, strong price increases were recorded again for crude petroleum after an OPEC agreement was reached to raise the target crude petroleum price.

9. During the 1980s, natural gas prices have been subject to a large degree of regulatory requirements such that export prices set in the early part of the decade were too high to maintain the Canadian share of the U.S. natural gas market. In the middle part of 1980s, with declining market shares, export prices for natural gas were deregulated and prices fell from 1985 to 1988.

10. Natural gas prices rose for the first time in 1989 after 4 years of declining prices. The increase was partly attributable to an unexpected increase in demand due to unusually cold weather conditions in the U.S. and Canada over the last part of the year.

11. Overall import prices have declined since 1986 due primarily to the appreciation of the Canadian dollar against U.S. and other currencies. As noted above, the significant fall in the international price of crude oil in 1986 also impacted on overall import price movements. Import prices were relatively unchanged in 1989, with the exception of a 12% increase in the price of crude petroleum and a 5% fall in the import prices of machinery and equipment.
Major Trends in Exports and Imports

1. During the 1980s Canada's merchandise trade balance was in a surplus position (balance of payments basis) with a peak surplus of $19.8B recorded in 1984 (Figure 1). Since 1984, the trade surplus has narrowed steadily such that, in 1989, the trade surplus amounted to $4.7B, $5.1B lower than in 1988. The main characteristic of the decline in the trade surplus has been a continuing overall trade deficit with our trading partners, other than the U.S..

2. As shown in Figure 2, the trade balance with the rest of the world has been in a deficit position since 1985, while the Canadian trade surplus with the U.S. grew significantly in the early 1980s, peaked in 1984, and thereafter trended downward. Additionally, Figure 2 provides two time series of exchange rate indices for the Canadian dollar against the U.S. dollar and against the G-10 currencies, excluding the U.S. dollar. The chart indicates almost a direct relationship between movements in the Canada-U.S. exchange rates and the Canadian trade balance with the U.S. during the 1980s. As shown, a depreciating Canadian dollar in the early 1980s coincided with an increasing trade surplus with the U.S. and, since 1985, an appreciating Canadian dollar has exerted downward pressure on the trade surplus with the U.S.. An examination of the movements in the exchange rate index of the Canadian dollar against G-10 currencies excluding the U.S. and the Canadian trade balance with the "rest of the world" would seem to indicate that movements in the exchange rate does not have the same direct impact on Canada's trade balance with the rest of the world as observed with the U.S.

3. Figure 2 reveals that, especially in case of trade with the U.S., exchange rate movements would appear to be an important determinant of trade performance and consequently, changes to trade balances. In the Canadian situation, trade flows with the U.S. account for over 70 percent of total Canadian trade, therefore, it is not surprising that movements in the exchange rate would appear to have more of an immediate impact on the Canadian trade balance.

Exports

4. During the eighties, the composition of Canadian merchandise exports shifted gradually away from agricultural, energy and other resource products towards manufactured goods. This was partly attributable to the increases in trade liberalization over the 1970s and 1980s resulting from the impact of the GATT program of tariff reductions. As competition from foreign sources increased, Canadian firms rationalized production and exports grew. While
FIGURE 1
CANADIAN MERCHANDISE TRADE IMPORTS & EXPORTS

BILLIONS (C$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td></td>
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<tr>
<td>1980</td>
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<td>1983</td>
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<td></td>
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<tr>
<td>1986</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FIGURE 2
CANADA'S TRADE BALANCE

Billions

Exchange Rate Index


-15 -10 -5 0 5 10 15 20 25

140 130 120 110 100 90 80 70

-15 -10 -5 0 5 10 15 20 25

Trade Bal. - US
Trade Bal. - ROW (1)
INDEX CAN $/US $
INDEX CAN $/G-10 (2)

1. Rest of World
2. Excluding U.S.
resource-based industries enjoyed modest increases in their net exports, substantial increases were recorded for export commodities such as chemicals, machinery and rubber, which were net importers during the 1960s. (See Table 1 and Figure 3)

5. Wheat and other agricultural products exports expressed as a share of total exports declined from over 12% in the early part of the decade to just under 9% in 1989. Wheat exports alone declined as a share of total exports by over 60% reflecting substantial price declines through the latter part of the decade and reduced production due to drought conditions in 1988. Natural gas exports declined by a similar percentage over the same period as regulated high prices reduced the attractiveness of Canadian natural gas exports in the U.S. market. Deregulation of natural gas prices in 1985 resulted in large declines in export prices. Although the volume of natural gas exports increased substantially over the latter part of the decade, natural gas exports as a share of total exports has remained largely unchanged from the 1986 export share of approximately 2%. Conservation efforts in the U.S. also contributed by reducing overall energy demand.

6. Motor vehicles and parts exports grew steadily over the decade recovering from depressed export performances in the latter part of the seventies resulting from impact of the second energy price shock. The share of automotive products as a percentage of total exports has stabilized around 25% over the past three years, a 76% increase from the 14% share recorded in 1980. The other manufactured goods export share has also risen significantly during the 1980s from a 17% share in 1980 to a 20.9% share in 1989. (See Figure 3)

7. During the 1980s, the share of Canadian exports going to the U.S. rose steadily from approximately 64% in 1980 to a peak of almost 79% in 1985. Over the decade, with European economies stagnant and LDC's attempting to conserve foreign exchange, the U.S. economy was the only significant growing market open to international traders. Canadian exports gained a share of the growth in U.S. demand and increased its share of the U.S. import market over the period from under 17% in 1980 to 18.5% in 1988. (See Figure 4)

8. Since 1985, the U.S. share of Canadian exports has declined steadily from almost 79% to 74% in 1988 with a slight gain to 75% in 1989. While the U.S. share of Canadian exports have been falling since 1985, the share of exports destined to the EEC and Japan have steadily increased, accounting for 5.9% and 4.7% respectively, of Canadian exports in 1985 and 8.3% and 6.1% in 1989. (See Table 2)

9. In 1989, other OECD countries accounted for 2.5% while non-OECD countries accounted for 8.5% of Canadian exports.
FIGURE 3
EXPORTS
Percentage of Total

1980
- OTHER END PROD. 17.0
- MOTOR VEHICLES 14.2
- FAB. MATERIALS 40.4
- ENERGY PRODUCTS 14.3
- OTHER AGR. PROD. 7.3
- WHEAT 5.1

1989
- OTHER END PROD. 20.9
- MOTOR VEHICLES 26.0
- FAB. MATERIALS 34.1
- ENERGY PRODUCTS 8.4
- OTHER AGR. PROD. 8.6
- WHEAT 1.9

SOURCE: Bank of Canada
FIGURE 4

DESTINATION of EXPORTS
Percentage of Total

1980

SOURCE: Bank of Canada
10. In 1989, merchandise trade exports, on a balance of payments basis, totalled $138.9B, up $1.6B or 1.2% from 1988 levels. Increased exports of machinery and equipment, energy products and industrial goods and materials offset declines in the exports of agricultural products, automotive products and other consumer goods. (See Table 3)

11. After increasing by over 40% in 1988, wheat exports in 1989 declined by 44% in 1989 as a result of low stocks brought about by the drought in the Prairie provinces in 1988. Wheat exports were up substantially, approximately $100M, over the last two months of 1989 reflecting the return to a more abundant harvest conditions in the Western Provinces.

12. Automotive products exports declined by 2% in 1989 after posting a strong increase of almost 10% in 1988. Weaknesses in the U.S. automobile market appeared in September and continued through to the end of the year resulting in passenger automobile exports falling by $637M in 1989. Additionally, weak demand for automobiles lead to inventory problems in November and subsequent layoffs by U.S. automakers in December which contributed to the decline in motor vehicle parts exports of $57.8M in 1989.

13. Following on a strong export performance in 1988, exports of machinery and equipment grew by $1.9B or 9% in 1989 to total $23.2B. Record exports of $3.5B in aircraft, engines and parts contributed to the overall gains in machinery and equipment exports.

14. In 1988, exports of industrial goods and materials grew by over 17% due to strong demand and high prices in the U.S. market. In 1989, the export market for industrial goods and materials weakened in the U.S. and there was a shift in the buyers of such commodities as steel from the U.S. to other countries, NIC's in particular. Overall, increased exports of precious metals and alloys and metal ores offset declines in chemical products and other industrial goods and materials exports resulting in a slight overall increase of 1.1% in 1989.

15. Exports of energy products increased slightly in 1989 by 1.8%, as a significant increase in crude petroleum exports of almost 11% offset declines in exports of electricity. Forestry products exports increased only marginally as increased exports of woodpulp offset declines in newsprint exports while lumber exports remained unchanged from 1988 levels. Exports of newsprint declined for the first time in five years partially attributable to an increasing number of U.S. states enacting legislation requiring the increased use of recycled paper. Presently, Canada has only one paper mill capable of recycling newsprint as compared to seven mills in the
16. Up to 1988, the volume of Canadian merchandise trade exports increased steadily with the exception of 1982 when export volumes remained largely unchanged from 1981 levels reflecting world-wide recessionary economic conditions. Over the 1982-1988 period, export volumes grew at an annual average rate of 8.8%, while in 1989, export volumes decreased marginally by 0.7%. Export volumes were boosted by the steady depreciation of the Canadian dollar against the U.S. dollar from the late 1970s to 1986.

17. After strong growth in 1982 and 1983, export volumes of wheat declined up to 1989, with the exception of 1987, as increased competition and falling prices due to government subsidies depressed export sales over the period. In 1987, more abundant harvests in 1986 and 1987 contributed to a substantial increase in exports. In 1989, wheat export volumes fell 47.5% due to a severe drought experienced in the Prairie provinces in 1988 which depressed wheat production and subsequent stocks in 1989.

18. Prior to the collapse of the international crude oil price, export volumes of crude petroleum averaged 28.8% annual growth from 1981 to 1986. Between 1987 and 1988, oil export volumes increased at a more moderate pace which was followed by a decline of 8.6% in 1989. The growth in natural gas volumes was significantly lower due to the regulated high prices on natural gas exports up until the mid-1980s. After prices were deregulated, the natural gas export price began falling resulting in natural gas export volumes increasing by over 29% in both 1987 and 1988.

19. From 1983 to 1984, the substantial growth in the export volumes of most fabricated materials reflected the start of the world-wide economic recovery and expansion from the 1981-1982 recession. Overall growth for fabricated materials, however, has remained modest over the last half of the decade.

20. Led by exports of automotive products to the U.S., manufactured export volumes recorded modest growth through through the early part of the eighties. Improved competitiveness, in particular with the U.S., helped strengthen Canadian manufactured product export volumes in the first half of the eighties along with the strong recovery of the U.S. economy and the North American quotas on Japanese automobiles. As the growth in automotive products exports slowed, the growth in other manufactured products export volumes increased such that export volumes of manufactured products other than automotive products have grown faster than automotive products export volumes since 1985. A slowdown in the growth of automotive sales in the U.S. and Canada by the mid-eighties along with the increasing attractiveness of Canadian exports due to a depreciating Canadian dollar through 1986 were two
factors contributing to the divergence in trade performances of these two commodity groupings.

21. Throughout the latter part of the decade, the continuance of the economic expansion which began in 1983 and characterized by buoyant domestic demand in the industrialized economies contributed to the growth of world export volumes of manufactured products in excess of the growth of total export volumes. Over this period, Canadian export volumes of manufactured products continued to expand as Canadian companies absorbed the impact of an appreciating Canadian dollar through reduced profit margins. In addition to an appreciating Canadian dollar, rising manufacturing unit labour costs have further deteriorated Canadian international cost competitiveness.

22. In 1989, overall export volumes fell by 0.7%, as a 47.5% fall in wheat export volumes, a result of the 1988 drought, contributed to the decline. Declines were also recorded in the volume exports of crude petroleum (-8.6%), other energy products (-10.5%), lumber (-0.7%), woodpulp (-4.5%), chemicals (-8.7%) and automotive products destined for the U.S. (-0.6%).

Imports

23. Over the course of the 1980s, the composition of Canadian imports has also shifted away from agricultural and energy products towards manufactured goods. Imports of agricultural products and energy products have grown at a slower pace than manufactured goods such that the import shares of these two commodity groupings have fallen from 8.4% and 12.4% respectively in 1980 to 6.4% and 4.7% in 1989. (See Figure 5)

24. The fabricated materials share of total imports declined from around 22% in 1980 to under 19% by the middle part of the decade and has over the last three years increased its share to 20.3% in 1989. (See Table 3)

25. Strong demand for automobiles in Canada and the U.S. throughout the economic recovery period in the mid-eighties resulted in import growth rates exceeding 20% from 1983 to 1985 and an increase in the import share of automotive products peaking at over 30% in 1985. Since 1985, the growth of automotive products imports has stagnated resulting in a decline in the automotive products share to the most recent level of 23.9% in 1989. Weak demand for consumer durables, in particular automobiles, in both U.S. and Canada has been the major contributor to the observed decline in the import share of automotive products commodity group.

26. Imports of other end products which include machinery and
FIGURE 5
IMPORTS
Percentage of Total

1980

1989

SOURCE: Bank of Canada
equipment and other consumer goods have recorded above-average growth throughout the decade such that the import share of other end products has increased significantly from 38.5% in 1980 to 43.4% in 1989.

27. Imports increased by $6.8B or 5.3% to total $134.3B in 1989. Imports have increased for seven consecutive years since 1982 at an average annual growth of 10.5%. All commodity groupings of imports excluding automotive products posted gains in 1989. Machinery and equipment imports increased by $2.8B to $43.2B in 1989, representing 32% of all imports. Imports of industrial goods and materials also increased by 7.6% to reach $26.3B or 20% of total imports. Energy products, agricultural products and other consumer goods imports rose by 20%, 8.1% and 10.5% respectively, while imports of forestry products increased 4.9%. Imports of automotive products declined by 3.6% in 1989.

28. As in the case of exports, Canada's main source of imports is the U.S. which accounted for almost 70% of total imports in 1989, slightly higher than the 69% share recorded in 1988. The EEC share of imports decreased from 12% in 1988 to 10.8% in 1989, while Japan's share remained unchanged at 6.2% in 1989. Other OECD countries' share increased in 1989 by 0.2 percentage points to 3.0% and imports from non-OECD countries accounted for 10.5% in 1989 as compared to 9.9% in 1988. (See Table 4)

29. During the eighties, the U.S. share of total imports exhibited less variability than the U.S. export share. In 1980, U.S. imports accounted for 69.7% of total imports and rose to a peak of 72% in 1983 and 1984. Over the last four years, however, U.S. imports have accounted for between 68.8 and 69.5% of total imports. Imports originating in the EEC have increased as a share of total imports during the 1980s increasing from approximately 8% in 1980 to 12% in 1988 and almost 11% in 1989. Japanese imports have also increased as a percentage of total imports capturing only 4% of the Canadian import market in 1980 then rising to its current level of 6% by 1983. As a result, the share of other OECD and non-OECD countries has fallen in the eighties. (See Figure 6)

30. Machinery and equipment imports increased by almost 7% in 1989 following a 20.8% increase in 1988 reflecting the strong investment boom in Canada over the last three years. This would suggest that Canadian producers have been expanding their productive capacity and modernizing their production processes. Fabricated materials imports also rose significantly in 1989 by 7.8% to total $27.3B in 1989. This follows a 18.8% increase in 1988.

31. After declining by over 10% in 1988, energy product imports rebounded sharply to record a 20% jump in 1989. Crude petroleum imports rose by over $700M in 1989 while imports of electricity
Figure 6
SOURCE of IMPORTS
Percentage of Total

1980
US 69.7
EEC 8.4
JAPAN 4.1
OTHER OECD 3.1
REST WORLD 14.7

1989
US 69.5
EEC 10.8
JAPAN 6.2
OTHER OECD 3.0
REST WORLD 10.5

SOURCE: Bank of Canada
from the U.S. quadrupled rising from $52.2M in 1988 to $222.4M in 1989. The unusually cold temperatures in the latter part of 1989 contributed to the increase in crude petroleum and electricity imports.

32. In 1989, automotive products imports was the only sector to post a decline, falling 3.6% to $32B. In 1988, imports of automotive product rose marginally by under 1%. Imports of automotive products in 1989 was characterized by a decline of $1.2B in motor vehicle parts from the U.S. while imports from Japan and non-OECD countries rose substantially. Imports of Japanese cars also increased by $242M, however, total passenger car imports declined by $387M to total $11.8B. This reflects the overall decline in automobile sales in Canada of 6% in 1989, the first decline in six years.

33. Since 1982, total import volumes have grown at an annual average of 11.3% compared to a 7.4% average annual growth in export volumes. A number of factors have contributed to the strong growth in import volumes. In Canada, the economic recovery and the continuing economic expansion through the middle and latter part of the decade was characterized by sustained growth in final domestic demand, high capacity utilization which led an investment boom and, since 1986, an appreciating Canadian dollar. These factors have contributed to average annual increases of 9.5% for import volumes of industrial materials, 16.5% for machinery and equipment, 9.6% for motor vehicles, and 7.3% for manufactured consumer goods.

34. In 1989, increases in energy products and machinery and equipment import volumes of 14.8% and 12.8% respectively were major contributors to an overall increase of 7.5% in 1989. Import volumes of automotive products from the U.S. fell by 6.3% in 1989, the only commodity classification to record a decline.
TABLE 1

MERCHANDISE TRADE EXPORTS

(Balance of Payments Basis, Seasonally Adjusted at Annual Rates)

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<tr>
<th>YEAR</th>
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<th>Natural Gas</th>
<th>Other Energy Products</th>
<th>Fabricated Materials &amp; Parts</th>
<th>Motor Vehicles &amp; Parts</th>
<th>Other End Products</th>
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<th>Total Exports</th>
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SOURCE: Statistics Canada, Bank of Canada
### TABLE 2

---

**CANADIAN MERCHANDISE TRADE**

*Exports by Area (Balance of Payments Basis)*

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<tr>
<th>YEAR</th>
<th>US</th>
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<th>JAPAN</th>
<th>OTHERS</th>
<th>OECD</th>
<th>ALL OTHER COUNTRIES</th>
<th>TOTAL</th>
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*Millions of Dollars*

**SOURCE:** Statistics Canada, Bank of Canada
# TABLE 3

**MERCHANDISE TRADE IMPORTS**

(Balance of Payments Basis, Seasonally Adjusted at Annual Rates)

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<th>YEAR</th>
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| 88 Q1 | 7762 | 3265           | 2007            | 24270               | 35018                    | 53003             | 1400     | 126725       |
| 88 Q2 | 7917 | 3474           | 2042            | 25349               | 32626                    | 53498             | 1744     | 126660       |
| 88 Q3 | 8079 | 2752           | 2373            | 25347               | 31811                    | 53782             | 1807     | 125951       |
| 88 Q4 | 8259 | 2418           | 2378            | 26306               | 33498                    | 55928             | 1830     | 130617       |
| 89 Q1 | 8428 | 3198           | 2408            | 27518               | 32864                    | 56896             | 1558     | 132870       |
| 89 Q2 | 8702 | 4138           | 2722            | 27249               | 32072                    | 59016             | 2126     | 136025       |
| 89 Q3 | 8618 | 3638           | 2592            | 27244               | 31024                    | 57993             | 1921     | 133030       |
| 89 Q4 | 8507 | 3827           | 2332            | 27200               | 32168                    | 59120             | 1941     | 135095       |

**SOURCE:** Statistics Canada, Bank of Canada
### TABLE 4

---

**CANADIAN MERCHANDISE TRADE**

Imports by Area (Balance of Payments Basis)

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<thead>
<tr>
<th>YEAR</th>
<th>US</th>
<th>EEC</th>
<th>JAPAN</th>
<th>OECD</th>
<th>ALL OTHER COUNTRIES</th>
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<td>65,893</td>
<td>8,526</td>
<td>5,477</td>
<td>1,900</td>
<td>9,697</td>
<td>91,493</td>
</tr>
<tr>
<td>1985</td>
<td>73,406</td>
<td>10,572</td>
<td>6,063</td>
<td>2,530</td>
<td>10,097</td>
<td>102,669</td>
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<tr>
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<td>76,407</td>
<td>12,603</td>
<td>7,576</td>
<td>2,767</td>
<td>10,727</td>
<td>110,079</td>
</tr>
<tr>
<td>1987</td>
<td>78,986</td>
<td>13,595</td>
<td>7,498</td>
<td>3,084</td>
<td>11,604</td>
<td>114,767</td>
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<tr>
<td>1988</td>
<td>88,037</td>
<td>15,285</td>
<td>7,940</td>
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<td>12,620</td>
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<tr>
<td>1989</td>
<td>93,322</td>
<td>14,485</td>
<td>8,262</td>
<td>4,030</td>
<td>14,156</td>
<td>134,255</td>
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</table>

---

**SOURCE:** Statistics Canada, Bank of Canada
## TABLE 5

### SUMMARY of BALANCE PAYMENTS

<table>
<thead>
<tr>
<th>Year</th>
<th>MERCHANDISE TRADE</th>
<th>SERVICES</th>
<th>INVESTMENT INCOME</th>
<th>NET TRANSFERS</th>
<th>NON MERCHANDISE BALANCE</th>
<th>BALANCE CURRENT ACCOUNT</th>
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<tr>
<td></td>
<td>EXPORTS</td>
<td>IMPORTS</td>
<td>RECEIPTS</td>
<td>PAYMENTS</td>
<td>RECEIPTS</td>
<td>PAYMENTS</td>
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<tr>
<td></td>
<td>(Millions of Dollars / Seasonally Adjusted at Annual Rates)</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>1979</td>
<td>65,581</td>
<td>61,158</td>
<td>4,423</td>
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<tr>
<td>1980</td>
<td>76,682</td>
<td>67,904</td>
<td>8,778</td>
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<tr>
<td>1981</td>
<td>84,432</td>
<td>77,140</td>
<td>12,793</td>
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<td>1982</td>
<td>84,394</td>
<td>77,140</td>
<td>12,793</td>
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<tr>
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<td>73,098</td>
<td>17,458</td>
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<td>91,492</td>
<td>19,837</td>
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<td>1985</td>
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<td>102,670</td>
<td>16,391</td>
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<tr>
<td>1986</td>
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<tr>
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<td>9,809</td>
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<td>138,934</td>
<td>134,255</td>
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<td>12,088</td>
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<td>1989 Q3</td>
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<td>125,948</td>
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<td>1989 Q4</td>
<td>138,232</td>
<td>130,620</td>
<td>7,616</td>
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<tr>
<td>1989 Q1</td>
<td>142,212</td>
<td>132,872</td>
<td>9,340</td>
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<tr>
<td>1989 Q2</td>
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<td>1989 Q3</td>
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<td>133,032</td>
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<td>135,096</td>
<td>920</td>
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</tbody>
</table>

SOURCE: Statistics Canada, Bank of Canada
The following are the principal laws of Canada which may affect trade:


Agricultural Products Board Act, R.S.C. 1985, c.A-4

Agricultural Products Marketing Act, R.S.C. 1985, c.A-6

Animal Disease and Protection Act, R.S.C. 1985, c.A-11

Atomic Energy Control Act, R.S.C. 1985, c.A-16

Bank Act, R.S.C. 1985, c.B-1

Broadcasting Act, R.S.C. 1985, c.B-9

Canada Agricultural Products Act, R.S.C. 1985, c.A-7

Canada Business Corporations Act, R.S.C. 1985, c.C-44


Canadian Commercial Corporation Act, R.S.C. 1985, c.C-14

Canadian Dairy Commission Act, R.S.C. 1985, c.C-15

Canadian Wheat Board Act, R.S.C. 1985, c.C-24

Cape Breton Development Corporation Act, R.S.C. 1985, c.C-25

Combines Investigation Act, R.S.C. 1985, c.C-34

Constitution Act, 1867

Cultural Property Export and Import Act, R.S.C. 1985, c.C-51

Customs and Excise Offshore Application Act, R.S.C. 1985, c.C-53

Customs Tariff, R.S. c.41 (3rd Supp.)

Customs Act, R.S. c. N-15

Department of External Affairs Act, R.S.C. 1985, c.E-22

Energy Administration Act, R.S.C. 1985, c.E-6
Explosives Act, R.S.C. 1985, c.E-17
Export Act, R.S.C. 1985, c.E-18
Export Development Act, R.S.C. 1985, c.E-20
Export and Import Permits Act, R.S.C. 1985, c.E-19
Feeds Act, R.S.C. 1985, c.F-9
Fertilizers Act, R.S.C. 1985, c.F-10
Financial Administration Act, R.S.C. 1985, c.F-11
Fisheries Act, R.S.C. 1985, c.F-14
Fish Inspection Act, R.S.C. 1985, c.F-12
Freshwater Fish Marketing Corporation Act, R.S.C. 1985, c.F-13
Food and Drugs Act, R.S.C. 1985, c.F-25
Game Export Act, R.S.C. 1985, c.G-1
Hazardous Products Act, R.S.C. 1985, c.H-3
Importation of Intoxicating Liquors Act, R.S.C. 1985, c.I-3
Investment Canada Act, S.C. 1985, c.20
Investment Companies Act, R.S.C. 1985, c.I-22
Livestock and Livestock Products Act, R.S.C. 1985, c.L-9
Meat Import Act, R.S.C. 1985, M-3
National Energy Board Act, R.S.C. 1985, c.N-7
National Transportation Act, R.S.C. 1985, c.N-17
Pest Control Products Act, R.S.C. 1985, c.P-9
Radiation Emitting Devices Act, R.S.C. 1985, c.R-1
Seeds Act, R.S.C. 1985, c.S-8
Special Import Measures Act, R.S.C. 1985, c.S-15
Tariff Board Act, R.S.C. 1985, c.T-1
Textile and Clothing Board Act, R.S.C. 1985, c.T-9
Textile Labelling Act, R.S.C. 1985, c.T-10
PROCEDURES IN ANTI-DUMPING/COUNTERVAIL INVESTIGATIONS

1. Anti-dumping and countervailing investigations are generally initiated as a result of a complaint from Canadian industry. Complaints are filed with Revenue Canada, Customs and Excise. Before initiating an investigation, the Department must decide, within 21 days of receipt of the complaint, whether the complaint contains the following elements:

   (a) an allegation that the imported goods have been or are being dumped or subsidized,

   (b) a specification of the goods (i.e., a detailed description of the subject goods),

   (c) an allegation that such dumping or subsidization has caused, is causing or is likely to cause material injury or has caused or is causing retardation.

   The complainant is also required to state in reasonable detail the facts on which the allegations of subsidization/ dumping and injury are based, and to provide such information as is available to him to prove the facts on which the allegations are based.

2. If there is not adequate information, the complainant will be advised of the omissions and asked to re-submit the complaint with the complete information. If no further information is submitted, the case is closed. If the required information is submitted, the complainant is advised that the complaint is considered properly documented. The Department then has another 30 days to evaluate whether the complaint warrants the initiation of an investigation. The Department, at the conclusion of the 30 day period, may thus either reject the compliant or initiate an investigation.

3. If a decision is made to initiate an investigation, the SIMA provides 90 days for a preliminary investigation to be conducted. During this period, departmental officers contact all identifiable exporters and importers to solicit the information necessary to establish preliminary normal values and export prices. Ongoing liaison with the complainant is maintained during this period to establish that the prima facie case of material injury originally alleged in the complaint is continuing. At the conclusion of this period, Revenue Canada may decide to terminate the action because of insufficient evidence of dumping or subsidy or injury, or may decide to issue a preliminary determination of dumping or subsidization.

4. SIMA also contains a provision to extend the 90-day time limit for this phase of the investigation to 135 days. Extensions are permitted under very limited circumstances.
5. Following a preliminary determination of dumping and/or subsidization, all importations of the subject goods are subject to a provisional duty equal to the margin of dumping or amount of subsidy declared in the preliminary determination. This duty is payable until the provisional period is ended by either a termination of the proceedings by Revenue Canada, following the investigation conducted for the final determination, or by a finding of material injury by the Canadian International Trade Tribunal (see below).

6. The SIMA provides that, prior to the making of the preliminary determination, exporters or governments of the country of export, may submit undertakings to Revenue Canada to either revise their selling prices in the case of anti-dumping or to eliminate the subsidy or limit the quantity of subsidized goods being shipped to Canada in the case of a countervailing investigation. Undertakings must eliminate the dumping or subsidizing or must eliminate the injury to Canadian production. If an undertaking is accepted, the proceedings will be suspended. Undertakings are normally valid for three years and can be renewed.

7. The SIMA allows no more than 90 days from the date of the preliminary determination for Revenue Canada to make a final determination with respect to dumping or subsidization. If the investigation reveals that there is insufficient evidence of dumping or subsidization, the proceedings are terminated."

8. If a preliminary determination is made, the question of injury is referred to the CITT. It is required to make its finding with respect to whether the dumping or subsidization of imported goods has caused, is causing or is likely to cause material injury to Canadian production of like goods after Revenue Canada makes a final determination of dumping or subsidization, but not longer than 120 days after the preliminary determination.

9. If a no injury finding is issued by the CITT, Revenue Canada is required to terminate all proceedings and refund any provisional duty paid. If a finding of injury is made, however, the Department is required to make, within 6 months of the finding, a final assessment for each of the importations made during the provisional period. If the injury finding is applicable to future importations, then all subsequent importations will be subject to an anti-dumping or countervailing duty, based on the margins of dumping or amounts of subsidy established in the final determination or in subsequent reviews.

10. Assessments of anti-dumping/countervailing duties are made at the time of importation of the subject goods (i.e. a customs officer determines whether the goods are subject to a finding of
(c) Safeguard inquiries concerning the GPT or CARIBCAN;

d) Tariff related inquiries requested by the Minister of Finance;

e) Inquiries into any matter relating to trade which affects Canada's economic and commercial interests.

15. The CITT also has a judicial function as an administrative court to hear customs-related appeals and of the assessment of anti-dumping or counterveiling duties.
### ANNEX VI

**CANADA - ANTI-DUMPING DUTY INVESTIGATIONS INITIATED DURING THE PERIOD JULY 1, 1980 TO JANUARY 1, 1990**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>NUMBER OF INITIATIONS</th>
<th>COUNTRY</th>
<th>NUMBER OF INITIATIONS</th>
</tr>
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<tbody>
<tr>
<td>U.S.</td>
<td>51</td>
<td>Malaysia</td>
<td>3</td>
</tr>
<tr>
<td>W. Germany</td>
<td>21</td>
<td>Singapore</td>
<td>4</td>
</tr>
<tr>
<td>Japan</td>
<td>21</td>
<td>Poland</td>
<td>6</td>
</tr>
<tr>
<td>S. Korea</td>
<td>21</td>
<td>Romania</td>
<td>4</td>
</tr>
<tr>
<td>Italy</td>
<td>17</td>
<td>Finland</td>
<td>3</td>
</tr>
<tr>
<td>France</td>
<td>16</td>
<td>Mexico</td>
<td>4</td>
</tr>
<tr>
<td>U.K.</td>
<td>14</td>
<td>Yugoslavia</td>
<td>3</td>
</tr>
<tr>
<td>Spain</td>
<td>11</td>
<td>Argentina</td>
<td>2</td>
</tr>
<tr>
<td>Belgium</td>
<td>9</td>
<td>Austria</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>12</td>
<td>Portugal</td>
<td>2</td>
</tr>
<tr>
<td>China, P.R.</td>
<td>9</td>
<td>South Africa</td>
<td>2</td>
</tr>
<tr>
<td>Sweden</td>
<td>6</td>
<td>Soviet Union</td>
<td>2</td>
</tr>
<tr>
<td>Taiwan</td>
<td>9</td>
<td>Chile</td>
<td>1</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3</td>
<td>India</td>
<td>1</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>4</td>
<td>Ireland</td>
<td>1</td>
</tr>
<tr>
<td>E. Germany</td>
<td>4</td>
<td>Norway</td>
<td>1</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>4</td>
<td>Switzerland</td>
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</tr>
<tr>
<td>Netherlands</td>
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<td>Turkey</td>
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**Total:** 279
<table>
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<tr>
<th>PERIOD</th>
<th>NUMBER INITIATED</th>
<th>NUMBER OF DEFINITIVE DUTIES</th>
<th>NUMBER OF PRICE UNDER-TAKINGS</th>
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<tbody>
<tr>
<td>7.80 - 6.81</td>
<td>27</td>
<td>11</td>
<td>-</td>
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<tr>
<td>7.81 - 6.82</td>
<td>60</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td>7.82 - 6.83</td>
<td>35</td>
<td>29</td>
<td>-</td>
</tr>
<tr>
<td>7.83 - 6.84</td>
<td>24</td>
<td>30</td>
<td>-</td>
</tr>
<tr>
<td>7.84 - 6.85</td>
<td>34</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>7.85 - 6.86</td>
<td>27</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>7.86 - 6.87</td>
<td>25</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>7.87 - 6.88</td>
<td>22</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>7.88 - 6.89</td>
<td>13</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>7.89 - 1.90</td>
<td>11</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>(six months)</td>
<td></td>
<td>279</td>
<td>147</td>
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## CANADA - DEFINITIVE ANTI-DUMPING DUTIES APPLIED DURING THE PERIOD JULY 1, 1980 - JANUARY 1, 1990

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>NUMBER OF DEFINITIVE DUTIES</th>
<th>COUNTRY</th>
<th>NUMBER OF DEFINITIVE DUTIES</th>
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<tbody>
<tr>
<td>Argentina</td>
<td>2</td>
<td>Norway</td>
<td>1</td>
</tr>
<tr>
<td>Belgium</td>
<td>6</td>
<td>Netherlands</td>
<td>3</td>
</tr>
<tr>
<td>Brazil</td>
<td>7</td>
<td>Yugoslavia</td>
<td>1</td>
</tr>
<tr>
<td>Austria</td>
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<td>5</td>
</tr>
<tr>
<td>Taiwan</td>
<td>3</td>
<td>Romania</td>
<td>1</td>
</tr>
<tr>
<td>Spain</td>
<td>4</td>
<td>Poland</td>
<td>3</td>
</tr>
<tr>
<td>Singapore</td>
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<td>1</td>
</tr>
<tr>
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<td>Mexico</td>
<td>1</td>
</tr>
<tr>
<td>Sweden</td>
<td>4</td>
<td>Malaysia</td>
<td>2</td>
</tr>
<tr>
<td>South Africa</td>
<td>1</td>
<td>Luxembourg</td>
<td>1</td>
</tr>
<tr>
<td>Italy</td>
<td>7</td>
<td>France</td>
<td>8</td>
</tr>
<tr>
<td>India</td>
<td>1</td>
<td>Hong Kong</td>
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</tr>
<tr>
<td>E. Germany</td>
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<td>Czechoslovak ia</td>
<td>4</td>
</tr>
<tr>
<td>S. Korea</td>
<td>13</td>
<td>Japan</td>
<td>12</td>
</tr>
<tr>
<td>W. Germany</td>
<td>13</td>
<td>U.K.</td>
<td>9</td>
</tr>
<tr>
<td>U.S.</td>
<td>25</td>
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COUNTERVAIL INVESTIGATIONS INITIATED SINCE THE INTRODUCTION
OF THE SPECIAL IMPORT MEASURES ACT, DECEMBER 1, 1984

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<thead>
<tr>
<th>Product Description</th>
<th>Countries</th>
<th>Disposition</th>
<th>Date Initiated</th>
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<tbody>
<tr>
<td>Polyphase Induction Motors</td>
<td>Brazil</td>
<td>D.D.</td>
<td>07.02.85</td>
</tr>
<tr>
<td>Beef, Boneless Manuf.</td>
<td>EC</td>
<td>D.D.</td>
<td>18.10.85</td>
</tr>
<tr>
<td>Pasta, Dry</td>
<td>EC</td>
<td>N.I.</td>
<td>02.07.86</td>
</tr>
<tr>
<td>Grain Corn</td>
<td>U.S.</td>
<td>D.D.</td>
<td>02.07.86</td>
</tr>
<tr>
<td>Steel, Carbon Seamless Pipe</td>
<td>Brazil</td>
<td>N.I.</td>
<td>13.09.86</td>
</tr>
<tr>
<td>Drywall Screws</td>
<td>France</td>
<td>D.D.</td>
<td>04.06.87</td>
</tr>
<tr>
<td>Motors Electric, over 200HP</td>
<td>Brazil</td>
<td>N.I.</td>
<td>30.09.88</td>
</tr>
<tr>
<td>Leather/Non-leather Boots and Shoes</td>
<td>Brazil</td>
<td>***</td>
<td>25.08.89</td>
</tr>
<tr>
<td>Refill Paper</td>
<td>Brazil</td>
<td>***</td>
<td>08.12.89</td>
</tr>
</tbody>
</table>

N.I.  No Injury  
D.D.  Definitive Duty  
***  Currently under investigation
## Comprehensive List of All Cases Initiated

Since the Introduction of SIMA, on December 1, 1984

<table>
<thead>
<tr>
<th>Product Description</th>
<th>HS Classification</th>
<th>AD or CV</th>
<th>Countries</th>
<th>Date Initiated</th>
<th>Disposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charcoal Briquets</td>
<td>2702.20.00 2704.00.00 4402.00.10 4402.00.90</td>
<td>AD</td>
<td>U.S.</td>
<td>18.01.85</td>
<td>D.D.</td>
</tr>
<tr>
<td>Rail Car and Locomotive Axles</td>
<td>8607.19.10</td>
<td>AD</td>
<td>Japan</td>
<td>24.01.85</td>
<td>D.D.</td>
</tr>
<tr>
<td>Polyphase Induction Motors, 1 to 200 horsepower inclusive</td>
<td>8501.51.90.00 8501.52.90.10 8501.53.19.00 8501.52.90.20 8501.52.90.30</td>
<td>AD and CV</td>
<td>Brazil, Japan</td>
<td>07.02.85</td>
<td>D.D.</td>
</tr>
<tr>
<td>Modular Automated Plants</td>
<td>N/A</td>
<td>AD</td>
<td>U.S.</td>
<td>14.02.85</td>
<td>T</td>
</tr>
<tr>
<td>Frozen Pot Pies</td>
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**Legend**

- D.D.: Definitive Duty
- I: Under Investigation
- N.I.: No Injury - Terminated
- R: Rescinded
- T: Terminated before the Preliminary Determination
- N/A: Not Available
1. The Program for Export Market Development (PEMD) is the cornerstone of the Federal Government's export trade development support.

2. PEMD offers assistance to Canadian business to undertake or participate in a wide variety of export promotion activities. PEMD covers both projects initiated by industry and those planned by government, and is designed to share the risk of international market development.

Program Objective

3. The main objective of PEMD is increased export sales of Canadian goods and services. The program accomplishes this by sharing the costs of activities that companies normally could not, or would not, undertake alone, to reduce the risks involved in penetrating a foreign market. PEMD encourages Canadian companies not previously involved in exporting to become exporters. PEMD also encourages Canadian exporters to enter new geographic markets and to introduce new products to existing markets.

Kinds of Assistance Available

4. The Program offers Canadian businesses recoverable financial assistance to undertake or participate in various types of trade promotion activities. These activities are categorized as either industry-initiated or government-planned.

5. Industry-initiated activities include:
   - participation in recognized trade fairs outside Canada;
   - visits outside Canada to identify markets;
   - visits of foreign buyers or foreign sales agents to Canada, or to another approved location;

6. Government-planned activities include:
   - trade missions to markets outside Canada, and for foreign business persons and government officials coming to Canada or to trade shows where Canadian business participation is substantial;
   - trade fairs abroad.

7. The financial assistance for export marketing activities initiated by industry is not a grant but a provisionally repayable
contribution. Application must be made prior to incurring any costs for the activity as assistance cannot be applied retroactively.

Program Activity in 1988-1989

Industry-Initiated:

8. A steady decline since 1985-86 in usage of the Program's Industry-Initiated component (in response to stricter eligibility criteria and reduced budgets) finally halted in 1988-1989. This year, application submissions rose by 5% to 4,193 and approvals by 12% to 3,068. The dollar value of those approvals rose 3.6% to $23M. Actual expenditures toward current and previous year projects, on the other hand, decreased by 8.5% to $17.2M.

9. Trade Fairs accounted for 47% of approved projects, 38% of approved contribution value, and 62% of reported sales.

10. In terms of client profile, 59% of approvals went to companies with total sales of less than $2M. Manufacturing continued to be the major industry user of this support, receiving 63% of all project approvals. First-time users of the Program accounted for nearly 31% of all projects approved during the fiscal year.

Government-Planned:

11. This PEMD component attracted 2,158 participants in 1988-1989, including 569 non-Canadian buyer representatives. The 266 fairs and outgoing/incoming missions cost just over $13M, as compared to $12.2M the previous year.

12. Agriculture/Food Products was the leading industrial sector in 1988-1989 in terms of PEMD Government-Planned activities, followed by Communication/Informatics and Consumer Products.
SELECTIVE TAX MEASURES

1. Selective tax measures refer to specific corporate income tax measures that confer benefits only on specific industries, regions, or types of economic activity. The measures listed here are those which remain in place subsequent to tax reform initiatives implemented by Canada in 1986 and 1988.

Corporate Income Taxes

2. Pre-Tax Reform, the general business tax rate at the federal level was 36%. (Provinces also tax corporate income with rates ranging from approximately 6 to 17%.) Tax reform reduced this rate to 28%. Lower rates apply to Canadian manufacturing and processing income and the income of small businesses.

Manufacturing and Processing Deduction

3. Pre-reform, the tax system provided for a 6 percentage point reduction in tax rate (to 30%) on corporate manufacturing and processing income. The reduction was limited to 5% for income eligible for the Small Business Deduction, giving a federal rate of 10 percent. Effective July 1, 1991, the manufacturing and processing deduction will be 5 percent and the tax rate on Canadian manufacturing and processing income will be 23%. Tax reform eliminated the manufacturing and processing deduction for income receiving the small business deduction.

Drilling Funds, Flow-Through Shares and Other Resource-Related Deductions

4. Drilling funds and flow-through shares allow individuals to deduct Canadian exploration expenses, Canadian development expenses and Canadian oil and gas properties expenses. It is assumed that, at the margin, all the tax benefits created by this deduction are passed along to resource companies in the form of lower financing costs. Tax reform excluded shares "that offer any entitlement to a payment, repayment, loan or dividend or any retraction or conversion right" from flow-through share treatment.

Expensing of Exploration and Development Costs

Canadian Exploration Expenses (CEE)

5. Expenditures incurred in prospecting, exploring or searching for minerals, oil or gas in Canada are deductible up to a maximum of 100% of income at a rate of up to 100%. Mineral resource development expenditures are also eligible.
6. The 100% CEE write-off is much faster than would be allowed under the reference tax system where these expenses would be capitalized and amortized over the life of the discovered reserves. Since the CEE deduction is limited to the mining and oil and gas industries, it is a selective tax measure.

Canadian Development Expenses (CDE)

7. Expenditures incurred to acquire mining properties and to develop oil and gas reserves are deductible up to a maximum of 100% of income at a 30% declining balance rate. Any unused deductions may be carried forward into future taxation years.

8. The 30% CDE write-off is likely to be faster than would be allowed under a reference tax system where development expenditures would be capitalized and amortized as oil and gas reserves or other mineral resources are produced and sold. Whether or not the CDE is in fact accelerated will depend on the size of the reserve being developed and on the rate of production from the reserve. Since the CDE deduction is limited to oil and gas industries, it is a selective tax measure.

Canadian Oil and Gas Properties Expenses (COGPE)

9. This tax provision permits a write-off of up to 10% on the declining balance of the costs incurred to acquire Canadian oil and gas properties. Since the COPGE write-off extends over 10 years, it is unlikely that this deduction confers a significant tax benefit.

Foreign Exploration and Development Expenses (FEDE)

10. A deduction is allowed for foreign mining and oil and gas exploration and development of the greater of 10% declining balance or mining and oil and gas income from production, royalties or mineral property sales. Since the FEDE write-off extends over 10 years, it is unlikely that this deduction confers a significant tax benefit.

Accelerated Tax Depreciation

11. Most capital assets are depreciated for tax purposes (capital consumption allowances) at rates approximating economic depreciation. However, a number of assets do receive accelerated write-offs for incentive purposes.
Fast Write-Off for Manufacturing and Processing Assets

12. Machinery and Equipment used in manufacturing and processing can be depreciated at a 25% declining balance rate.

Fast Write-Off for Canadian-Built Ships

13. Ships constructed and registered in Canada can be written off at a 33 1/3 straight-line rate.

Accelerated Depreciation of Offshore Drilling Vessels

14. Drillships and offshore platforms can be written off on a 25% declining balance basis.

Accelerated Depreciation of Mining Assets

15. Taxpayers may write off certain mining assets on a 25% declining balance basis plus immediate write-off up to the income from the new mine. The assets covered by this provision include buildings, mining machinery and equipment, electrical equipment and related social infrastructure such as homes, schools, roads, and sewers.

Immediate Write-Off for Current R&D Expenditures

16. Capital expenditures on R&D may be written off immediately in the year incurred instead of amortized over a period of years.

Fast Write-Off for Pollution Control Equipment

17. The cost of equipment purchased to control or limit air and water pollution can be depreciated 25% in the first year, 50% in the second year and 25% in the third. Available only for changes to a plant in operation before 1974.

Fast Write-Off for Energy Conservation Machinery and Equipment

18. The cost of certified machinery and equipment used for the generation of electricity or for the production or distribution of heat can be depreciated 25% in the first year, 50% in the second year and 30% in the third.
Regional Investment Tax Credit

19. There are regional and industry specific investment tax credits. Eligible investments region qualify for a 15% ITC in the Atlantic region generally, 45% in Cape Breton and 30% for manufacturing investments in specified areas. High cost exploration qualifies for a 25% ITC. Current and capital R&D expenditures qualify for 20-30% ITC depending on size and location of the company.

Logging Tax Credit

20. The logging tax credit is a deduction against federal income tax equal to the lesser of 2/3 of any logging tax paid to a province or 6 2/3% of income from logging operations in that province. Since taxes paid to provinces are not generally deductible for federal tax purposes, this deduction is treated as a selective tax measure.

Non-taxation of credit union patronage dividends

21. Credit unions and other cooperatives typically offer their products or services at close to market prices and interest rates. After the year end, any excess of revenues over expenses is returned to the members in the form of patronage dividends based on the member's contribution to total revenues.

22. Patronage dividends are deductible for corporate income purposes but are not taxed in the hands of the individuals receiving them. In general, dividends are not deductible for corporate tax purposes.
ANNEX IX

PRODUCTS SUBJECT TO IMPORT LICENSING

1. The following is a listing of products that are subject to import licensing and the reasons for their control:

1) To restrict, for the purpose of supporting any action under the Farm Products Marketing Agencies Act, the importation in any form of a like article to one produced in Canada the quantities of which are fixed or determined under the Act:

- Turkey, live or eviscerated, turkey parts, whether breaded or battered, and turkey products manufactured wholly thereof, whether breaded or battered;

- Eggs and Egg products;

- Chicken and chicken capons, live or eviscerated, chicken parts whether breaded or battered, and chicken products manufactured wholly thereof, whether breaded or battered; and,

- Broiler hatching eggs and chicks for chicken production.

2) To implement any action taken under the Agricultural Stabilization Act, the Fisheries Products Co-operative Marketing Act, or the Canadian Dairy Commission Act, to support the price of the article or that has the effect of supporting the price of the article:

- Animal feeds containing more than 50% non-fat milk solids (Canadian Dairy Commission Act);

- Butter (Canadian Dairy Commission Act);

- Butter fat in any form either alone or in combination with other substances (Canadian Dairy Commission Act);

- Cheese of all types other than imitation cheese (Agricultural Stabilization Act and Canadian Dairy Commission Act);

- Buttermilk in dry, liquid or other form (Canadian Dairy Commission Act);

- Dry casein and caseinates (Canadian Dairy Commission Act);

- Skimmed milk in dry, liquid or other form (Canadian Dairy Commission Act);
- Dry whey (Canadian Dairy Commission Act);
- Evaporated and condensed milk (Canadian Dairy Commission Act);
- Blends in dry, liquid or other form (Canadian Dairy Commission Act and Agricultural Stabilization Act);
- Ice cream, ice milk, ice cream mix, ice milk mix or any product manufactured mainly of ice cream or ice milk (Canadian Dairy Commission Act); and,
- Yoghurt (Canadian Dairy Commission Act).

3) To implement an inter-governmental arrangement or commitment:
- Endangered Species (Convention on International Trade in Endangered Species);
- Goods of South African origin (Commonwealth Heads of Government Review Meeting, August 3-5, 1986);
- Raccoon Dogs (Bilateral Arrangement with the U.S.);
- Elephant Ivory and articles containing elephant ivory (Bilateral Arrangement with the U.S.); and
- Textiles and clothing (Multi-Fibre Arrangement and subsidiary agreements and bilateral restraints);

4) To collect information pursuant to an inquiry by the Canadian International Trade Tribunal:
- carbon steel.

5) To collect information on the import of steel:
- specialty steel.
1. In a highly deregulated trade environment it is not inconsistent to maintain some form of regulatory review mechanism. In Canada, certain regulatory guidelines on exports remain. They are used both for monitoring purposes and to ensure that energy markets operate in an effective manner, having due regard for the public interest. A major public interest lies in ensuring that energy prices are the result of efficient and competitive markets. Accounting for the public interest is the primary raison d'être for existing regulatory and monitoring procedures.

2. The bulk of the existing regulatory review and monitoring process governing energy trade falls under the jurisdiction of two principle bodies; the National Energy Board (NEB) and the Uranium Exports Review Panel. In reviewing the proposed terms of export sales each regulatory body addresses a number of objectives directly related to the Canadian public interest. These include:

- ensuring fair market access to energy resources by Canadians through review of the price terms of export sales;

- maximizing the potential for resource upgrading prior to shipment to export customers, particularly in the case of uranium;

- ensuring that the terms and conditions of uranium export sales are consistent with the Canadian policy on nuclear non-proliferation; and

- ensuring that the import/export balance does not impinge upon Canadian security of supply for energy resources.

3. Under the NEB Act of 1959 and subsequent amendments, the NEB has two principal responsibilities:

- to regulate specific areas of oil, gas, and electrical utility industries in the public interest, and

- to advise the government on the development and use of energy resources.

4. The regulatory role of the NEB encompasses both domestic and trade related fields. In respect of energy exports, the Board has responsibility for the issuance of export licences and orders. Since 1984 the manner in which the NEB meets its principal objectives has changed in response to changes in domestic energy policy objectives.
Crude Oil and Refined Petroleum Products

5. The NEB retains authority under its Act to regulate the export of crude oil and petroleum products. Since the Western Accord the Board's activity in this regard has been one of monitoring and reporting.

6. As a member of the International Energy Agency (IEA) Canada is committed to share its available oil supplies with other member countries in the event of possible disruptions in the world supply of oil. In the event of a declared emergency, the Energy Supplies Allocation Board would implement its emergency oil sharing plans, i.e., the Crude Oil and Petroleum Product Allocation Programs.

Natural Gas

7. Section 118 of the revised National Energy Board (NEB) Act requires that;

"the Board shall satisfy itself that the quantity of oil, gas or power to be exported does not exceed the surplus remaining after due allowance has been made for the reasonably foreseeable requirements for use in Canada".

8. In order to fulfill this legislative mandate, the NEB employs its Market-Based Procedure (MBP). The MBP, introduced in September 1987, replaced previous surplus determination procedures which relied on setting aside a fixed inventory of natural gas supplies to satisfy reasonably foreseeable domestic requirements.

9. In March 1990, the National energy Board decided that, in the context of the current market-oriented policy framework, it will no longer use benefit-cost analysis as a factor in determining whether proposed natural gas exports are in the public interest. The benefit-cost analysis was on of the tools included by the Board in its Market-Based Procedure.

NEB Market-Based Procedure (MPB)

10. The MBP contains three categories of factors which the Board examines in public hearings to determine whether to grant a license for the export of natural gas. The first two categories, the Complaints Procedure and the Export Impact Assessment, are used to assist the Board in determining whether proposed exports are surplus to Canadian needs. The third category, called public interest determination, is intended to include all other factors which the Board considers in the national public interest. The
Board will continue to examine export contracts to assure itself that they have commercial substance and are likely to be durable over their term. Environmental screening procedures have recently been introduced to ensure that proposed exports are consistent with federal requirements.

11. Further, the NEB monitors Canadian energy markets on an ongoing basis including regular reports on Canadian energy supply and demand and natural gas markets.

12. The Board's role under Section 118(a) of the Act has been altered with the enactment of the Canada-U.S. Free Trade Agreement. The FTA has been incorporated into the NEB Act and requires the Board to "give effect to the Agreement" in exercising its powers and performing its duties.

The Western Accord and Agreement on Natural Gas Markets and Prices

13. Since 1984 a number of key agreements have been concluded among producing provinces affecting the trade of oil and natural gas. The Western Accord, signed in March 1985 by the governments of Canada, Alberta, British Columbia and Saskatchewan, initiated a significant degree of deregulation of oil exports. The Western Accord recognized that:

"a more flexible and market-oriented pricing mechanism is required for the domestic pricing of natural gas".

14. The Accord was followed by the Agreement on Natural Gas Markets and Prices in October 1985. The intent of this Agreement was to;

"create the conditions for such a regime, including an orderly transition which is fair to consumers and producers and which will enhance the possibilities for price and other terms to be freely negotiated between buyers and sellers".

15. This Agreement created the framework for a competitive market for natural gas in Canada and subsequently led to modification of the terms and conditions governing gas exports. As a consequence of these policy changes, in 1986 the NEB revised its procedures for the determination of the quantity of natural gas surplus to Canadian requirements. This resulted in the introduction of the Market-Based Procedure for assessing long term gas export proposals.

16. The 1985 Agreement on Natural Gas Markets and Prices set forth the following Criteria for Acceptability with respect to gas exported from Canada:
(1) "The price of exported natural gas must recover its a appropriate share of the cost incurred."

(2) "The price of exported gas must not be less than the price charged to Canadians for similar types of service in the area or zone adjacent to the export point."

(3) "Export contracts must contain provisions which permit adjustments to reflect ever changing market conditions over the life of the contract."

(4) "Exporters must demonstrate that export arrangements provide reasonable assurance that volumes contracted will be taken."

(5) "Exporters must demonstrate that producers supplying gas for an export project endorse the terms of the export arrangement and any subsequent revisions thereof."

Electricity

17. The Regulations set out the requirements and procedures of the Board in the regulation of electricity trade (Part VI) and the certification of international and designated interprovincial power lines (Part III).

18. Under normal approval procedures the NEB authorizes electricity exports by issuing a permit and international power lines through the issuance of a certificate. In all cases applicants are required to provide the National Energy Board with a basic information document. The Board may subsequently ask the applicant for additional information, if necessary. Upon receiving an application, the Board will ensure that the public receives notice of the filing and is able to provide comment.

19. If the Board believes that the proposal may not be in the Canadian public interest, it will delay issuing a permit and recommend that the Governor-in-Council designate the application for licensing. The Board's advice will be made public. In deciding whether to designate an application for licensing or certification, the Governor-in-Council will consider the advice of the Board and any other relevant considerations. If the Governor-in-Council does not designate the application the Board will issue a permit or certificate.

20. Designations could occur if, for example, there is reason to believe that an export or international power line is being subsidized or that an associated generation project or the proposed power line has not been subject to a thorough environmental
assessment. However, these are considerations that are generally dealt with by the sponsoring provinces. There will normally be no need for the Government of Canada to have regard to matters that have been adequately addressed by provincial practices and procedures.

21. When a proposed line requires certification, the Board will conduct a public inquiry and have regard to all relevant considerations. If the Board concludes that the line is needed for the present or future public convenience and necessity, it will issue a certificate. Both exports and transmission lines require the final approval of the government of Canada. A certificate will not be issued unless it is also approved by the Governor-in-Council.

22. The NEB may deny a licence or certificate for a designated application if it concludes that the proposal would not be in the Canadian public interest. In addition, the NEB may attach conditions to export permits with respect to subject matters set out in regulations. Licences will be subject to whatever conditions the Board may find it necessary to impose. The maximum duration of export licences and permits will be 30 years.

23. If a proposed international power line passes through more than one province, and if a sponsoring province so requests to the Board, the detailed routing and land acquisition provisions of the NEB Act will also apply. In all other circumstances, detailed routing and land acquisition will be governed by the relevant provincial laws.

Uranium

24. The NEB has no jurisdiction over or responsibility for reviewing Canadian Uranium exports. This function is carried out by the Uranium Exports Review Panel. The principle role of the Panel is to review uranium export contracts to ensure that the contracts meet the intent of uranium export policy.