In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on Canada. Volume B (Tables) is presented in document C/RM/S/6B.

The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by Canada. As requested by the Decision, in preparing its report the Secretariat has sought clarification from Canada on its trade policies and practices.

Document C/RM/G/6 contains the report submitted by the Government of Canada.

NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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I. THE ECONOMIC ENVIRONMENT

(1) Major Features of the Canadian Economy

1. Canada is the second largest country in the world, with a land area almost three times as large as Western Europe. In relation to Canada's geographical size, the population, about 26 million people, is small; Canada is among the least densely populated countries in the world. About two-thirds of the population lives in the provinces of Quebec and Ontario, whose land areas combined are one-quarter of the total.

2. Richly endowed with natural resources, Canada is among the leading exporters of wheat, forestry products, minerals, metals, and fishery products. Canada's proximity to the largest single market in the world, the United States, results in international trade playing a major role in its economy. The ratio of merchandise exports and imports to Canada's domestic output were both about 22 per cent in 1989 (Table I.1).

3. Over the last three decades, Canada's real gross domestic product increased more rapidly than GDP in the OECD area as a whole. Following a decline of over 3 per cent in 1982, the Canadian economy has been expanding continuously since 1983. The 1983/84 recovery was stimulated by the strong growth of the United States economy, by a wide margin Canada's most important trading partner. An effort to forge even closer links with this market resulted in the Canada-United States Free Trade Agreement of 1988.

4. In the post-1982 period, both merchandise exports and imports of Canada registered higher growth rates than world merchandise trade. As a result, Canada became the seventh largest exporter and importer of merchandise items in 1989, up from the tenth rank in 1979. In 1989, it accounted for almost 4 per cent of global merchandise trade.

5. The dynamics of production and trade in Canada have contributed to structural changes in the economy. Though agriculture, industry and services have all grown over time, services have expanded the most. Their share in domestic output increased by about 6 percentage points in the last three decades, to its current level of about two-thirds of GDP. The corresponding decline in the relative importance of other activities has been shared by both industry and agriculture. They currently account for about 30 per cent and 4 per cent of GDP, respectively (Table I.1).

6. The change in Canada's pattern of production is also reflected in its trade structure. In the early 1960s, Canada's exports of primary products

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1 The increase in service activities in Canada have often resulted from efforts to domestically process the country's natural resources.

2 Since 1960, employment in services and manufactures expanded more rapidly than output, and employment in agriculture declined. In fact, employment in agriculture is on a secular decline; one hundred years ago, 60 per cent of the families in Canada worked on the farm.
were double the value of exports of manufactures. Since then, manufactures have steadily increased their share, and currently account for about three-fifths of Canada's merchandise exports. The share of manufactures in merchandise imports increased from about two-thirds to more than 80 per cent during this period.

7. Canadian trade in commercial services has generally not increased as rapidly as its merchandise trade. Canada's current share in global trade in services has fallen to less than 3 per cent, from above 4 per cent in 1970.

8. Canada has traditionally registered a surplus on its merchandise trade account, and a deficit on trade in services. However, the merchandise trade surplus as a proportion to GDP has been falling during the 1980s. In the wake of an investment boom in the Canadian economy in recent years, which was not matched by a corresponding increase in domestic savings, Canada is currently facing a large current account deficit.

9. The expansion of domestic demand met with increasing capacity constraints. In consequence, inflation accelerated in 1989 and the first months of 1990 (Table I.2). The Government responded to the situation by tightening monetary policy. It also implemented measures to enhance the technical and productive base of the economy, decrease the budget deficit by phasing out expenditure on several assistance programs, reform the tax base, and improve the flexibility of the labour market.

(2) Recent Economic Performance

10. In recent years, the Canadian economy experienced robust economic growth before the increase in real GDP slowed down in 1989 (Table I.2). New jobs were steadily created, and the unemployment rate dropped from more than 11 per cent in 1984 to below 8 per cent.³ Growing business confidence resulted in a sharp increase in investment expenditure, especially for machinery and equipment (Table I.3). Since 1985, the growth in domestic demand has outstripped that in domestic production, which in the past three years was constrained by the growth in domestic production capacities as the Canadian economy virtually worked at full capacity.

³A strong increase in the labour force prevented the unemployment rate from going further down. Despite this increase, wage pressures started to build up on account of greater economic activity.
11. The strain on the economy manifested itself in inflationary pressures and a rising deficit on the current account. With a view to breaking inflationary expectations, monetary policy has been on a restrictive course since 1987. The consequent rise in the short-term interest rate helped to dampen economic activity in 1989.

12. The rise in interest rates attracted funds from abroad and pushed up the exchange rate of the Canadian dollar, in both nominal and real terms (Tables 1.2 and 1.4). Coupled with an attractive domestic market due to relatively strong demand growth, the loss in Canada's international

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4 According to the Government of Canada, three-fourths of the deterioration in the current account balance between 1984 to 1989 was due to strong growth in domestic demand, and about one-fourth due to the change in domestic prices vis-à-vis foreign prices. The majority of the decline was on account of Canadian demand for investment goods.

5 Long-term interest rates declined slightly in 1989.
competitiveness resulted in a decline in the volume of exports. In contrast, import volume increased by 7 per cent in 1989. Despite a 4 per cent improvement in Canada's terms of trade for goods, the trade surplus declined. In 1989, the merchandise trade surplus was at its lowest level during the 1980s, enhancing the trend towards a lower merchandise trade surplus in terms of GDP (Chart I.2). Along with a rise in the deficit in net investment income, this was an important reason for the current account deficit to increase to 3 per cent of GDP in 1989 (Chart I.2).

Chart I.2
Trade account, current account and net investment income from abroad as a proportion of GDP, 1983-89

[Graph showing the trade account, current account, and net investment income from abroad as a proportion of GDP from 1983 to 1989.]

Source: Government of Canada.

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Other reasons for the fall in export volume include a decrease in fisheries quotas, and the 1988 drought in Western Canada resulting in a decline of more than 40 per cent in the export volume of wheat.
13. The current account deficit reflects an excess of domestic expenditure over domestic output and, in Canada, is related to the public budget deficit. During and immediately after the 1981-82 recession, Canada recorded current account surpluses as high levels of private savings were sufficient to finance private investment and large public budget deficits. Since the mid-1980s, as the recovery from the recession gained momentum, strong investment growth has outstripped growth in domestic savings. Nonetheless, private savings remained adequate to finance the private investment expenditure (Table I.5). The rise in private investment has, however, reduced the excess private savings available to the Government. Consequently, the prevailing public budget deficit resulted in excess demand. The Government has made substantial efforts to reduce the public budget deficit (Table I.5). Since fiscal year 1987-88, the operating or programme account of the Government has registered a surplus. However, due to high debt-service payments, recently further fuelled by the rise in interest rates, the overall public budget remained in deficit.

(3) Trade Performance

(i) Commodity pattern of trade

14. Since the mid-1970s, the value of Canadian exports has grown at an average rate of almost 10 per cent per annum (Table I.4). In the course of this growth, the trade structure has changed, with manufactures becoming more prominent in both exports and imports. Currently, 60 per cent of Canada's merchandise exports and over 80 per cent of its merchandise imports are manufactures. Trade is particularly strong in engineering products which account for two-fifths and three-fifths of Canada's merchandise exports and imports, respectively. Automotive products alone make up one-quarter of Canada's trade in merchandise. The share of primary products such as raw materials, food and fuels is much larger in exports than in imports - an exceptional feature for a developed country (Tables I.6 and I.7).

15. The main exports of primary products are pulp for paper, wood, fuels, wheat, and aluminium alloys. Across all export products, particularly rapid growth in export value was registered in the 1980s for printed circuits and parts, certain types of paper, petroleum oils, polymer and copolymer products, thermionic valves and tubes, bovine cattle and copper ores, concentrates and matter (Table A1.1). Despite a rapid increase in

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7 In 1988-89, the Government debt to GDP ratio had reached 53 per cent, up from about 28 per cent in 1980-81.

8 While the share of manufactures in imports remains higher than in exports, its change was more pronounced for exports than for imports. For example, the ratio of the value of exports of manufactures to primary products increased by 110 per cent during 1963 to 1970, and by 55 per cent during 1970 to 1988. The corresponding figures for imports are 75 per cent and 50 per cent.
exports of certain ores, the aggregate export-share of ores and minerals declined sharply during the last ten years.

16. Over the past decade, Canada's merchandise imports have grown more rapidly than its exports. Concomitant with strong investment activity, imports of many machinery items and equipments registered double-digit rates of growth in the last few years. The share of machinery items in total imports rose substantially in the last decade. The main imports of engineering products are automotive products, machinery for specialized industries, and miscellaneous machinery and transport equipment, including aircrafts; over 70 per cent of Canadian requirements for machinery and equipment are met from imports.

17. Other items whose imports grew exceptionally rapidly include motor spirits, light oils, gramophone records and tapes, and insulated wires and cables. Though the import-share of fuels declined from about 10 per cent to 4 per cent during 1979 to 1988, crude petroleum remained among the top import items of Canada (Tables I.7 and AI.1).

(ii) Regional pattern of trade

18. With a share of two-thirds in Canada's imports and over 70 per cent in exports, trade links with the United States dominate Canada's international trade relations (Table I.8). Over 97 per cent of Canadian exports of automotive products, 77 per cent of other exports of manufactures and more than 80 per cent of fuel exports are sold to the United States. Similarly, about two-thirds of total imports of manufactures into Canada are sourced in the United States. For both automotive products and raw materials, the share is about 80 per cent.

19. A large proportion of Canada's remaining international trade is with the European Communities and Japan. Canada's exports to these destinations are mainly primary commodities, in particular its exports to Japan. Almost one-fifth of Canadian exports to the European Communities are machinery and transport equipment. These items lead also the list of imports from the EC and Japan. Furthermore, chemicals, semi-manufactures and consumer goods figure prominently among imports from the European Communities.

20. In 1988, the developing economies, as a group, had a share of 7 and 10 per cent in Canada's merchandise exports and imports, respectively, well below average for the developed countries as a whole (18½ and 19 per cent). In part, this difference reflects Canada's abundance of natural resources and the proximity to the United States. However, as for imports, it appears also to be related to impediments to trade in products of particular export interest to developing countries (see Chapter V).

21. While the share of developing economies, as a group, in Canada's trade declined between 1978 and 1988, trade with a number of these economies, including China, Korea, Hong Kong and Taiwan expanded more rapidly than Canada's total merchandise trade (Table AI.2). Among the industrial countries, trade links with Japan particularly intensified. The below average expansion of Canada's trade with developing economics partly reflects the fall in the purchasing power of oil exporters and heavily
indebted countries, and lower prices for Canadian imports from these countries.

(4) Outlook

22. The growth of the Canadian economy is expected to slow down to 1½ per cent in 1990, and recover to 3 per cent in 1991. Consumption and investment are expected to weaken, with residential investment declining in the next two years. Total final domestic demand is anticipated to rise at a slower rate than domestic output. Unemployment is expected to increase somewhat due to the subdued economic activity.

23. The cooling down of the economy is likely to reduce inflationary pressures and hence might open the way towards lowering interest rates. The budget deficit is expected to decline over time to reach about 1 per cent of GDP by 1994-95. Reduced excess demand, coupled with a possible depreciation of the Canadian dollar, could help to boost the growth rate of exports relative to that for imports. The current account deficit is expected to decrease in the next two years to reach about CAN$15 billion in 1991.

9 For example, Canadian exports to Saudi Arabia declined by more than 50 per cent during the period 1983 to 1988.

10 A one-time inflationary impact of about 1 percentage point is expected from the goods and services tax in 1991. This will result in the inflation rate increasing to 5.1 per cent, compared to less than 4 per cent otherwise.
II. TRADE POLICY REGIME: OBJECTIVES AND FRAMEWORK

(1) Introduction

24. Canada is a federal State with ten provinces and two territories. The foundation of the federal nation was laid by the British North America Act 1867 of the British Parliament. In 1982, it was renamed the Constitution Act 1867, by the Constitution Act 1982, when the Constitution was patriated and new provisions were added to it. The federal Government has legislative jurisdiction over matters of national concern, and over those matters not assigned to the provinces.

25. Under section 91 of the Canadian Constitution Act, the federal Parliament of Canada has exclusive constitutional and legislative authority to control import and export transactions across national or provincial borders. The legislature of each province retains authority over such issues as direct taxation to raise revenue for provincial purposes, distribution of imported or local products within a province, and subjects involving property and civil rights within provincial boundaries. The provinces control natural resources (and hence influence trade in them), and account for a large proportion of Government procurement. In several cases, the jurisdiction of both the federal and the provincial Governments authorizes them to separately formulate and implement policies which affect trade, such as income support, price stabilization, credit subsidization, marketing boards, standards, health and safety requirements, and tax concessions. When Canada enters into international agreements regarding subjects which fall within provincial jurisdiction, provincial cooperation and agreement is required.

26. The federal and provincial Governments consult extensively through various channels. Issues pertaining to the relationship between the federal and provincial Governments have been examined in the 1980s by two GATT Panels (see Chapter VI). In some cases such as certain tripartite stabilization programmes, Canada has harmonized the policies of the provincial and federal Governments. Efforts are underway to achieve increased harmonization in other areas such as Government procurement.

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11 The British North America Act provided for the federal union of three British North American provinces, namely Canada (Ontario and Quebec), Nova Scotia and New Brunswick, into one dominion under the name Canada. It also made provision for the future entry of the other colonies or provinces. All the provinces did not enter the union at the same time, with Newfoundland joining as late as in 1949. Quebec has still not signed the Constitution Act.

12 Other provincial policies which affect trade include trade promotion, investment promotion, electrical and building codes, protection of the environment, consumer protection and industrial policy.
27. The final court of appeal in Canada is the Supreme Court of Canada. It was created eight years after Confederation, by an Act of Parliament in 1875. A Federal Court of Canada, which deals with federal laws, was established in 1971 by an Act of Parliament. It replaced the Exchequer Court of Canada which had been in operation since 1875.

(2) Trade Policy Objectives

(i) General trade policy objectives

28. Trade policies in Canada are an important means of achieving the general economic objectives of the country, which include raising national output, income and employment. Towards this end, the Government emphasizes efficiency and competitive prices. A host of non-economic objectives are also integral components of the trade policy régime. These include health and safety concerns, national security, maintenance of quality, adequate information for consumers, preservation of cultural heritage, environmental protection, and decreasing regional inequities.

29. Since 1984, there has been a marked change in the orientation of Canadian policies. They have become more market-oriented, and financial assistance to different sectors has decreased due to the Government's attempts to liberalize the economy, and to decrease the budget deficit. The objective of several ongoing policy reviews is to enhance these initiatives.

30. For the industrial sector, Canada's trade policies are oriented towards three main objectives. One is to encourage the development of the Canadian industry. Another is the fulfilment of Canada's international commitments. The third objective is to ensure adequate domestic supplies in the event of real or potential shortages. Regarding agriculture, important objectives also include the maintenance of the family farm as the basic production unit, providing farmers with a standard of living comparable with that enjoyed by other Canadians through trade and through domestic programmes, reduction of fluctuations in their income, protection of the domestic market from short-term, depressed or inflated world market prices, and the promotion of orderly marketing.

31. Canada has sought access to foreign markets through a reduction in trade barriers, in order to achieve its general economic objectives. Most recently, this objective has manifested itself at the bilateral level in the Free Trade Agreement with the United States, and at the multilateral level in the keen interest shown by Canada in the Uruguay Round. As a part of its new "Going Global" strategy which emphasises trade links with other

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13 Cases brought before the Supreme Court could be further appealed to the judicial committee of the Privy Council in England. Such appeal was abolished for criminal cases in 1933 and in all other cases in 1949, when the Supreme Court became Canada's ultimate court of appeal.
nations, Canada is also concentrating on markets in the Asia-Pacific area and the European Communities.

32. The objective of improved access to other markets is also pursued through identification and development of export markets, through provision of some financial support and by enhancing marketing skills and information available to the exporters.

33. Recognizing the importance of imported materials as inputs for its industrial process, Canada provides tariff concessions to ease the burden of duty on some imports. Canada recognizes the contribution of freer imports to competition. After 1985, Canada has taken no GATT Article XIX safeguard measure. In case of some sectors, such as shipbuilding, clothing, fisheries and agriculture, Canada grants considerable support through measures other than tariffs, including domestic support.

34. Sovereignty over natural resources and their domestic processing are important issues for Canada. Policies aimed towards these objectives include tax incentives, restrictions on exports of some of these items, and on foreign ownership in a few natural resource sectors, such as uranium and offshore oil and gas.

35. Measures such as trade embargoes, environmental policies, controls on strategic exports, and prohibitions on imports of obscene literature and of products of prison labour, reflect political, security and social considerations, including violation of human rights. In addition, controls on exports may be put in place to complement domestic policies which aim at providing adequate supplies of Canadian products in times of potential or current shortages. Through its trade restrictions, Canada also supports international objectives such as the conservation of endangered fauna and flora, and fulfils its obligations under international treaties or arrangements.

36. Canada helps exports of developing countries by providing tariff preferences, in particular through a GSP scheme, and through its aid programmes.

37. Upgrading technology has increasingly become a major concern of the Government of Canada. For example, in 1987, the Federal Government

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14 Canada's strategic or foreign policy export controls are basically of three types: those arising from commitments to the United States under the Canada-United States Defence Production Sharing arrangements; those maintained along with other COCOM partners for reasons of security; and those supporting other foreign policy objectives. Canada joined COCOM in the early 1950s. The legal basis for sanctions rests with the UN Act (for sanctions mandated by the UN Security Council pursuant to Articles 39 and 41 of the UN Charter), the War Measures Act, and the Export and Import Permits Act. Special Acts of Parliament are also used for certain sanctions such as the one against Iran.
launched Innovation, a science and technology strategy incorporating several specific initiatives.\(^{15}\)

(ii) Objectives in the Uruguay Round

38. Being a country for which international trade is of considerable importance, and lacking the political leverage of some of its trading partners, Canada attaches great importance to the ongoing Uruguay Round of multilateral negotiations.\(^{16}\) In its view, these negotiations provide an "excellent opportunity to resist protectionist threats, to promote the rule of law in international trade, to strengthen the multilateral trading system and to restore momentum in liberalizing world trade".\(^{17}\)

39. Canada's main objectives in the Uruguay Round can be summarized as halting protectionism and improving market access for goods and services; developing effective, liberalizing rules for agricultural trade; tighter discipline on contingency protection measures and subsidies; seeking agreements in the "new" areas, namely, services, trade-related intellectual property matters, and trade-related investment; strengthening the GATT system, including a unified effective dispute settlement mechanism and a new international trade organization; enhancing the stability, predictability, and transparency in the international trading system to promote structural adjustment, investment, and employment; and encouraging developing countries to increase the extent of their obligations under the GATT.

\(^{15}\) It identifies five areas of focus: industrial innovation and technology diffusion; development of strategic technologies; effective management of federal science and technology resources; human resources for science and technologies; and public education in science and technology.

\(^{16}\) In 1987, Canada's Minister for International Trade stated, "As one of the 23 founding members of the GATT, Canada has a long-term commitment to that institution and the rules it has put in place ... Canada has prospered in the global economy. Today, however, new and insidious forms of protectionism in foreign markets are threatening the interests of our farmers, manufacturers and service industries. Therefore, Canada has played a leading rôle in bringing the 95 member-nations of the GATT back to the table for a new round of negotiations, launched at a Conference of Ministers in Punta del Este, Uruguay, September 1986." External Affairs Canada (1987), The World Our Market, Department of External Affairs, Ottawa, p. 1.

\(^{17}\) Ibid., p. 2.
40. Canada's active participation in the Uruguay Round is evident from the number of its proposals for negotiations in the various negotiating groups. These include suggestions for greater market access through a reduction in tariffs, a transitional programme of global quotas during a phase-out of the Multifibre Arrangement, progressive liberalization in services, a broadening of the Government Procurement Code, extending the coverage of natural resource products under negotiation, clarifying and tightening the rules on subsidies and anti-dumping, and inclusion of non-tariff measures in the list of barriers considered for reduction. Emphasizing the use of multilateral rules and disciplines, Canada hopes to clarify and tighten the existing rules, improve the dispute settlement procedures in the GATT, and is participating in negotiations that might lead to better standards and enforcement mechanisms for new areas such as trade-related intellectual property measures.

41. Regarding agriculture, a high priority for Canada in the Uruguay Round, proposals have been submitted both individually as well as with the Cairns Group. Though Canada aims at increasing market access for agricultural products, it is not in favour of complete tariffication on account of its supply management programmes.

(3) General Trade Laws and Trade Legislation

42. Canada is a founding signatory to the General Agreement on Tariffs and Trade. It has ratified the 1965 Protocol amending GATT, and is a signatory to the Protocol to the GATT embodying the results of the 1960-61 Tariff Conference, the Geneva (1979) Protocol to the GATT, and the Protocol supplementary to the Geneva (1979) Protocol to the GATT. Canada has accepted all the Tokyo Round Agreements except the International Dairy Arrangement, in which it participates as an observer.

43. All executive actions in Canada must be authorized by laws enacted by Parliament. A law either specifies how a particular executive action is to be carried out, or authorizes the Governor General, acting on advice from the Cabinet, to issue orders-in-council to implement the law.

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18 See, for example, MTN.GNG/NG1/W/6 and 18, MTN.GNG/NG4/W/42, MTN.GNG/NG8/W/68, MTN.GNG/NG10/W/25, and MTN.GNS/W/63.

19 The members of the Cairns Group are Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay.

20 In its view, if quantitative restrictions are necessary, for example in the case of supply management programmes, greater market access may be provided through a larger quota. In this context, Canada's views differ from some of the members of the Cairns group. It has proposed that a revised Article XI should make clearer and more specific the conditions on which such supply controls would justify quantitative restrictions.
44. A number of statutes are used to provide the necessary legal authority to implement the GATT in Canada. For example, Canada's tariff bindings under the GATT and some types of safeguard measures are implemented under the Customs Tariff Act, the authority for Canada's rights and commitments regarding anti-dumping and countervailing measures is provided by the Special Import Measures Act, and Government procurement under the GATT Code is undertaken within the framework of the Government Contract Regulations under the Supply and Services Act and the Financial Administration Act. In some cases, no new specific legal authority is required for implementing Canada's obligations under the GATT, as the existing legal framework already permits implementation of many new obligations (i.e. treaty making is an executive power unless obligations require changes in legislation).

45. Federal legislation authorising the various policies affecting trade and production includes:

- general laws such as the Customs Act, Customs Tariff Act, Special Import Measures Act, Excise Act, Hazardous Products Act, and Export and Import Permits Act;

- laws covering certain sectors or broad product groups such as the Animal Disease and Protection Act, Plant Quarantine Act, Agricultural Products Standards Act, and Agricultural Stabilization Act.

- legislation pertaining to specific products, such as the Canada Grain Act, Processed Poultry Regulations, Fish Inspection Act, Egg Regulations, Fruit, Vegetables and Honey Act, and Importation of Intoxicating Liquors Act.

46. The Customs Tariff provides the authority to establish tariff rates on imports, for levying surtaxes as a safeguard measure or surcharges on imports on account of Canada's balance of payments, and for imposing tariff quotas. It also contains provisions for preferential tariff rates and their withdrawal, rules of origin, the rules for direct shipment, marking of goods, duty concessions, and duty drawback for goods used in Canada for specified purposes. Duties and taxes on imports are also imposed under the Excise Tax Act, the Excise Act, and the Special Import Measures Act. The main legal instrument for imposing quantitative restrictions is the Export and Import Permits Act.

47. Concerns for health and safety, and marking and labelling of products are covered by some of the legislation given above, along with others such as the Food and Drugs Act, Meat Inspection Act, Pest Control Products Act, Timber Marking Act, and Textile Labelling Act. A large number of laws are in place for authorizing the various assistance programmes, marketing

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21 For a detailed list of the statutes, see Canada Gazette, Part II, Consolidated Index of Statutory Instruments, 1 January 1955 to 31 March 1989.
agencies for certain products, and trade policy objectives such as conservation of resources and export promotion.

48. The Customs Act provides the legislative authority for the administration and enforcement required to collect the taxes levied under various laws. It also provides the means to control Canada's international trade, and supports the administration and enforcement of other statutes that may be used to prohibit or restrict the imports and exports of goods.

49. The Free Trade Agreement between Canada and the United States has resulted in extensive amendments to Canadian trade legislation. Other recent important changes in legislation include the Canadian International Trade Tribunal Act and Regulations, which led to the combining of a number of previous institutions into a new organisation for determining injury in the case of anti-dumping, countervailing and safeguard actions, conducting public interest enquiries, and on request, undertaking general economic studies related to trade and economic issues in Canada.

(4) Structure of Trade Policy Formulation

(i) Legislative and executive branches of the Government

50. Legislative authority in Canada is vested in the Parliament of Canada which consists of the Queen, an appointed upper house (the Senate) and a lower house (the House of Commons) elected by universal adult suffrage. The executive Government in power, which is part of Parliament, is responsible by constitutional convention to the House of Commons. The constitution provides that measures for appropriating public funds or imposing taxes must originate in the House of Commons. Therefore, if a Senator heads a Government department, another Minister in the House of Commons has to speak on his behalf on its affairs.

51. Formal executive authority is vested in the Queen, whose authority is delegated to the Governor General, her representative. However, the

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23 For details, see Canada Gazette, Part II, EXTRA No. 1, Volume 123, 6 January 1989, Ottawa.

24 The Governor General is appointed by the Queen on the recommendation of the Prime Minister of Canada. In each of the provinces, the Queen is represented by a Lieutenant-governor appointed by the Governor
actual authority is exercised by the Cabinet of Ministers. In virtually all cases, the Governor General is bound by constitutional convention to give assent to bills passed by Parliament, and to sign executive orders (i.e. orders-in-council) of the Cabinet and other State documents.

52. The Constitution Act provides for a Privy Council for Canada to advise and help the Governor General in his tasks. The council which actually advises the Governor General is the Cabinet, an informal committee of the Privy Council. It is composed of Ministers, which command support of a majority of the House of Commons. The Prime Minister, who is the Chairman of the Cabinet, chooses his Ministers generally from among the members of the House of Commons. Almost all executive acts in Canada are carried out in the name of the Governor-in-Council, and reflect the decisions of the Cabinet.

53. The Cabinet works through a system of Cabinet Committees (Chart II.1). The terms of reference of these committees cover virtually the entire area of Government responsibility. The Cabinet Committee on Priorities and Planning, chaired by the Prime Minister, is responsible for the Government's overall agenda and major policies. The Committee on Operations, chaired on behalf of the Prime Minister by the Deputy Prime Minister, reviews the weekly agenda to ensure proper co-ordination in responding to issues and developing new policies. The Treasury Board and the Committee on Priorities and Planning are mandated to authorize expenditures. The Trade Executive Committee, which includes eight Cabinet Ministers, formulates trade policies and sets priorities in this area. The Committee is chaired by the Minister of International Trade.

(Footnote Continued)

General-in-Council. In theory, the Governor General can dismiss an existing federal Government and choose another one. However, this is possible only if a person other than the existing Prime Minister can command the confidence of the House of Commons.

25 The Privy Council includes current and former Cabinet Ministers, the current and former Chief Justices of Canada, and other distinguished persons. Membership of this Council is for life. The Privy Council as a whole has met only on a few ceremonial occasions.

26 Some Cabinet Ministers are usually chosen from the Senate including the leader of the Government in the Senate.

27 The mandate for some of the other Committees is as follows. Expenditure Review ensures prioritization and control of government expenditure. Economic Policy deals with policies to help industry become more competitive, and to take advantage of the opportunities offered by the Canada-United States Free Trade Agreement. Legislation and House Planning plans the Government's Parliamentary programme and reviews draft legislation. The Special Committee of the Council considers and approves submissions to the Governor-in-Council. Communications ensures that the Government's initiatives are effectively communicated to the public.
<table>
<thead>
<tr>
<th>Chairmen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime Minister</td>
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<tr>
<td>Prime Minister</td>
</tr>
<tr>
<td>President of the Treasury Board</td>
</tr>
<tr>
<td>Minister of Communications</td>
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<tr>
<td>Minister of the Environment</td>
</tr>
<tr>
<td>Secretary of State for External Affairs</td>
</tr>
<tr>
<td>National Health and Welfare</td>
</tr>
</tbody>
</table>

**Chart II.1**  
Organizational structure of Canadian Cabinet committees

<table>
<thead>
<tr>
<th>Committee Type</th>
<th>Chairmen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priorities and planning</td>
<td>Prime Minister</td>
</tr>
<tr>
<td>Operations</td>
<td>Prime Minister</td>
</tr>
<tr>
<td>Treasury Board</td>
<td>President of the Treasury Board</td>
</tr>
<tr>
<td>Ad hoc Committees</td>
<td>Minister of Communications</td>
</tr>
<tr>
<td>Coordinating Committees</td>
<td>Secretary of State for External Affairs</td>
</tr>
<tr>
<td>Standing Committees</td>
<td>Minister of National Health and Welfare</td>
</tr>
<tr>
<td>Communications</td>
<td>Prime Minister</td>
</tr>
<tr>
<td>Federal-provincial relations</td>
<td>Prime Minister</td>
</tr>
<tr>
<td>Legislation and house planning</td>
<td>President of the Treasury Board</td>
</tr>
<tr>
<td>Special committee of council</td>
<td>Minister of Communications</td>
</tr>
<tr>
<td>Expenditure review</td>
<td>Secretary of State for External Affairs</td>
</tr>
<tr>
<td>Security and intelligence</td>
<td>Minister of National Health and Welfare</td>
</tr>
<tr>
<td>Trade executive</td>
<td>Prime Minister</td>
</tr>
<tr>
<td>Economic policy</td>
<td>Prime Minister</td>
</tr>
<tr>
<td>Cultural affairs and national identity</td>
<td>Secretary of State for External Affairs</td>
</tr>
<tr>
<td>Environment</td>
<td>Prime Minister</td>
</tr>
<tr>
<td>Foreign and defence</td>
<td>Secretary of State for External Affairs</td>
</tr>
<tr>
<td>Human resources</td>
<td>Prime Minister</td>
</tr>
<tr>
<td>income support and health</td>
<td>Prime Minister</td>
</tr>
</tbody>
</table>

Source: Government of Canada.

54. Ministers are assisted in their tasks by federal Departments, which provide advice and implement policies. The Department of External Affairs and International Trade has the primary responsibility for international trade under the External Affairs Act (Chart II.2). It advises the Government on foreign policy matters and implements the decisions taken in this regard. Apart from co-ordinating, formulating or implementing Government programmes abroad, its activities include administering controls under the Export and Import Permits Act, export promotion, negotiating Canada's international treaties and trade agreements, participating on behalf of Canada in international organisations and multilateral conferences, and dealing with programmes such as development assistance and defence relations.

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28 Other agencies used to administer and implement Government policies are special boards, commissions and corporations owned or controlled by the Government of Canada, and some corporations in which the Government holds a minority interest. Both the federal and provincial Governments use Crown corporations for public services which require a combination of business enterprise and public accountability.
55. The Department of Finance is responsible for policy on tariffs and anti-dumping and countervailing duties, in addition to its main task of advising the Government on economic and financial matters. Its advice covers all aspects of tariffs and surcharges, including preferential tariffs, safeguard measures, duty remissions, duty drawbacks, and the related legislation.

56. Department of Revenue Canada, Customs and Excise, administers the collection of taxes and duties on international trade. Except issuing and monitoring import and export permits under the Export and Imports Permits Act, it implements policies which conditionally or absolutely restrict international trade, where such measures are established according to legislation or regulations passed by the federal Government. Other policies which affect international trade include assistance to agriculture provided by the Department of Agriculture, management and inspection of fisheries by the Department of Fisheries and Oceans, standards for consumer protection administered by the Department of Consumer and Corporate Affairs, Government procurement by the Department of Supply and Services, and assistance to industry and scientific and technological research provided by the Department of Industry, Science and Technology.

57. Canada's involvement with a wide-range of issues negotiated under the Canada-United States Free Trade Agreement and in the Uruguay Round gave...
rise to a need for a formal structure to interact with the private sector. An International Trade Advisory Committee and thirteen Sectoral Advisory Groups on International Trade are in place to enable the private sector to work closely with the Canadian trade policy negotiators.

(ii) Independent review bodies

58. Two important independent review bodies in Canada are the Canadian International Trade Tribunal and the Economic Council of Canada.

(a) Canadian International Trade Tribunal

59. In 1988, Canada set up the Canadian International Trade Tribunal (CITT), an independent quasi-judicial body which reports to Parliament through the Minister of Finance. The Tribunal, which began operations on 1 January 1989, took over all the previous inquiry and appeal functions of the Tariff Board, the Canadian Import Tribunal and the Textile and Clothing Board. It conducts the final enquiry for determining injury in anti-dumping and countervailing cases, subsequent to a preliminary finding by Revenue Canada. It investigates complaints regarding safeguard measures, carries out public interest enquiries in anti-dumping and countervailing cases, makes injury reviews prior to sunset clauses, and hears appeals against Revenue Canada on customs, excise and related matters. In addition, the Government may ask the Tribunal to conduct an enquiry and to report on any matter relating to the economic, trade or commercial interests of Canada.

(b) Economic Council of Canada

60. The Parliament established this independent advisory body in 1963, to study and report on matters relating to economic development. The Council produces an annual review of the country's economic problems and prospects, and is empowered to conduct other studies at its own initiative or at the request of the Government.

(5) Trade Agreements

61. A founding signatory to the GATT, Canada is a member of several other multilateral organisations related to trade, such as the United Nations, the OECD, the World Bank, the International Monetary Fund, the Agreement on Common Fund, and international commodity agreements for coffee, jute, sugar, tropical timber, wheat, and Study Groups for lead and zinc, and rubber. Other sector specific agreements include Canada's bilateral

29 The sectoral groups are: agriculture, food and beverage; apparel and fur; arts and cultural industries; communications, computer equipment and services; consumer and household products; energy, chemicals and petrochemicals; financial services; forest products; general services; industrial and transportation equipment; minerals and metals; and textiles, footwear and leather.
agreements with the United States in automobiles, defence production sharing and defence development sharing.

62. Canada's most significant bilateral trade agreement is the Canada-United States Free Trade Agreement, which became operational on 1 January 1989, and is being implemented over a ten year phase-in period (see Chapters IV and V for details). It covers several aspects of trade policy, including tariffs, quantitative restrictions, certain export subsidies, several specific production and transport subsidies, safeguard measures, technical standards, services, investment, rules of origin, and dispute settlement. It builds on and extends certain GATT provisions such as those on national treatment, technical standards, and Government procurement. In some cases like services and investment, it goes beyond the existing GATT agreements. A Working Party of the GATT is currently examining this agreement.

63. A Canada-United States Trade Commission has been established to supervise the implementation of this agreement, to resolve any disputes over interpretation, to oversee its further elaboration and to consider any other matters that may affect its operation. A permanent secretariat with offices in both Washington and Ottawa has been established to facilitate the work of Chapter 19 dispute settlement Panels.

64. Every year Canada signs bilateral agreements with trading partners, covering a wide range of issues including trade control, industrial cooperation, development cooperation, investment insurance, double taxation, air services, and film and video relations. Under its agreements with Australia and New Zealand, Canada grants British Preferential Tariffs or tariff preferences specific to imports of a few items from these countries. A Canadian programme for Commonwealth Caribbean economic and trade development assistance came into effect on 15 June 1986 (CARIBCAN). A trade and economic cooperation agreement with the Caribbean Common Market was signed earlier in 1979. Economic Framework Agreements include those with the European Communities, Japan, and most recently, Mexico. Canada has also participated in the formation of the Asia-Pacific Economic Conference.

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30 Provinces were closely involved in the negotiation of this agreement. The obligations regarding national treatment and technical standards are extended to the sub-national governments, and the range of government purchases open to suppliers from the two countries has been expanded.

31 There will be regular consultations on the new rules of origin, semi-annual consultations on agricultural issues, yearly consultations on temporary entry, and periodic review and consultations on services.

32 For details, see the various Annual Reports of the Department of External Affairs and International Trade.
(6) **Unilateral Trade Preferences**

65. Canada operates four unilateral preferential tariff schemes for developing countries (see Chapter IV for details). One, is the General Preferential Tariff available to all developing countries on a large number of items. For least-developed countries, tariffs are duty-free on all products for which General Preferential Tariffs are provided. Preferential tariffs to developing countries of the British Commonwealth are provided through the British Preferential Tariff scheme. Its product coverage is substantially less than that of the General Preferential Tariff Scheme. Further unilateral tariff preferences are provided to Commonwealth Caribbean countries under CARIBCAN.

33 Assistance to developing countries is also provided through development assistance and food aid. The Canadian International Development Agency administers most of Canada's international development assistance programmes.
III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

(1) Exchange Rate Régime

66. Canada has a flexible exchange rate régime. Both the current and forward exchange rates are determined through the interaction of demand and supply for the currency. Payments and receipts for the components of the current account or the capital account are not subject to any exchange controls. The authorities generally do not intervene in the exchange rate market, except to ensure that changes in the value of the currency occur in an orderly manner.

67. Since the Canadian currency floats freely, monetary policy affects the exchange rate through its impact on the interest rate. Foreign exchange considerations, however, play only a minor role in the monetary policy currently conducted by the Bank of Canada. The main orientation of monetary policy is towards domestic concerns; the present principal concern is to control inflation, and the exchange rate assumes importance to the extent it affects the domestic price level.

68. With a few exceptions, residents are allowed to freely purchase or sell gold in any form. Under the Gold Export Act, the Governor in Council can prohibit the export of gold from Canada. Exports of gold or products containing gold to countries on the Area Control List require an export permit. Similarly, an export permit is needed if gold originating from the United States is exported to a third country.

69. There are no taxes or subsidies on purchases or sales of foreign exchange in Canada.

(2) Exchange Rates and Trade Developments

70. In 1989, the nominal effective exchange rate of the Canadian dollar was at the same level as in 1980. However, considerable movement of the exchange rate occurred within this period. During 1984 to 1986, the Canadian dollar depreciated substantially, followed by an appreciation of the currency. The nominal value of the currency appreciated by about 6 per cent in both 1988 and 1989. The rise in the real effective exchange

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34 For instance, some easing of the monetary policy in January 1990 prompted a sharp drop in the value of the Canadian dollar. To prevent the potential inflationary pressures resulting from this depreciation, monetary policy was immediately tightened.

35 The primacy of domestic concerns is shown, for example, by the events since March 1989. The Canadian dollar appreciated on account of a rising differential between interest rates in Canada and the United States, but a tight monetary policy was maintained in Canada in order to control the inflationary pressures.
rate was slightly more, on account of Canada's relatively high inflation compared to its main trading partners.

71. The recent appreciation of the Canadian dollar has been accompanied by a fall in the merchandise trade surplus (Chart III.1). However, during the 1980s, there has not been any apparent relationship between the exchange rate and the trade balance of Canada. For example, an appreciation in the Canadian dollar until 1983 was not accompanied by a decline in the trade surplus, while the subsequent depreciation in the dollar until 1986 coincided with a general decline in the merchandise trade surplus. Moreover, the merchandise import volume has increased strongly after 1982, a period when the real effective exchange rate experienced large changes in both directions (Chart III.2). Similarly, the rise in import volume occurred in periods of rising as well as falling import prices (Chart III.3). On the whole, no stable lag structure is evident between changes in the exchange rate and those in merchandise trade flows or in the current account.

Chart III.1
Real effective exchange rate and selected components of Canada's balance of payments accounts, 1980-89

Source: Government of Canada; IMF.
Chart III.2
Real effective exchange rate, and volume of Canadian imports and exports, 1980-89

Index 1980=100 (log scale)

Source: Government of Canada; IMF.

Chart III.3
Export and import prices, import volume and effective exchange rate for Canada, 1980-89

Index 1980=100 (log scale)

Source: Government of Canada; IMF.
72. A clearer picture emerges from an analysis of the overall excess demand in the Canadian economy as reflected by the use of foreign savings to finance the national expenditure. From 1982 to 1984, the excess of private savings over private investment was more than adequate to finance the large public deficit, and Canada registered a surplus on the current account (Chart III.4). Since 1985, the availability of private savings decreased rapidly due to both a rise in consumption and a sharp increase in private investment: as a proportion of GDP, private savings declined from 23.9 per cent in 1985 to 21.2 per cent in 1989, and private investment increased from 17.5 per cent to 20.8 per cent during the same period. Hence, despite a substantial fall in the ratio of the public deficit to GDP after 1985, the use of foreign savings was relatively high (Chart III.4).

Chart III.4
Effective exchange rates and ratio of Canadian Government deficit and foreign savings to GDP, 1980-89

Source: Government of Canada; IMF.

36 The net foreign savings available to a country can either be used to finance the current account deficit or to increase the foreign exchange reserves. The use of foreign savings in Chart III.4 mirrors the current account deficit of a country, or the excess of national expenditure over national savings.

37 In Chart III.4, the private savings available to finance the government deficit are given by the difference between government deficit and the use of foreign savings.
73. Net capital inflows from abroad were attracted as the authorities have adopted a tight monetary policy since 1988, to prevent overheating of the economy; in 1989, the difference between the rates of interest for Canada and the United States reached an unprecedented level for the 1980s (Chart III.5). Another factor which contributed to the flow of foreign funds to Canada was the perception of the strength of the economy as a result of a rise in prices for Canada's commodity exports in 1987 and 1988. Canada's foreign exchange reserves more than doubled in each of the two years in 1987 and 1988 (Chart III.6). Compared to US$2.3 billion at the end of 1986, foreign exchange reserves of Canada were US$6.2 billion and US$13.5 billion at the end of 1987 and 1988, respectively. In this period, the exchange rate appears to have been driven by the capital account. The large net inflow of funds resulted in an appreciation of the Canadian dollar, which contributed to a rise in the import volume.

![Chart III.5](chart)

**Chart III.5**

Annual change in the exchange rate with US$, and difference between Canadian and US rates of interest, 1980-89

<table>
<thead>
<tr>
<th>Year</th>
<th>Per cent</th>
</tr>
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<tbody>
<tr>
<td>1980</td>
<td></td>
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<tr>
<td>1981</td>
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<td>1986</td>
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<td>1987</td>
<td></td>
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<tr>
<td>1988</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td></td>
</tr>
</tbody>
</table>

Source: Government of Canada.

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38 Domestic demand has been fuelling imports since 1983, but the Canadian dollar depreciated against the United States dollar during 1983 to 1986 (Chart III.5). In that period, the rise in the differential between the rates of interest in Canada and the United States was inadequate to reverse the depreciation because the economy of the United States was acting as a locomotive for global growth, and the Canadian dollar was perceived as a relatively soft currency.
The prevailing high values for Canada's interest rates and exchange rate are curbing Canada's short-term competitiveness. However, an attempt to reduce the interest rate without cooling the economy, could have a significant adverse effect on the flow of funds, the exchange rate, and subsequently on inflation. Both monetary and fiscal policies are being used to ease the pressure on demand and thus on the interest rate and inflation. The growth in Canadian GDP was curtailed to less than 3 per cent in 1989.

This reduction in economic activity has led to a relative slowdown in the volume of import growth, despite an appreciation of the currency. For example, the rise in import volume of machinery and equipment was about 13 per cent in 1989, compared to 28½ per cent in the previous year and the volume of imports of motor vehicles and parts actually declined by 4½ per cent in 1989, following a rise of 4½ per cent in 1988. On the other hand, export volumes were adversely affected due to the appreciation of the currency as well as bad weather resulting in a sharp decline in the volume of wheat exports.

These categories together account for about 60 per cent of Canada's imports.
76. The recent decline in Canada’s merchandise trade surplus does not fully explain the significant rise in its current account deficit. A major additional reason for the rise in the current account deficit is the large magnitude and increase of the deficit in Canada’s net foreign investment income (Chart III.1). About half of the deficit on net foreign investment income is on account of interest payments, which reflect both the previous debt as well as the rise in Canada’s interest rates.

(3) Restrictions On Foreign Investment

77. Canada pursues a liberal policy on outward or inward portfolio investment. Except for restrictions in certain sectors such as broadcasting, oil, gas, uranium, and finance, foreign direct investment in Canada is governed by the Investment Canada Act. This Act replaced the Foreign Investment Review Act in 1985, resulting in significant liberalization of investment policy. It is administered by a federal agency, Investment Canada, with a mandate to encourage foreign investment, as well as to review it. There are no barriers to outward foreign direct investment from Canada.

78. New foreign investment in Canada is subject to notification. If the investment is in an area related to Canada’s national identity, or cultural or national heritage, the Governor in Council may order a review in the public interest.

40 The swamping effect of net foreign investment income can also be gauged by the fact that the sharp rise in the current account deficit occurred despite a substantial increase in net inheritance and migrant funds from CAN$ 1.29 billion in 1984 to CAN$ 5.88 billion in 1989. The excess of the deficit on services trade compared to these inflows fell by CAN$ 0.97 billion during 1984 to 1989.

41 Among the few restrictions is a limit on the investment of Canadian pension funds in foreign securities. Until recently, more than 10 per cent of pension funds in Canada could not be invested in foreign securities. This limit is now being increased in stages to 20 per cent.

42 Certain Foreign Investment Review Act practices were found to be GATT-inconsistent by a GATT Panel.


44 These areas include: publication, distribution and sale of books, periodicals, and newspapers; music in print or machine readable form; and publication, distribution, sale and exhibition of film or video products and audio or video music recordings; financial sector; certain minerals and energy products.
79. Review of foreign acquisition of existing business is conducted only under certain specified circumstances. Direct acquisition of control of business with gross assets below CAN$5 million and indirect acquisition of control of business below CAN$50 million is only to be notified. All other foreign investment is subject to review and notification. In a limited number of transactions, commitments are secured from the acquirer in order to increase the net benefit of the transaction to Canada.

80. Any foreign investment which is subject to review is allowed only if the Minister decides that it is likely to be of net benefit to Canada. The Minister's decision is final and there is no appeal against it.

81. Ownership controls apply to uranium, oil and gas, cultural industries and the financial sectors, which are also subject to review. For uranium mining, majority control should be with Canadians or the project should be Canadian-controlled as defined under the Investment Canada Act. Similarly, a 50 per cent foreign ownership requirement is imposed for oil and gas produced in a frontier or offshore area. Direct foreign acquisition of healthy Canadian-controlled oil and gas business is not allowed. Controls on cultural industries include the stipulation that the Canadian broadcasting system should be effectively owned and controlled by Canadians. New businesses in book publishing and distribution must be in the form of a Canadian-controlled joint venture, and acquisition in this sector is allowed only if control is divested, within two years, to Canadians at fair market value.

82. Banks are separated into two categories, those in which no shareholder may own more than 10 per cent (and in which non-residents may not together own more than 25 per cent), and those which may be controlled by shareholders. The domestic assets of banks controlled by foreign banks other than those from the United States, must not exceed 20 times their authorized capital. The total domestic assets of these banks must not exceed 12 per cent of the aggregate assets of Canadian banks. Federally-regulated Canadian-controlled trust, loan or life insurance companies are also subject to the rule that no more than 10 per cent of their shares may be acquired by any single non-resident, and no more than 25 per cent of their shares may be acquired by non-residents as a group.

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45. Foreign investment is reviewed under the Investment Canada Act if it results in direct acquisition of control of a Canadian business with gross assets of CAN$ 5 million or more; in indirect acquisition of control of Canadian business with gross assets of CAN$ 50 million or more; or if Canadian assets acquired as part of a larger non-Canadian acquisition are more than 50 per cent of the total international or domestic assets. In case of acquisition of a business in an area relating to cultural heritage or national identity, a review has to be deemed necessary by Governor in Council.

46. Exemptions are granted if it can be demonstrated that Canadian partners cannot be found.
83. Under the Canada-United States Free Trade Agreement, firms and investors from the United States will be exempt from some aspects of the 10 per cent and 25 per cent rules. Additionally, subsidiaries of banks from the United States will not be constrained by the 12 per cent ceiling on assets. For Canada's cultural industries, if no Canadian buyer is found when control by a resident or firm of the United States is to be relinquished, the Canadian Government will purchase the business at fair market value.

84. Regarding foreign investment in general, new businesses from the United States will be given national treatment* and there will be limits on the performance requirements imposed on them. The threshold level for review in the case of direct acquisition will be raised in four steps to CAN$ 150 million by 1992. For indirect acquisition, the review process will be phased out over this period.

85. The specific arrangements with respect to review procedures concerning foreign direct investment from the United States will not apply to oil and gas, and uranium. Moreover, these arrangements refer to prospective changes. Existing laws, policies and practices have been grandfathered, except for changes such as the amendment to the Investment Canada Act (Article 1607.3) and the provision relating to divestiture of a cultural business (Article 1607.4).

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47 As a general rule, Canada provides national treatment to foreign investors.

48 The sale of Crown-owned firms will be free from national treatment obligations. Both Governments will remain free to tax foreign firms on a different basis than domestic firms. National treatment will be interpreted flexibly: equivalent rather than identical treatment will be considered to meet the criterion of national treatment.
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

86. Canada uses a host of policies which affect the pattern and level of its international trade. The policy which affects the largest number of products is tariffs. Other policies with a wide coverage include standards, health and safety regulations, and export and import controls. Some other policies such as supply management, transport and production subsidies, and export promotion affect fewer items.

87. In the Tokyo Round of multilateral trade negotiations on tariffs, Canada substantially reduced its tariffs on dutiable industrial products. The simple average of m.f.n. post-Tokyo Round tariffs on industrial products was about three-fifths of the pre-Tokyo Round average, and though the tariff régime was still marked by significant tariff escalation, the degree of escalation was reduced (Table IV.1). High rates were maintained for items such as footwear, textiles and clothing. The Canadian trade régime for textiles and clothing operates mainly under the Multifibre Arrangement, quotas under which have become more restrictive in the latter half of the 1980s.

49 A noteworthy point in this context is that policies which cover a large number of products do not necessarily provide the largest degree of assistance to domestic producers of those goods (see Chapter V).

50 The report on Canada's policies in this Chapter is divided according to the main effects of these policies on exports, imports, and production and trade. Such a classification is adopted only for expositional purposes, and not to suggest that the effects of a specific policy are limited only to exports or imports or production. In this context it should be borne in mind that any policy which creates incentives or disincentives for any activity such as imports, exports or domestic sales, will also have implications for other activities (sectors) on account of the inter-relations between them. This has been highlighted in the literature analysing trade policies by, for instance, the concept of "true protection", or with the use of general equilibrium simulation of effects of different policies. See, for example, K. Clements and L.A. Sjaastad (1984), How Protection Taxes Exporters, Thames Essays 39, Trade Policy Research Centre, London, and I. Goldin and O. Knudsen, eds. (1990), Agricultural Trade Liberalization. Implications for Developing Countries, OECD and the World Bank, Paris.

51 The tariffs considered in Table IV.1 are: for tariff lines with bindings, the m.f.n. bound rates; applied rates for other tariff lines.
88. In the 1980s, the average tariff rate for Canada has declined steadily from about 5½ per cent to reach the current level of below 4 per cent. Most of its tariffs are ad valorem. Specific or composite tariffs apply to several agricultural items, yarns, some made-up articles of fabrics, and some chemicals, and ores and minerals. Over 95 per cent of Canada's trade comes under bound tariffs. The share is larger for agriculture than for industrial items.

89. Canada provides tariff concessions under several schemes, and has seven different policies for tariff preferences in comparison to its m.f.n. tariffs. This makes it difficult to determine either the ex-ante effective tariff across items, or the extent of actual preferences provided to any country.

90. Canada prohibits or restricts exports or imports of certain items for reasons such as national security, international agreements, health and safety and marking and labelling; marking and labelling can be done in the country before release of the good from the warehouse. In most cases, the prohibition is conditional on certain requirements for product characteristics, or destination or origin of trade. Canada operates trade controls through permits, and imposes quantitative restraints on imports of certain products, mainly under its domestic agricultural supply management policies and on textile and clothing pursuant to the Multifibre Arrangement. In general, items on the Import Control List get licences more easily than those on the Export Control List, because the majority of products on the latter list are restricted due to COCOM provisions.

91. The long-standing import quotas on footwear were removed in 1988. In the last few years, the product coverage of the Import Control List has increased as more items were added to it than deleted from it. In contrast, the list of countries to which non-security-related exports are not allowed without a licence, has been reduced substantially to now include only Libya and South Africa.

92. Canada actively uses the Anti-Dumping Code, and had 130 measures in place at the end of 1989. Most of these were anti-dumping duties, with only 13 being price undertakings; the product group with the largest incidence is steel products. Canada has also imposed some countervailing measures. After 1985, there has been no Article XIX action.

93. Other policies which affect trade include technical standards, health and safety restrictions, marking and packaging requirements, tax concessions, and financial assistance. Canada promotes its exports through several programmes, some of which are product specific. As a proportion of total export revenue, the concessional finance provided for export promotion is very small.

94. Agriculture gets much more financial assistance in Canada than the industrial sector. In agriculture, assistance takes mainly the form of price stabilization schemes, transport subsidies, or crop insurance. A
large portion of the assistance to industry is provided through regional development programmes.

95. As a result of its attempt to reduce the budget deficit, combined with an increasingly liberal policy stance, the Canadian Government has phased out some significant programmes of assistance, reduced its budget allocation for some large schemes like the Defence Industry Productivity Program, and has put an upper limit on the amount of its contribution towards some price stabilization schemes in agriculture. The new programmes of assistance generally have a sunset clause, and incorporate stricter terms of repayment.

96. Currently, the Government is undertaking several reviews and initiatives, such as those pertaining to textile tariffs, assistance to agriculture, sharing costs of its policies with the beneficiaries, enhancement of technological capabilities, and some opening up of the market for government procurement.

97. Among the objectives of the Government, technological upgrading has assumed much greater emphasis in recent years, and this objective is being pursued through a series of new policies designed specifically towards this end, or by making it a component of already existing policies. Current attempts on the part of the federal Government to liberalize and harmonize the public procurement market highlight the problems arising from policy differences among provinces of this federal nation.

98. A major change in the Canadian policy régime has occurred on account of the Canada-United States Free Trade Agreement, especially due to the large share of bilateral trade in Canada's total trade. As mentioned in Chapter II, this Agreement covers goods, services and investment. It has resulted in an elimination of tariffs on full implementation and extensive reductions in non-tariff measures in bilateral trade, and includes a new dispute settlement mechanism for bilateral trade. The overall level of protection in Canada has become lower as a result of the Agreement. However, since the liberalization through this Agreement is not on an m.f.n. basis, the overall effect on other nations will depend on the balance between trade creation and trade diversion.

(2) Measures Directly Affecting Imports

(i) Tariffs

99. Customs duties and relief mechanisms on different products are provided by the Canadian Customs Tariff legislation, which was revised recently to incorporate alterations due to a change in tariff nomenclature and the Free Trade Agreement. Statutory m.f.n. customs duties are given for approximately 8,000 tariff lines contained in Schedules I and II of the Canadian Customs Tariff. Schedule I contains about 7,400 eight-digit tariff lines which are based on, and consistent with the 5,019 six-digit items of the Customs Co-operation Council's Harmonized System (HS). The
annex codes in Schedule II give statutory concessional tariffs for items in Schedule I provided they are used in the production of specified products (end-use criterion).

100. Canada adopted the Harmonized System-based tariffs on 1 January 1988. The number of tariff lines have increased as a result of the adoption of the new system in order to provide differential tariff treatment to sub-categories, and for statistical purposes. The average tariff changed from 4.0 per cent in 1987 to 3.7 per cent in 1988.

101. although the tariffs under the new system were imposed in line with the objective of overall revenue neutrality, the large extent of conversion implied that anomalies could not always be avoided. Hence, the new legislation provides authority to deal with claims regarding the restoration of previous tariff rates. Many applications were made, most of them suggesting that several new tariffs were more onerous. As a result, many tariff rates were subsequently lowered, a few were raised, and the number of tariff lines increased to accommodate these changes. End-1989 was the last date for accepting applications for duty reductions on items whose tariff increased under the new system. The authority to make such changes expires end-June 1990.

102. Most tariff items of Canada have ad valorem tariffs (Table IV.2). Specific duties are applied to a number of agricultural and textile items. In some cases, there are composite tariffs, i.e. a part of the tariff is given as ad valorem and another as a specific duty, or the specific tariffs are given in terms of upper or lower limits (see Chapter V for more details). There are seasonal tariffs on certain fruits and vegetables, many of which were introduced following a GATT Article XXVIII negotiation in 1979. It is noteworthy that the application of seasonal tariffs is not mandatory. The Minister of Agriculture in consultation with the Horticultural Council decides whether the seasonal tariffs should be applied, and if so, for the full specified period or for only a part of it.

103. In addition to imposing tariffs on imports on the basis of their origin, Canada also applies concessional rates of tariff on certain imported products if they are used to produce some specified items (the end-use criterion). Thus, while Schedule I of the Customs Tariff gives a particular m.f.n. tariff rate on some item, the actual applied m.f.n. rate could be different if the item also gets a tariff concession on account of being used for some specified purpose. Such a combination of an end-use

52 In the previous nomenclature, there were about 3,500 tariff lines.

53 Special provisions through orders-in-council were used to accommodate 275 cases for changing tariff lines. In May 1990, 180 active cases for similar requests were yet to be dealt with.
criterion with the origin of imports criterion complicates the calculation of the actually applied tariff rate in Canada.

104. Unless qualified by some concessionary tariff, the m.f.n. rates are applied to all GATT members and to other trading partners with which Canada has negotiated bilateral trade agreements incorporating an m.f.n. clause. To qualify for m.f.n. tariff treatment, proof of origin is required. Goods must originate in the beneficiary country or at least 50 per cent of the cost of production of the goods must be incurred in one or more m.f.n. beneficiary countries. Canadian content may also be deemed as originating from the beneficiary country. The goods must be shipped directly to Canada from a country to which m.f.n. tariffs apply.

105. General Tariff rates are applied to imports from countries or territories with which Canada has no tariff arrangements. The general tariff rate is 35 per cent for most items. It also applies unconditionally when the country of origin of a good can not be determined. For a few products, the general tariff is the same as the m.f.n. rate.

106. For a large number of items imported from certain sources, e.g. developing countries or least developed countries, Canada provides preferential access through tariffs lower than the m.f.n. rates.

(a) Average tariff levels

107. As of January 1990, Canada’s overall simple average of m.f.n. ad valorem tariff given in Schedule I of the Customs Tariff was 8.7 per cent (excluding ad valorem equivalents of specific rates or mixed tariffs). Corresponding Tariff averages by sector ranged between zero and

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54 These rates apply to imports from 199 countries or territories. Most recently, m.f.n. treatment has been granted to Saudi Arabia in November 1988. Customs duties have contributed about 4 to 5 per cent of government net revenues in recent years. The share has declined steadily from 5.4 per cent in 1985 to 4.3 per cent in 1989.

55 For details of other conditions see Revenue Canada, Customs and Excise, Memorandum D11-4-3, 1 January 1988.

56 These are Albania, Balau Islands, North Korea, Libya, Mongolia and Oman. Saudi Arabia were earlier subject to these rates, but now most-favoured nation rates are applied to its products.

57 The tariff categories for these products are 2709.00.10, 2710.00.90, 2711.19.90, 4901.99.91, 4902.10.00, 9701.10.90, 9701.90.90, and all items in Chapter 98.
19.1 per cent (Table IV.2).\(^{58}\) The representativeness of these averages of ad valorem tariffs varies across product categories. While for some categories all (or most) individual tariff rates are ad valorem, other categories, mainly agricultural commodities such as dairy products or meat and meat products, have a large share of tariffs which are not ad valorem.

108. On account of Canada’s provision of concessional tariffs by end-use, and tariff remissions under schemes such as the machinery programme and the inward processing programme, the ad valorem tariffs of Schedule I do not give a complete picture even for those product categories for which all the tariffs are ad valorem. The average tariffs incorporating the effects of concessions can be calculated from the data on customs duty collected and the value of imports.\(^{59}\) On this basis, the average tariff was 3.7 per cent in both 1988 and 1989. About two-thirds of total Canadian imports came in duty-free during these two years.\(^{60}\)

109. Regarding dutiable imports, the average tariff applied on imports from the United States has generally been lower than the overall average (Table IV.3).\(^{61}\) This indicates the fact that the m.f.n. average tariff on dutiable items is higher than the aggregate estimate.

(b) Tariff bindings

110. In Canada, bindings cover more than 98 per cent of all eight-digit tariff lines in Schedule I of the Customs Tariff (Tables IV.4 and IV.5). In 1988, 96 per cent of Canadian imports came in under bound tariffs (about 80 per cent of the trade under unbound tariffs is accounted by petroleum oils and books). In 1989, the shares of trade under bound tariffs for industry and agriculture were 95.9 and 98.5 per cent, respectively.

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\(^{58}\) The estimates in Table IV.2 exclude gold.

\(^{59}\) This estimate will not give m.f.n. tariffs. However, it provides a good approximation for the period till 1988, because share of preferential in total trade was small till then. A noteworthy point is that these tariff estimates do not include the effect of duty drawbacks because they are provided over an extended period of time.

\(^{60}\) In this context, it bears emphasis that the presence of tariffs curbs imports and gives a downward bias to the share of dutiable imports.

\(^{61}\) This difference has become more pronounced since 1989 because of the effect of the Canada-United States Free Trade Agreement. Since imports into Canada from the United States are almost two-thirds of total imports, the share of m.f.n. imports in total imports declined sharply in 1989.
111. Bindings reflect the types of tariffs applied on different items (ad valorem, specific, etc.). In most cases, the bound rates are the same as the applied rates. About one-quarter of the tariff lines in Canada have bindings at zero rates of duty. The share of tariff lines with bound rates of duty below 5 per cent is much larger for agriculture than for industry (Table IV.5).

112. Some of the concessional tariffs in Schedule II of the Customs Tariff also have bindings. Of about 500 codes for the items in this Schedule, fully unbound tariffs are in place for only 37 codes.

(c) Tariff range

113. Canadian m.f.n. ad valorem tariffs range from duty-free to 30 per cent (men’s cotton ski jackets). There is a wide dispersion of m.f.n. ad valorem tariffs in Schedule I of the Canadian Tariff applicable in January 1990 across product categories (Table IV.2).

114. Applied tariffs, which incorporate concessional rates and ad valorem equivalents of specific rates, give a better indication of the effective range of tariffs for different categories. The most recent data with such information across product categories refer to 1988 (Table IV.6). The range of applied tariffs in Canada is duty-free to 71 per cent (grape must with fermentation prevented or arrested by the addition of alcohol).

115. Tariff ranges do not capture information on two important aspects of protection. One is non-tariff assistance. The second is tariff escalation, or the associated measure of effective rate of assistance.

(d) Tariff escalation

116. Generally, there are low or free rates on raw materials and exotic products in Canada, and tariff rates tend to increase as goods become more highly processed. Tariff escalation is present in both industry and agriculture, with the degree of escalation varying across these sectors (Chart IV.1).

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62 In considering this data, an important point to bear in mind about specific tariffs is that their ad valorem equivalence depends on the price of the imported product: the ad valorem equivalence of these tariffs increases with a decline in the import price, and vice versa.
Chart IV.1
Average applied tariffs in Canada according to stage of processing, 1988

Source: GATT Secretariat estimates based on data provided by Government of Canada.
117. The overall degree of tariff escalation will be reduced as bilateral trade becomes progressively duty-free under the Free Trade Agreement between Canada and the United States. However, for imports from m.f.n. sources, though a relatively small proportion of Canada’s total imports, substantial tariff escalation will remain.

(e) Tariff preferences

118. Canada provides seven types of preferential tariffs on the basis of origin of imports, including those arising from the Canada-United States Free Trade Agreement.

Canada-United States Free Trade Agreement (FTA)

119. Even before the Free Trade Agreement between Canada and the United States, duty-free access was granted to substantial imports from the United States under the Auto Pact. By eliminating all tariffs between Canada and the United States over time, the FTA will further ease bilateral access to these markets. Tariffs reduction will be phased-in over a period of ten years in order to provide an adjustment period to firms. All tariffs will be eliminated by 1 January 1998 on the basis of three formulas; among the exceptions is the possibility for Canada to restore temporarily tariffs on fresh fruits and vegetables for a twenty year period under depressed price conditions. According to the initial agreement:

- For those sectors ready to compete, tariffs were eliminated upon the Agreement coming into force on 1 January 1989. These items include computers and equipment, fur and fur garments, fresh and frozen fish, animal feed, skis and skates, and whisky. They cover about 15 per cent of dutiable bilateral trade.

- For some sectors, tariffs will be eliminated in five equal steps, starting on 1 January 1989. On this date, tariffs decreased by 20 per cent for slightly over one-third of dutiable bilaterally traded goods, including machinery, paint, furniture, paper and

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63 A point worth emphasising in this context is that the lower tariffs suggested by the recent review of textiles tariffs by the Canadian International Trade Tribunal would result in a much higher effective rate of assistance to the apparel industry in Canada. See, Canadian International Trade Tribunal (1990), An Inquiry Into Textile Tariffs, Volume 2, Ottawa, p. 100.

64 Some other exceptions include the first 10-step phase down for speciality steel starting on 1 October 1989 instead of 1 January 1989, and tariffs on central office switching apparatus and their parts being eliminated in three annual steps.
paper products, hardwood plywood, petroleum and after-market auto parts.

All other tariffs will be eliminated in ten steps, generally starting from 1 January 1989. Beginning on this date, tariffs dropped by 10 per cent for items such as clothing and textiles, appliances, most processed foods, footwear, drugs and cosmetics.

The sectoral pattern of the phasing-out of tariffs is shown in Table IV.7.

120. In 1989, the two countries agreed to accelerate tariff reduction for about 400 products, mainly petrochemicals including methanol, telecommunications and photographic equipment, diesel locomotives, printed circuits and aluminium products. Tariffs on most items were fully eliminated. The cuts took effect on 1 April 1990. They cover about CAN$6 billion of bilateral trade, and about CAN$3 billion of Canadian exports. Further moves towards accelerated tariff reductions are being made in the two countries.

121. Rules of origin determine the products to which the new tariff treatment will apply. In the case of goods incorporating offshore raw materials or components, it has been agreed that most goods qualify for treatment as either of United States or Canadian origin if they have been sufficiently changed either in Canada or the United States to be classified differently from the raw materials or components from which they are made. In some cases such as chemicals, machinery, footwear and automobiles, the products must meet some additional conditions, including a minimum share of value added in either country. For assembled goods, 50 per cent of the value of the goods, i.e. materials and direct cost, must originate in Canada or the United States. There are specific restrictions concerning subsequent processing or assembling in a third country.

General Preferential Tariffs (GPT)

122. Through its scheme of General Preferential Tariff (GPT), Canada provides concessional tariff rates to developing countries under the generalized system of preferences. The beneficiaries are countries which claim developing country status and which generally receive GSP preferences

65 For details, see Canada Gazette Part I, EXTRA No. 2, Vol. 124, Ottawa, 19 February 1990. The tariff reductions are estimated to result in about CAN$100 million in duties foregone for Canada.

from other countries. The legislation creating General Preferential Tariff was brought into effect on 1 July 1974, for an initial period of ten years. The coverage and the eligibility conditions for GPT have changed over time. Major changes, i.e. increased product coverage and lower tariffs, occurred in 1981 and 1983. The 1983 budget extended the GPT for a further ten years till 30 June 1994.

123. Currently, provided certain conditions are satisfied, 163 developing countries or territories can claim these concessionary tariffs, including Hungary and Poland, which were added to the list of GPT beneficiaries in December 1989. In general, there is no policy of "graduating" developing countries from this scheme. Greece and Portugal were denied GPT treatment when they joined the European Communities, and St. Pierre and Miquelon were excluded when they accepted the EEC Common External Tariff.

124. Originally, the GPT rates were formula-based, the formula being established by Parliament: until 1988, the GPT tariff was generally the m.f.n. tariff less one-third, or the British Preferential Tariff (see below), whichever was less. Today, GPT rates are generally two-third of the m.f.n. rate or lower.

125. For any tariff item with a General Preferential Tariff, the same preferential margin is provided to all beneficiaries. The General Preferential Tariff does not exclude the invocation of safeguard measures in trade with individual developing countries (see Section vii).

126. To avail GPT concessions, goods must be accompanied by the prescribed documentary evidence. A special certificate of origin, i.e. "Form A", is required. The certificate must be issued by a governmental body of the beneficiary country or a body assigned for this purpose by the government of that country, and recognized by the Canadian Minister of National Revenue (Customs and Excise) for the purpose. The products for which GPT concessions are allowed must originate from the beneficiary countries, or at least 60 per cent of the value of the goods (ex-factory price) as packed for shipment to Canada must be added in a country entitled to GPT

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The countries must notify Canada directly of the bodies authorized to issue such certificates; 66 countries or territories have not yet notified such bodies, and in consequence do not receive preferential treatment.
preferences or in Canada. The goods must be shipped directly to Canada from a beneficiary country.

127. Some products such as certain agricultural products, textiles and clothing, footwear, specialty steels, and electron tubes are excluded from the GPT scheme. A much larger share of industrial items are covered by the GPT scheme than agricultural products (Table IV.8). Under GPT, Canada grants duty-free entry for handicrafts products classified under Code 2955 of the Canadian Customs Tariff.

128. There have been many changes in the GPT scheme since its introduction. Major reductions in rates of duty and extension of product coverage took place in 1981 and 1983. In 1984 and 1985, zero rates of duty were legislated for some products of particular interest to developing countries, including certain non-preserved tropical fruits, hand rolled cigars and cricket equipment. Canadian imports from GPT beneficiaries have been very low. For example, in 1988, the share of imports from countries entitled to GPT preferences was only about 6 per cent.

129. Canada fully implemented the tariff cuts on tropical products as part of the Uruguay Round's Montreal trade liberalization package in October 1989, with retroactive effects from 1 July 1989. Bindings on these tariff reductions will be considered at the end of the Uruguay Round.

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68 It is worth noting that this rule of origin criterion is based on the **ex-factory price** while that for m.f.n. tariffs is based on the **cost of production**. In calculating the cost of production, profit, royalty and export packaging are excluded, while they are included in the calculation of the ex-factory price.

69 For further details of the conditions for getting GPT concessions, see Revenue Canada, Customs and Excise, Memorandum D11-4-4, 1 January 1988.

70 In some cases such as chemicals, many of the tariff items without GPT have duty-free m.f.n. rates.

71 This is the share of total imports from these countries, and not only that to which the GPT rate is applied.

72 The tariff reductions covered 32 out of 255 six-digit HS categories which are part of the package of tropical products being discussed in the Uruguay Round. Canada already had duty-free m.f.n. rate on 110 categories, and duty-free General Preferential Tariff on 37 categories.
Least-developed developing countries

130. Imports from least-developed developing countries enter duty-free into Canada, if GPT preferences are provided for the products concerned. The criterion for determining the origin of imports is more lenient for these countries, i.e., at least 40 per cent of the ex-factory price of the good as packed for shipment to Canada should be from a least-developed country or Canada.73

British Preferential Tariff

131. British Preferential Tariffs are offered to 66 member countries or territories of the British Commonwealth of Nations. As a result of bilateral trade agreements, Australia and New Zealand are offered a lower tariff on certain items (Table IV.8). In trade with South Africa, United Kingdom and Ireland, m.f.n. rather than British Preferential Tariff rates are applied.74

132. The British Preferential Tariff refers to select items (Table IV.8). After the introduction of the Harmonized System-based tariffs, the product coverage has been reduced where beneficiary countries were already eligible for the same rate under the GPT. However, the developing countries entitled to the British Preferential Tariff enjoy reduced rates on a few items, such as certain textile and agricultural products, not covered by the General Preferential Tariff scheme. The rules of origin for the British Preferential Tariff scheme differ from those for GPT.75 Goods entitled to BPT must be exported directly from a BPT beneficiary country without transhipment, unless specifically exempted.76

73 This preference scheme was introduced by the 1981 budget. Canada applies the definition of least-developed countries used by the United Nations.

74 For further details see ibid.

75 Till 1986, United Kingdom and Ireland had special tariff arrangements, notably the UK and the Ireland Tariffs.

76 To qualify for the British Preferential Tariff, at least 50 per cent of the cost of production must have been incurred in a BPT beneficiary country. The certification process for the proof of origin is simpler for availing British Preferential Tariffs.

77 See ibid. For details of the British Preferential Tariff, see Revenue Canada, Customs and Excise, Memorandum D11-4-3, Ottawa, 1 January 1988.
Australia Tariff

133. The Canada-Australia Trade Agreement, negotiated in 1932, entitles imports from Australia to British Preferential Tariff, or additional preferences in the case of 42 tariff lines (Table IV.8). They apply mainly to agricultural products. The rule of origin for these items is the same as that required for British Preferential Tariff, with the difference that Canadian content may be deemed as originating in Australia.

New Zealand Tariff

134. This tariff results from a bilateral agreement with New Zealand in 1932. Accordingly, imports from this country receive BPT treatment, or for 48 tariff lines, some additional preferences (Table IV.8). Rules of origin similar to those for the Australia Tariff apply.

CARIBCAN Tariffs

135. Through its CARIBCAN programme, implemented since 15 July 1986, Canada offers duty-free access to the Canadian market for most imports from the Commonwealth Caribbean countries. In November 1986, the GATT CONTRACTING PARTIES granted Canada a waiver for CARIBCAN till 1998.

136. Certain products are excluded from duty-free treatment under CARIBCAN. They include textiles, clothing, footwear, luggage and handbags, leather garments, lubricating oils, and methanol. For textiles and clothing items, however, there are no quotas on imports from the Commonwealth Caribbean countries, while import quantities from a number of other sources are restricted.

78 See GATT (1990), Trade Policy Review - Australia, Geneva, for the main features of this Agreement.

79 For details see Revenue Canada, Customs and Excise, Memorandum D11-4-6, 1 January 1988.

80 For more details see ibid.

81 The countries are Anguilla, Antigua and Barbuda, Bahamas, Bermuda, Barbados, Belize, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, and Turks and Caicos Islands.

82 The tariff items are listed under Chapters 50 to 65, and 2710.00.20, 2905.11.00, 3403.11.10, 42.02, 4203.10.00, and 46.02.
137. To qualify for CARIBCAN preferences, a certified Form A is required. Regarding rules of origin, a minimum of 60 per cent of the ex-factory price of the goods as packed for shipment to Canada must originate in any of the beneficiary countries or in Canada. The goods must be shipped directly to Canada.

(f) Tariff concessions

138. Canada has several schemes for tariff concessions authorized by both statutory provisions and executive orders. The concessions provided in Schedule II using the end-use criterion have already been mentioned earlier. Tariff concessions are also provided, frequently on the basis of the end-use criterion, through certain policies applying generally to several product categories, as well as to specified categories of chemicals and plastics, automobiles and parts, aircraft and parts, and machinery and parts. Some of these tariff concessions result from agreements with other trading partners.

139. The concessions in Schedule II are provided by statute, and any changes in these require assent of Parliament. Concessions on the basis of end-use are also provided through executive order (Governor-in-Council), pursuant to Section 68(1)(a) of the Customs Tariff to products listed under "Customs Duties Reduction or Removal Order". They have to be renewed annually. For items covered by both statutory and executive orders, the rate of duty is reduced to zero in most cases. Positive rates of duty are applied on items such as certain chemicals, textiles, tyres, and parts of clocks; for a few of these items, the duty is 10 per cent or more. General Preferential Tariff treatment is available for most of these products, and British Preferential rates are provided for some of them.

140. Schedule II of the Customs Tariff contains concessionary provisions relating to the Agreement on Trade in Civil Aircrafts which accord duty free treatment to imports of civil aircraft and products used to manufacture and repair such aircraft. Customs duty relief is also provided through some other regulations pertaining to the chemicals and plastics industry (the Chemicals and Plastics Duties Reduction or Removal Order which needs annual renewal), the Automobile Products Trade Agreement (APTA) provisions made pursuant to Section 68(1)(b), and the provisions for duty-relief made pursuant to Section 75.1. in the case of certain machinery and equipment not available from Canadian production, and their parts.

83 For further details see Revenue Canada, Customs and Excise, Memorandum D11-4-5, 1 January 1988.

84 In 1989, some products for which concessions were earlier provided through executive order, were added to Schedules I and II of the Customs Tariff.
(g) Duty drawbacks and remissions

141. Duty drawbacks are provided by Canada through its home consumption drawback, the machinery programme, and the export and inward processing programme.

142. While tariff concessions are provided when a product is imported, duty drawback is provided only after evidence of use is verified ("pay first, reclaim later" principle). Customs duty drawback for home consumption is provided on the basis of an end-use criterion.

143. The Canadian Customs Tariff has two lists of items for which home consumption drawback is provided. One is established by statute and any change in it would require assent of Parliament (Schedule IV of the Customs Tariff). The second list is established by Order-in-Council (Schedule V). It can be changed through a meeting of the Special Council, and needs to be renewed annually.

144. Under the Machinery Program, relief from customs duty and a portion of excise taxes otherwise payable is granted on machinery, equipment and parts not available from production in Canada. A list of these products, established by the Minister of National Revenue, is published in the Canada Gazette and provided in Schedule VI of the Customs Tariff. The list is modified from time to time. Major features of the tariff rates for

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85 For details see Revenue Canada, Customs and Excise, Memorandum D7-2-1, Ottawa, 1 January 1988.

86 This list includes certain oils, fuel, products of steel, fabrics, raw sugar, machinery and precision instruments, and paper. Full duty rebate is provided for a majority of these products. For others, the rebate ranges between 60 and 75 per cent; for undenatured ethyl alcohol used for certain purposes, the additional customs duty imposed under Section 20 is refunded.

87 The products in the second list are certain yarns and fabrics, items of wood, paper, and eyelets and shells of iron and steel. For a majority of these products, full duty rebate is granted; for some plywood panels and laminated paperboard sheets tariffs are reduced by two-thirds, and for iron and steel products by 26 per cent.

88 The Minister of National Revenue is advised by a Machinery and Equipment Advisory Board in the formulation and amendment of this list. Individual importers can seek a change in the coverage on the basis of evidence to back their claim. There are about 10,000 such cases each year. For details of the legislation, see Revenue Canada, Customs and Excise, Memorandum D8-5-1, Ottawa, 1 June 1989.
items under this programme include that tariffs are bound under the GATT; the overall bound rate will not exceed 9.2 per cent; and the average bound rate will not be higher than 5.25 per cent. Under the Free Trade Agreement, Canada has specified a list of machinery, equipment, and parts originating from the United States which will be treated as "not available", and no changes will be made in this list over time.

145. Canada provides a drawback on customs duty and sales tax paid on imported parts or materials used in Canada for manufacturing goods subsequently exported, or on imported goods which are re-exported (see below).

146. Under the Free Trade Agreement, Canada and the United States have agreed that duty drawbacks and similar schemes on imported goods, including those available through the United States foreign trade zones, will be eliminated for bilateral trade after 1 January 1994. No new duty waivers tied to specific performance requirements will be introduced and all existing duty waivers will be eliminated by 1 January 1998.

(h) Customs valuation

147. Canada is a signatory to the Agreement on the Implementation of Article VII of the General Agreement on Tariffs and Trade (the Customs Valuation Code). With effect from 1 January 1985, Canada introduced a new system of customs valuation consistent with the GATT Valuation Code. The transaction value is used to assess the customs duty on imports. Where it is not possible to appropriately ascertain the transaction value, there is a provision for applying five alternative methods for valuation to be used in sequential order of precedence as set out in the Customs Valuation Code: the transaction value of identical goods; the transaction value of similar goods; the deductive value of identical or similar goods; the constructed value of identical or similar goods; and the residual method under which the Minister can specify the method for valuation.

148. Generally, goods imported into Canada have to be accounted for by the owner by reporting them at the nearest customs office, and made available for examination. The customs officer determines the tariff

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89 This is the price actually paid or payable for the products, subject to adjustments such as packing costs and charges, commissions and brokerage, cost of transportation to the place of export, and royalties and licence fees. See Section 48 of the Customs Act.

90 For details see the Customs Act.

91 For exceptions, see Customs Act. This Act has a provision for (Footnote Continued)
classification and appraises the value of duty within 30 days of the imported products being accounted for by the importer. To challenge any tariff classification or the value appraisal of an item, the importer must make a written request within 90 days of the date of entry to a tariff values administrator (an officer designated by the Minister of National Revenue). Subsequently, several authorities can be sequentially approached in case appeals are rejected at different stages of the review. The sequential order of appeal to different authorities is: the Deputy Minister for Customs and Excise; the Canadian International Trade Tribunal; and the Federal Court. A review of tariff classification or value for duty can also be initiated by the designated officer or the Deputy Minister on their own initiative under circumstances set out under the Customs Act.

(ii) **Levies and excise taxes**

149. Even when no customs duties are levied on imports, a special customs duty has to be paid for some products under the Customs Tariff and the Excise Tax Act. This duty is generally equivalent to the excise duties that are levied on similar products from any source (including domestic). It is levied on beer, certain spirits, liqueurs and other spiritous beverages, cigars, cigarettes, and other manufactured tobacco. The exception is a CAN$0.12 per litre excise duty on imported spirits when taken into bonded manufacturing (this excise duty was already in force prior to October 1947). No such duty is applied on domestically distilled spirits.

150. Imported goods are subject to Canadian sales taxes. The same rates are applied for domestically produced and foreign goods. A surcharge on imports can be imposed, if required on account of Canada's external financial position or the balance of payments (Section 61 of the Customs Tariffs). This provision has not been invoked since 1962.

(iii) **Tariff quotas**

151. Tariff quotas can be imposed for three purposes (Sections 42 to 45, and 59 and 60 of the Customs Tariff). One is to retaliate against discriminatory practices of other countries which adversely affect Canadian

(Footnote Continued)
release of goods prior to accounting and payment of duties if an interim accounting is made, following which the final accounting and payment of duties is to be completed within the stipulated period. Importers are also expected to keep records of their imports, which can be sought by Revenue Canada for examination.
trade, or to enforce Canadian rights under a trade agreement.\textsuperscript{92} The second is the case of general safeguard measures. Third, safeguards measures against injury from General Preferential Tariffs. Canada has never invoked any of these provisions for instituting a tariff quota.

152. As part of the Free Trade Agreement, however, Canada has imposed quasi-tariff quotas on two types of products. For articles of apparel and clothing accessories, which are both cut and sewn in the United States from fabric produced or obtained in a third country, a limit has been specified for the quantity of imports which will get the preferential rates of duty.

(iv) Import prohibitions

153. Canada prohibits exports or imports of selected items either as a complete ban or as a conditional ban (that is trade occurs only if certain conditions are met). Most of the prohibitions are conditional.

(a) Absolute prohibition of imports

154. Schedule VII of the Canadian Customs Tariff gives a list of items whose imports are prohibited.\textsuperscript{94} They include prison-made goods, certain types of feathers, certain eggs and meats, processed butter, substitutes for butter, white phosphorus matches, used mattresses and tyres, live specimens of the mongoose family, coin (base or counterfeit), obscene books, offensive weapons, and some herbicides. Some imports are restricted under the Export and Import Permits Act as a result of Canada’s membership in the Convention on International Trade in Endangered Species (CITES), of which Canada is a member. In addition, certain imports from specified sources are prohibited on grounds of health and safety under legislation such as the Food and Drug Act and the Narcotic Act. Items

\textsuperscript{92}For these reasons, action under Section 59 of the Customs Tariff can also be taken to withdraw rights and privileges granted to a country under a trade agreement, or the application of a surtax on the goods of any country. In recent years, Canada has invoked this provision (but not for tariff quotas) in 1984 and in 1989 against the United States. In the first case, a surtax on stainless steel imports was imposed, and in the second case the elimination of tariffs on certain plywood and related products was delayed.

\textsuperscript{93}Preferential rates are to be provided only for 1.1 million square yards equivalent of garments made of woollen fabrics, and for 10.5 million square yards equivalent for garments made of non-woollen fabrics.

\textsuperscript{94}The prohibitions are either in accordance with Articles XX or XXI of the GATT, or are covered by the GATT Protocol of Provisional Application.
whose imports are prohibited on this account include narcotics, drugs, food items, cosmetics, and medical and contraceptive devices.

155. Due to the Free Trade Agreement, the prohibition on used car imports from the United States is being phased out in five equal stages. From 1 January 1993, the prohibition will be fully lifted. Similarly, the prohibition on imports of periodicals containing more than five per cent advertising space aimed specifically at Canadians has been removed for periodicals published and edited in Canada, but typeset and printed in the United States.

(b) Conditional prohibition of imports

156. Canada allows imports of many products only upon written authorization from relevant authorities, or if certain regulations concerning, for example, health, safety, labelling or packaging are complied with. Conditional prohibition of goods are also in place to comply with international obligations such as the Convention on International Trade in Endangered Species. Import controls are administered through import licences or through inspection.

(v) Import licensing

157. Canada is a signatory to the GATT Agreement on Import Licensing Procedures. As mentioned in Chapter II, the basic statutory instrument for controlling imports and exports is the Export and Import Permits Act. It provides the authority for, and sets out the criteria for, establishing an Import Control List, an Export Control List, and an Area Control List. Control over the flow of particular goods to or from specific destinations contained on these lists takes place by issuing permits.

158. The reasons for placing goods on the Import Control List include ensuring adequate supply and distribution of an article that is scarce in the world markets or is subject to control in the country of export; supporting actions taken under domestic supply management programmes or price stabilization schemes for agricultural products; implementing an intergovernmental arrangement or commitment; implementing a quantitative restriction pursuant to a finding of serious injury or threat of injury, or collecting information to determine such a finding; collecting information to facilitate implementation of action taken under the Customs Tariff; or to monitor trade in specified categories of steel.

95 The products placed on the Import Control List are to support action taken under several other legislation, such as the Canadian Dairy Commission Act, Agricultural Stabilization Act, and the Farm Products Marketing Agencies Act, Narcotics Control Act, and Fish Inspection Act.
159. The Export and Import Permits Act enables the Secretary of State for External Affairs, or his designate, to issue import permits to residents of Canada who apply to import goods on the Import Control List. Permits are provided by the Special Trade Relations Bureau in conjunction with the relevant controlling agency, such as the Department of Agriculture, the Canadian Wheat Board, and the Atomic Energy Control Board.

160. The list of items in the Import Control List includes dairy products, chicken and its products, turkey and its products, egg and egg products, broiler hatching eggs and chicks for chicken production, textile and clothing items, work gloves, handbags, endangered species, arms, carbon steel, specialty steel products, goods of South African origin, raccoon dogs, and elephant ivory and articles containing this ivory. Import permits could also be required for some other items such as wheat, barley, and their products, which are not on the Import Control List. The Department of External Affairs administers import permits for barley and its products, and the Canadian Wheat Board is the administering agency for wheat, oats, and their products. Generally, import permits for these items are provided only if the importer gives evidence that an acceptable domestic source of supply is not available.

161. An import permit is non-transferable. Its validity is generally 30 days, but may be extended. It is issued five days before the arrival of goods. Since 1980, about 90 per cent or more of the applications for import permits have been approved (Table IV.9). Imports of up to 5 per cent over the value or quantity mentioned in the licence are permitted. Supplementary permits are issued for test marketing or in situations of inadequate supply.

162. A quantitative restriction may be imposed on imports of certain products, in addition to the requirement of an import permit. For certain

96 For the last two items, i.e. raccoon dogs and ivory and products containing it, import permits are needed as a result of bilateral agreements with the United States. In contrast to textile and clothing imports from certain developing countries, only four textile items imported from the United States are on the list. For dairy products on the Import Control List, see Chapter V.

97 Licence for imports of oats is now not required. The Canadian Wheat Board allows unlimited number of import licences for certain wheat and barley products if they are packaged for retail sale and the importer is the retailer. Similarly, for most items on the Import Control List, unrestricted imports are allowed if they are for personal consumption.

98 In fact, mainly as a result of extra permits for test marketing, the yoghurt imports were 198 per cent of the 1989 import quota.
products on the Import Control List, e.g. butter, import is usually not allowed.

163. Some changes in the coverage of the Import Control List have been made in the last few years. In general, these have resulted in additions to the list (Table IV.10).

164. As part of the Free Trade Agreement, Canada and the United States have agreed that existing quantitative restrictions will either be eliminated immediately, according to a timetable, or be grandfathered. Any measure exempt from GATT obligation on account of the Protocol of Provisional Application of the GATT will be exempt to the same extent from the obligations of the FTA. The waivers to import licensing include the provision that Canada will not impose licences for importing wheat, barley and oats, and their products as long as the support programmes of the United States maintain support not more than the Canadian levels. Recently, the requirement of a licence to import oats from the United States has been lifted under this provision.

(vi) Import surveillance

165. Canada maintains import surveillance of several products including carbon steel, specialty steel products, fresh fruits and vegetables, and textiles and clothing. The surveillance for fresh fruits and vegetables is in the context of the Canada-United States Free Trade Agreement, and will expire in 2009. Daily import price data on imports from the United States are collected. Temporary duties are imposed if certain conditions relating to import price and acreage are met. The temporary duties would not exceed the m.f.n. tariff.

(vii) Import quotas

166. In Canada, quantitative import restraints are in place for certain items, including poultry, eggs, certain dairy products such as cheese and condensed milk, and textiles and clothing. While restraints on textiles and clothing are imposed mainly under the Multifibre Arrangement, those on the other products are in place on account of supply management programmes.

167. In 1985, import restrictions on beef and veal, authorized by the Meat Import Act and implemented using Article XIX of the GATT, were imposed for

99 The conditions are: import prices for each of five consecutive working days being below 90 per cent of the average monthly import price, for the month in which that day falls, over the preceding five years. Planted acreage being no higher than the average acreage over the preceding five years. In both cases, the averages are calculated without taking into account the highest and lowest values.
one year. An import quota on certain footwear, justified under Article XIX of the GATT, was eliminated in December 1988. Import quotas on ice cream and yoghurt, imposed in 1988, led to a GATT Panel being established on the request of the United States (see Chapter VI).

168. A quota for imports of cheese has remained at 20,400 tonnes since 1978. In recent years, the utilization rate has been above 99 per cent. The increase in domestic demand has been satisfied from domestic production.

169. In general, an attempt is made in the management of import quotas of agricultural items to respond to supply and price changes. Hence, if there is a shortage of supply, supplementary quotas are issued. The response time to shortages has not always been satisfactory, however. There is no formalized appeal procedure, but applications could be made to the Secretary of State for External Affairs, and subsequently to the Federal Court.

170. In most cases, individual quotas are allocated to importers for a fixed period of time, and are non-transferable. For items subject to quotas, importers apply for import permits against the quota amount allocated to them. The quantitative restraints imposed through the quotas often result in a high premium for the importers and producers of the products (Table IV.11).

171. In some cases, the Government has started with an administrative system which allocates quotas on the basis of domestic market shares. This has been implemented, for example, in the case of broiler hatching eggs and chicks. In 1989, the initial year of the restraint scheme for these products, all quotas were allocated to traditional importers. In 1990, and in each of the three subsequent years, 25 per cent of the quota will be reallocated to federally-registered hatcheries on the basis of their domestic throughput share. The share of the quota allotted in this way

100 In recent times, complaints have been registered regarding milk and chicken. See "Milk prices may force closing, Ault says", and "Ontario retailers cite system in shortage of chickens" in The Globe and Mail, 1 March 1990, page B4.

101 In the case of textile and clothing products with bilateral quotas, there is a back-to-back licensing.

102 In 1986, a consultant study suggested that quotas be auctioned. However, the Government felt this would be destabilizing, and was more attracted by the second-best option of the study, namely an administrative system for allocating quotas according to market shares.
will increase to 50, 75 and 100 per cent, respectively, in the years 1991 to 1993.

172. Under the Canada-United States Free Trade Agreement, the two countries will exempt each other from restriction under their respective meat import laws, and Canada has increased its import quotas on poultry and eggs (Table IV.11). In order to respond to the market, the increase in the shell egg import quota is being allocated annually to federally-registered egg grading stations, based on their share of the market. Regarding quotas on chicken and turkey, it was decided that the increase in quotas under the Free Trade Agreement will be allocated to the food processing industries on a priority basis. This was to mitigate the squeeze on their profits arising from the combined effect of a reduction in tariffs on items produced by them, and high prices of their inputs due to maintaining restrictions on their imports.

(viii) Anti-dumping and countervailing measures

173. Canada has operated an anti-dumping régime almost since the beginning of this century. When Canada signed the GATT Anti-Dumping Code in 1979, its Anti-dumping Act of 1969 was subsequently replaced by the Special Import Measures Act (SIMA). It came into force on 1 December 1984 and deals with both anti-dumping and countervailing. The Canadian Import Tribunal was established under SIMA. Its responsibilities included conducting the injury enquiry in anti-dumping and countervailing cases; since January 1989, this body has been replaced by the Canadian International Trade Tribunal. The new Tribunal encompasses all enquiry and appeal functions of the Canadian Import Tribunal, the Tariff Board and the Textile and Clothing Board.

174. Section 45 of SIMA contains a provision for public interest. Following a finding on injury, the Tribunal may investigate arguments received in the course of the injury enquiry, claiming that the costs of imposing anti-dumping or countervailing duties may outweigh their benefits, and hence may not be in the best interest of the Canadian public. As a result of such an enquiry, the Tribunal can recommend a reduction or elimination of the duty to the Minister of Finance. The only case considered from this aspect pertains to countervailing duties on grain corn imported from the United States. A public interest case was brought by the downstream domestic industry in 1987, and the Canadian International Trade Tribunal recommended that the initially proposed duty of

\[103\] However, even before signing the Code, Canada has been a signatory to the Kennedy Round accord which included anti-dumping principles.
CAN$1.10/bushel be reduced to CAN$0.30/bushel. Finally, the Government imposed a duty of CAN$0.46/bushel.

175. The preliminary investigation of a complaint for anti-dumping or countervailing is conducted by the Department of National Revenue, Customs and Excise (for time limits on different phases of the enquiry, see Appendix Text IV.1). If the complaint is found to be valid, an investigation is launched. On sufficient evidence of injurious dumping or subsidization, a preliminary decision is issued by the Deputy Minister and provisional duties are levied (a security may be posted instead). Then the matter is passed to the Canadian International Trade Tribunal to finally determine whether dumped or subsidized imports have caused, are causing, or are likely to cause material injury to the production in Canada of like goods, or whether the dumping or subsidizing is materially retarding the establishment of production in Canada. In the meantime National Revenue continues the investigation to determine the final dumping and subsidy margins. If the Deputy Minister issues a final determination of dumping or subsidization, and the Tribunal finds that injury has occurred to domestic producers, anti-dumping or countervailing duties are levied on all goods imported from the date of the preliminary determination.

176. A finding of no past injury along with a threat of injury, results in duties being levied on goods imported after the decision of the Tribunal. Any provisional duties paid up to then are refunded, as they are in the case of a finding of no injury.

177. Before preliminary determination occurs, written price undertakings to revise the selling price of goods imported into Canada can be submitted by foreign exporters. In the case of countervailing, undertakings can be given by foreign governments to limit or eliminate a subsidy or to limit

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104 This case was recently reviewed and the Tribunal found no reason to change its verdict. Along with the European Community which has a similar concern incorporated in its legislation, Canada is the only country with such a provision.

105 The injury decision of the Canadian International Trade Tribunal can be appealed on points of law to the Federal Court and, in the case of the Free Trade Agreement, to a binational Panel. The duties assessed on goods can be appealed by an importer. For goods imported from the United States, such an appeal can be made by the United States Government or the manufacturer, producer or exporter of the imported good. Appeals for duties assessed pass through several levels from a designated officer of Customs to the Deputy Minister, to the Canadian International Trade Tribunal, and finally to the Federal Court of Canada. For imports from the United States, the appeal to the Tribunal may be replaced with review by a binational Panel.
the amount of subsidized goods. Undertakings can be vetoed within 30 days. If agreed to, they lapse after three years unless they are renewed pursuant to a review.

178. Under SIMA, there is automatic expiry, after five years, of any finding of material injury and the associated special protection in the form of anti-dumping or countervailing duties, unless a review has been undertaken by the Canadian International Trade Tribunal. Approximately six months before the expiry of a material injury finding, the Canadian International Trade Tribunal issues a Notice of Expiry. Even before this Notice is issued, interested parties can request a review, in whole or in part. The Tribunal can also begin reviewing, on its own initiative, where it believes that such review is warranted. If the finding is confirmed, it is again subject to a five year sunset provision.

179. Canada is an active user of anti-dumping measures. At the end of 1989, Canada had 130 anti-dumping actions outstanding. During the 1980s, the number of anti-dumping cases initiated reached a high point in 1981-82 (Chart IV.2). After 1984-85, the number of anti-dumping initiations has been generally declining, but remained substantial as compared to some other countries. In the six month periods of June to December 1988 and 1989, the number of initiations has been virtually the same, namely twelve and eleven, respectively. In July 1989, the number of outstanding actions was substantially above the level in July 1981.

Chart IV.2

Source: GATT Secretariat.
180. Most of the penalties are definitive duties rather than price undertakings. The number of definitive duties imposed during different years has varied considerably, with a relatively large number being imposed in the period 1980-86 (Chart IV.2). In more recent years, their number declined considerably, and only three duties were imposed in 1989. Price undertakings have been accepted since 1984-85, though in small numbers (Chart IV.2).

181. Among trading partners, the United States has been subject to the largest number of anti-dumping actions in the 1980s. Frequent actions have also been taken against imports from Japan, Federal Republic of Germany, and the Republic of Korea (Table IV.12). In recent years, developing countries such as Brazil, Republic of Korea and Taiwan have figured prominently among those against whom anti-dumping cases have been initiated by Canada (Table IV.13). Outstanding actions refer largely to imports from the Republic of Korea, Japan, United States, the Federal Republic of Germany, and the United Kingdom. Many of these actions date from the early 1980s (Table IV.14).

182. Given the large number of outstanding cases, a noteworthy feature in Canada is that the number of review cases far outnumber the new cases (Table IV.13). Currently, the Canadian International Trade Tribunal is reviewing 41 cases relating to 11 commodities.

183. Regarding the items subject to anti-dumping investigations, the maximum incidence has been for metal products (Table IV.15). In 1990, three anti-dumping cases had been initiated till 3 May. These relate to imports of 4 wheel drive tractors from the Federal Republic of Germany, dry extruded dog food from the United States and straight bars of stainless steel from India.

184. Compared to anti-dumping, Canada has much fewer countervailing measures in place (Table IV.16). However, the number of outstanding actions, though small, has increased in the second half of the 1980s. All of them are definitive duties, with agricultural products featuring prominently. The ongoing countervailing investigations pertain to imports of refill paper and women's leather boots and shoes from Brazil.

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106 Reviews concerning 58 products have been conducted during 1980-89. Of these, 31 were rescinded, 11 were maintained and 16 were altered.

107 The outstanding actions at the end of 1989 were on boneless beef (European Communities), canned ham (Denmark and the Netherlands), canned pork based luncheon meat (European Communities), drywall screws (France), electric motors (Brazil), grain corn (United States), and wide flange steel beams (Spain).
185. Under the Canada-United States Free Trade Agreement, the two Governments will work towards developing a substitute régime to address problems of anti-dumping and subsidization, to be agreed upon by 31 December 1995. The objective is to develop new rules on subsidy practices and for dealing with injurious dumping. Nonetheless, the two Governments have agreed that any changes to existing anti-dumping and countervailing duty legislation will apply only following consultations and if specifically provided for in the new legislation. A review of the proposed changes could be conducted by a bilateral Panel, keeping in mind the objectives of the FTA and the rights and obligations of the two countries under the GATT Anti-Dumping and Subsidies Codes.

186. A special dispute settlement mechanism has been established to deal with bilateral anti-dumping and countervailing issues. Either Government may seek a review of an anti-dumping or countervailing determination by a bilateral Panel with binding powers. Panels are charged with determining whether the existing domestic laws were applied correctly and fairly.

(ix) **Safeguard actions**

187. Canada has provisions for short-term safeguard actions, extending to a maximum of 180 days, as well as for longer term actions. These require a report showing that imports are causing or threatening serious injury, short term actions can be taken on the basis of a report from the Minister of Finance, while other measures require a report on injury from the Canadian International Trade Tribunal. Regarding short term measures, a special procedure for reviewing safeguard cases for horticultural products was implemented in 1980 because of the short marketing season and the perishable nature of the products.

188. The process through which petitions for safeguards are made has changed after the establishment of the Canadian International Trade Tribunal. Currently, the Canadian International Trade Tribunal can be

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108 The short term measure can be extended up to three years after getting concurrence of Parliament.

109 The response time for most products is 20 days. The exceptions are five sensitive commodities (cherries, including frozen, strawberries, lettuce, peach and potatoes) which have a response time of 7 days.

110 Earlier, the industry generally made a representation to the Government for safeguard actions. On ascertaining the validity of the complaint, the Government used to direct the erstwhile Canadian Import Tribunal to investigate it. There were three exceptions to this. One was (Footnote Continued)
asked to conduct safeguard enquiries by the Government. Direct petitions from producers to the Tribunal are also allowed; if certain criteria are satisfied, the Tribunal accepts these complaints for investigation.

189. The Tribunal must generally complete its work within 180 days, with 90 extra days being provided for complex cases (for further details see Appendix Text AIV.1). During or after the enquiry, the Government may also ask the Tribunal to make recommendations on measures to deal with the problem, i.e. whether to impose surtaxes, quotas, or to provide adjustment assistance. A surtax can be imposed under Section 60 of the Customs Tariff, and authority for a quantitative restraint is provided by Section 5(2) of the Export and Import Permits Act. A safeguard action lapses after three years unless continued pursuant to a review. To compensate for any safeguard action in conformity with Article XIX, Section 62 of the Customs Tariff provides for reduction or removal of customs duties on goods.

190. In both government-directed and producer-directed enquiries, the decision on whether to provide relief through safeguard measures rests with the Government. The decision depends on several factors, including the effect on Canadian users and consumers; Canada's international obligations; the cost of compensating, or retaliation by, exporters; foreign trade and policy considerations; and whether import restrictions would be needed or exporters would restrain their own exports.

191. From 1950 till 1989, Canada has taken twenty-two Article XIX actions, most of them during the 1970s (Table IV.18). Canada's Article XIX actions have been directed mainly towards agricultural products and textiles and clothing. Subsequent to 1978, Article XIX actions for textiles and

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(Footnote Continued)

for petitions asking for the withdrawal of GPT concessions. In this case there was a standing reference of the Government to the Import Tribunal that industry was allowed to petition it directly. The second related to safeguard actions in the meat sector, for which the Meat Import Act allowed the Government to restrict imports on the basis of its own findings. Third was the special case of textiles and clothing industry which had direct access to its investigating body, the Textile and Clothing Board, for seeking safeguard actions.

111 Canadian producers which 'form a "major proportion" of an industry and furnish the Tribunal with a "properly documented complaint", have 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.' (GATT document L/6481, p. 4). Past practice and its application has shown that "a major proportion" may be less than 50 per cent of the production, but is normally more than 25 per cent.
clothing were not taken because of import restraints negotiated under the Multifibre Arrangement. The majority of Canada's Article XIX actions were terminated within two years (Table IV.17). 112

192. Four Article XIX actions were taken after 1980, two on certain types of footwear, and one each on yellow onions and on fresh, chilled and frozen beef and veal. Among the last two, the former was in place for six months and the latter for one year. Canada has not taken any Article XIX action after 1985. The last remaining Article XIX action was on footwear. It was terminated in December 1988, and Canada has no Article XIX measure in place since then.

193. Under the Canada-United States Free Trade Agreement (FTA), the two countries have agreed on more stringent standards for applying safeguard actions to bilateral trade. They will exempt each other from safeguard actions except when the other Party is contributing importantly to the injury. The qualifying stipulation is that in case of emergency global action, companies from the other country will not take advantage of the situation; any surge in their exports in this situation will lead to their inclusion in the global action. Even if they are included in the global action, their exports will nonetheless be protected against reductions below the trend line of previous bilateral trade. Any emergency action between the two countries will be subject to compensation.

194. During the transition to duty-free tariffs under the FTA, there is a provision for safeguards if serious injury results from the reduction in tariffs. A temporary suspension of the duty reductions or a return to the m.f.n. tariff level is allowed, with the action being subject to compensation. 113 The Agreement also allows for emergency action on imports of fresh fruits and vegetables for 20 years, as a result of which tariffs no higher than the m.f.n. rate can be imposed.

195. In Canada, the safeguard measure provided in case of injury due to preferential tariffs for developing countries and least-developed countries, and CARIBCAN tariff preferences are distinguished from the general safeguard measures. In the case of these preferential tariffs, the criterion is that of "injury", and not "material injury" as in the case of anti-dumping and countervailing cases, nor "serious injury" as for the petitions seeking safeguards in general. The Minister of Finance has given instructions to the Canadian International Trade Tribunal (CITT) under Section 19 of the CITT Act, directing it to examine and report on

112 Of the three actions lasting more than four years, two were on certain footwear, and one on men's and boys' shirts, woven or knitted.

113 This will expire in 1998 unless extended by mutual consent.
requests for removal of these preferences, in whole or in part, from one or more of the countries benefiting from it.

196. The Tribunal has to complete its work and report to the Minister within 180 days after the initiation of the enquiry. In its report the Tribunal takes into account the views of both importers and exporters. It examines the effects on domestic producers and consumers, determines if there are other factors contributing to the cause of injury, the source of imports causing injury, and whether a reduction or removal of the tariff preference will provide significant relief to producers.

197. Even if the preferences are shown to be causing or threatening to cause injury, it is up to the Government to decide whether or not to take action, namely withdraw the tariff preference on the product or impose a tariff quota. The Government's decision is normally announced within a period of three months. When relief is provided, it is generally in place for three years. Since 1980, there have been 24 petitions for providing safeguards against GPT, and the Government withdrew benefits in eight cases. Some of the preferences which were removed have been reinstated.

198. The Tribunal normally gives notice of the expiry of the relief measure about 10 months before its date of expiry. If no request for review of the relief is received, it is allowed to expire as scheduled.

(x) **Technical standards**

199. The GATT Agreement on Technical Barriers to Trade was signed by Canada on 17 December 1979 and came into force on 1 January 1980. The federal Department of External Affairs is responsible for co-ordinating the implementation of the Agreement. The Department of Communications has plenipotentiary rights for standards under the International Telecommunication Union. Some other federal departments such as Environment Canada, Consumer and Corporate Affairs, and Agriculture Canada are responsible for standards regarding environment and health and safety.

200. The policy of the Government of Canada is that all federal departments and agencies comply with the provisions of the Agreement. An Interdepartmental Committee on Standards Policy composed of representatives of the federal Government departments and agencies is concerned with the preparation, adoption or application of technical regulations, standards or certification systems. It is responsible for reviewing the implementation and administration of the Agreement, and for considering related standards policy issues.

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114 If the Tribunal deems that urgent action is required, it can issue an interim report.
201. There is no formal agreement with any provincial Government in the area of technical standards. However, the provinces have assured the federal Government that they will endeavour to comply with the provisions of the Agreement. Close consultations are held with provinces, which are all represented on the board of the Standards Council.  

202. There are some, though few, problems in areas where provinces have their own jurisdiction on standards. Examples are standards relating to maximum residue level in certain products, and to honey, a product for which standards in Quebec are higher than those of the federal Government. Generally, the requirements for technical standards are the same for inter-national and inter-provincial trade, and hence same stipulations apply to imports and domestic products.

203. There are five recognised standards writing organizations which have been accredited to the Standards Council of Canada.  

In 1988, the ninth edition of the annual Directory and Index of Standards was published; it contains bibliographic information on over 6,500 standards issued by the five accredited standards-writing organizations. The third edition of the Catalogue of National Standards of Canada was also published in 1988, with information on notifications made under the Agreement. Provincial governments generally rely on standards prepared by non-governmental standards-writing organizations and technical regulations issued by the federal Government.

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115 According to Section 4 of the Standards Council of Canada Act, the "objects of the Council are to foster and promote voluntary standardization in fields relating to the construction, manufacture, production, quality, performance and safety of buildings, structures, manufactured articles and products and other goods, including components thereof, not expressly provided for by law, as a means of advancing the national economy, benefiting the health, safety and welfare of the public, assisting and protecting consumers, facilitating domestic and international trade and furthering international cooperation in relation to standards".

116 For telecommunication equipment, the provincial authorities had terminal attachment and ownership rules more restrictive than those of the federal Government. This problem was solved as a result of a Supreme Court ruling that federal Government had exclusive jurisdiction over telecommunications in Canada.

117 Bureau de Normalisation du Quebec; Canadian General Standards Board; Canadian Gas Association; Canadian Standards Association; and Underwriters' Laboratories of Canada. Except for the first, which is an agency of the Government of Quebec, all others are private organizations.
204. Notices of proposed federal Government technical regulations and certification systems are published in the Canada Gazette Part I. A minimum period of 60 days is allowed for comments. The texts of newly-adopted federal technical regulations and certification systems are published in the Canada Gazette Part II. The texts of the newly-adopted federal statutes are published in the Canada Gazette Part III. Each provincial Government publishes the texts of new statutes and regulations in its Provincial Gazette.

205. Under the terms of the agreement of the GATT Committee on Technical Barriers to Trade, notifications are made regarding the national technical regulations and certification procedures which are supposed to have significant effect on international trade and deviate from international standards. These notifications are made prior to enactment into legislation so that comments of other parties can be accommodated. Out of a total of about 2,000 notifications, 226 have been from Canada.

206. The Standards Council of Canada operates the national enquiry point under contract with the Government of Canada. Since October 1984, it has been issuing a biweekly newsletter, entitled INFORMATEC. This contains details of Technical Barriers to Trade notifications received by Canada as well as other standards related information on topics of interest to manufacturers and exporters.

207. Canada participates extensively in the international standardization work through membership in, inter alia, the Codex Alimentarius Commission, the International Organization for Standardization (ISO), and the International Electrotechnical Commission (IEC). International standards issued by the ISO and the IEC are examined on a regular basis by the Standards Council of Canada, and those issued by the Codex Alimentarius Commission are examined by the Federal Department of National Health and Welfare to determine the extent to which they can be adopted for use in Canada.

118 For many products, international standards do not exist.

119 There is a provision for notification of measures that were implemented under urgent circumstances.

120 A telephone hotline has been established by the Canadian Standards Council which gives information on a weekly basis on the contents of the notifications by other parties.

121 The principles and rules of the Canadian National Accreditation Programme for testing organizations are based on the Canadian National Committee of IEC Guides 25, 38, 39, 43 and 45.
208. The Government of Canada encourages the use of international standards by requiring that federal departments and agencies use international standards or the relevant parts thereof as the basis for their technical regulations or standards, except where such international standards are inappropriate. Within the National Standards System of Canada, accredited standards-writing organizations participate in the development of international standards and promotion of their use. To date, the Canadian Standards Association has endorsed 30 ISO and 63 IEC standards for use in Canada. The Canadian General Standards Board (CGSB) has adopted seven ISO standards for use as CGSB standards. In addition, seven ISO standards have been approved as National Standards in Canada.

209. The Standards Council has the power to accredit testing and certification procedures. In several cases, foreign testing and certification is accepted, but spot checks and sampling for quality control are conducted to ensure that products meet the basic requirements.

210. Standards in other countries is an important trade policy concern of Canada. For example, currently, there is some apprehension regarding the product standards, especially for lumber, in the European Communities after 1992.

211. As part of the Canada-United States Free Trade Agreement, the two countries will make efforts to make federal standards more compatible and encourage making them more compatible at the State and provincial and private level. A process at the federal level will be set up for mutual recognition of the laboratory systems and to provide for accreditation of testing facilities and of certification bodies. The Agreement provides that, at the federal level, standards and regulations be allowed where

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122 Reasons for inappropriateness could include national security requirements; the prevention of deceptive devices; protection of human health or safety, animal or plant life or health, or the environment; fundamental climatic or other geographical factors; and fundamental technological problems.

123 The two Governments have also agreed on a process to resolve a long-standing dispute governing Canadian plywood standards. The United States has agreed to maintain an "open border policy" for meat inspection which will now be limited to occasional spot checks. Working groups with equal representation from each country will look into the requirements for animal health; plant health, seeds and fertilizers; meat and poultry inspection; dairy, fruit, vegetables and egg inspection; veterinary drugs and feeds; food, beverage and colour additives and unavoidable contaminants; pesticides; and packaging and labelling of agricultural, food, beverage and certain related goods for human consumption.
their demonstrable purpose is to protect health, safety, and the environment, national security, and consumer interests. However, their operation should not exclude products of the other Party which meet these objectives. In this context an important objective is the enhanced transparency of the regulatory process. Information will be exchanged on the regulations of State and provincial authorities and thus the Free Trade Agreement will go beyond the notification process under the Agreement on Technical Barriers to Trade.

(xi) Health and safety regulations

212. Animals, foods, pharmaceuticals, cosmetics, pest control products, nursery stock, feedstuffs, forest products, seeds, soil, explosives and several other items imported into Canada are subject to certification and inspection requirements under health and safety regulations administered by various government agencies. The regulations include provisions for quarantine for certain products, and specify criteria for quality, pesticide residues, type of fumigant used, and sanitary and phytosanitary requirements. The same restrictions apply to both imports and inter-provincial trade.

213. For reasons of health and safety, the degree of risk of pest and disease is determined to assess whether some product (from a specific source) should be prohibited, restricted or allowed in freely. Certification by the Health Authorities of partner countries is usually accepted by Canada. Spot checks through sampling are made on arrival of imports. The rate of sampling depends on the extent of risk: sampling rate increases with the level of risk associated with a product from a particular country. As part of a new import surveillance system, Canada has asked for information on health and safety systems from about 200 countries.

214. The Department of Consumer and Corporate Affairs, assisted by Customs and Excise (Revenue Canada), regulates the sale, imports and advertisement in Canada of hazardous products or substances. Domestic sale of any imported item containing the hazardous substances is restricted or prohibited. The authority is provided by the Hazardous Product Act and


125 Advertising is prohibited for some products such as certain spirits and liquor containing more than 7 per cent ethyl alcohol by volume (on broadcast media); narcotics; controlled drugs; drugs in the process of (Footnote Continued)
Regulations. The Act contains a list of products which are supposed to be hazardous, gives the procedures for their imports, and provides designated symbols to be displayed on these items. The objective is to limit damage due to chemical and biological hazards and mechanical and electrical inflammability.

215. The number of products to which health and safety considerations apply has increased over time. With enhanced awareness regarding toxic waste and domestically prohibited goods, the list is likely to be further augmented.

(xii) Quarantine requirements

216. As a result of concern for health and safety, Canada imposes quarantine requirements for several animal and plant items from specified sources.

(xiii) Packaging and labelling regulations

217. The Consumer Packaging and Labelling Act and the Food and Drug Act set out the requirements for packaging and labelling for most pre-packaged consumer products. These are administered by the Department of Consumer and Corporate Affairs, assisted by Revenue Canada (Customs and Excise). Certain mandatory information must be clearly and accurately presented on labels in the two official languages (English and French), while some other information such as listing of ingredients or instructions for use may not be written in both languages. Other important legislation pertaining to product labelling are the Hazardous Products Act, Textile Labelling Act, Precious Metals Marketing Act, and National Trade Mark and True Labelling.

(Footnote Continued)

being certified; drugs for treatment of diseases which require the intervention of a physician; and cyclamate and saccharin sweeteners. Currently, Canada is phasing out advertising for tobacco products.

126 The products covered in the list include some types of toys and their packaging, selected household chemicals, textiles and garment fibres, certain types of window drapes, furniture, sports equipments, and cleaning products, and certain articles containing lead, or coated with paints containing lead, or with glass containing lead.

127 Exceptions to the bilingual labelling requirement include: a "speciality product", which is defined as either a food or a beverage that has special religious significance, or an imported product that is not widely used by the population as a whole and for which no comparable substitute is manufactured, processed, produced, or packaged in Canada; a "test market product" being tested in a unilingual district; and greeting cards, books, and talking toys.
The requirements under the legislation are generally the same for domestic and imported products.

218. Specified goods imported into Canada are required to bear the country of origin marking. In addition, different requirements exist for different types of products. For example, regulations for food products include provision of information on the common name of the product, the net quantity, name and address of the manufacturer, ingredients, number of servings, pictorial representations of the product, nutritional labelling and advertisement, and open date marketing. Similarly, Textile Labelling and Advertisement Regulations specify other type information to be provided through labelling. Other regulated products with special marking or labelling requirements include glazed ceramics, toys, children's car seats, science education sets, paper products, hardware, and novelties and sporting goods.

219. The regulations also specify standard sizes or units for prepackaged consumer items. The types of packaging needed for products such as eggs, fish, and meat are also indicated by the relevant regulations. Household products containing certain hazardous material must be packaged in child-resistant containers.

(xiv) Government procurement

220. Through its procurement, the Government of Canada tries to achieve its basic value-for-money objective as well as other national policy objectives such as regional and industrial development, while adhering to its international commitments. Canada is a signatory to the GATT Agreement on Government Procurement (or the Government Procurement Code). The Code's coverage is limited to purchases of goods above a specified threshold level (CAN$213,000 in 1989) by the federal Government. The Code covers only

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128 Goods entering in transit or for immediate re-export do not require mark of origin, provided their presence in Canada is documented. For details of the list and legislation, see Revenue Canada, Customs and Excise, Memorandum Dll-3-1, Ottawa, 16 February 1988.

129 For details see ibid.

130 According to Canada's reply to a counter-notification regarding its restrictions on can sizes, the objective of the legislation is to help the consumer compare prices and quantities easily, without having to take into account differences in the content of a wide range of cans of different sizes.
goods. Purchases by five departments at the federal level in Canada are fully excluded, and two partially excluded. 131

221. Total procurements of both goods and services by the federal Government amounts to about CAN$16 billion per year, of which approximately one-fourth comprises direct and indirect imports. Of this total procurement, less than five per cent is covered by the GATT Code. For example, in 1988, procurements under the GATT Code were CAN$648.4 million. Of these, Canadian firms got about 94 per cent of the value of contracts, and the European Communities and the United States about 2.5 per cent each.

222. For Canada, the share of contracts above the threshold level of the GATT Code in total contracts reported under the Government Procurement Agreement has generally been less than half (Table IV.19). For purchases by certain departments like agriculture, or energy, mines and resources, this share ranged between 9 per cent and 16 per cent during 1987 and 1988. In contrast, the corresponding share for national defence procurement was more than 55 per cent. Under the Defence Production Act, exclusive authority to acquire defence supplies is given to the Minister of the Department of Supply and Services. 132

223. The Canadian Content Premium Policy is applied to purchases not covered by the GATT Code or by the Canada-United States Free Trade Agreement. Under this, the Government applies a preference margin in favour of bids with greater Canadian content. A margin of up to ten per cent on the difference in the value of domestic content is provided in its favour. In the case of some procurements for defence, a higher margin can be granted because the Department of Defence differentiates between agents for foreign firms and Canadian companies for reasons of national security. In some cases certain Canadian content is mandatory. 133

131 Full exclusions are for the Prime Minister's Office, the House of Commons, and the Departments of Transport, Communications, and Fisheries and Oceans. Partial exclusions are for security-related reasons and apply to parts of the purchases by the Department of Defence and the Royal Canadian Mounted Police. The Code also does not apply to procurement in furtherance of "tied aid", contracts set aside for small business, and procurements from handicapped persons, philanthropic institutions and prison labour.

132 The statutory framework for collection and expenditure of public money is provided by the Financial Administration Act. Specific provisions are provided in Government Contract Regulations and Treasury Board Contract Directives.

133 It has been estimated that, in terms of tariff equivalence, (Footnote Continued)
224. For big contracts, bidders may be asked for plans which will benefit Canadian industry, mainly in terms of long-term industrial and regional development. Towards this end, plans on contracts valued at CAN$2 million to CAN$100 million are reviewed by the Procurement Review Committee. Bidders on contracts valued at CAN$10 million to CAN$100 million can be asked to develop sub-contractor opportunity programmes. Bidders for contracts above CAN$100 million may be asked to implement supplier development programmes in addition to the requirements for smaller projects, and interdepartmental project management groups are established to plan and implement the project. Incentives through procurement programmes are also provided to assist technological innovation and to motivate multinationals to contribute to industrial development. For example, under a rationalization policy, some products of multinationals (such as in the field of computers) are deemed as Canadian in assessing bids for contracts, if these companies have contributed "significantly" to the Canadian economy.

225. The Department of Supply and Services is the common agency for procuring most goods and some services for departments of the federal Government. Generally, goods covered by the GATT and the Free Trade Agreement are procured by this Department, with these procurements being a small proportion of its total purchases. The Department of Supply and Services procures about 15 per cent of the total CAN$70 billion public sector market.

(Footnote Continued)
protection provided by federal procurement policies is about 0.2 per cent. See Department of Finance, Government of Canada (1988), The Canada-U.S. Free Trade Agreement An Economic Assessment, Ottawa, Department of Finance. However, this excludes the large procurement market at the provincial level where preferences are important.

134 The Committee, chaired by the Department of Supply and Services, reviews approximately 150 projects each year, with a total value exceeding CAN$2 billion.

135 The total market includes federal, provincial and municipal Governments, Crown Corporations, hospitals and universities. The DSS Supply Policy Manual sets out the general and administrative policies which guide departmental procurement. Some major products procured by the Department of Supply and Services have been aircraft and airframe structural components, communication equipment, data processing equipment, fuels, lubricants, oils and waxes, ground effect vehicles, motor vehicles, instruments and laboratory equipment, ships, smallcraft, pontoons and floating docks. The Department has sole contracting authority for services such as printing, publishing and temporary help and exhibits, and for government contracting-out policy in science and technology. Procurement of some of these services will now be covered by a different agency.
226. The procurement authority for low dollar value contracts has been delegated to other departments and agencies. For government contracting in the area of construction, architectural, engineering, realty operations and maintenance services, the authority is provided to Public Works Canada. Generally, authority for services procurement is decentralized to all federal departments and agencies. For government-to-government sales transactions, the Canadian Commercial Corporation acts as the prime contractor. It identifies Canadian firms capable of meeting customer requirements, executes prime as well as back-to-back contracts, and follows through with contract management, inspection, acceptance and payment aspects of each sale.

227. All firms interested in becoming suppliers can apply for being listed, with qualifications based on the criteria of the Department of Supply and Services. Since 1984, there has been a move towards greater market orientation, publicising options more widely and increasing accessibility.

228. Open bidding for federal Government contracts of CAN$25,000 or more was instituted from 1 April 1990 for Canadian firms. This includes the Departments of Transport, Communications and Fisheries and Oceans, which are exempt under the GATT Code and the FTA. However, this does not apply to procurement by provincial Governments, which is also exempt from the disciplines of the GATT Code and the FTA.

229. There is no recent data on the importance of procurements by the federal Government in total Government procurement. Estimates for 1983 show that procurement spending by the federal Government was 12 per cent and by the Crown Corporations another 22% per cent of the total Canadian public sector market. According to officials of the Government of Canada, this share is likely to be still valid.

230. The purchasing policies of provincial Governments are autonomous, with dissimilar criteria and administrative mechanisms for granting both provincial and Canadian preferences. There is an ongoing attempt to rationalize and harmonize these policies.

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136 Government Telecommunications Agency purchases telecommunications services for federal departments and agencies, though it does not have an exclusive mandate for this.

137 Exemptions include some purchases by the Department of Defence and some high technology products.

231. A large proportion of public sector procurement is for products of the service sector, e.g. construction. Manufactured items account for only about two-fifths of total expenditure and the primary sector for about one-sixth. The import content across product categories purchased by the public sector varies significantly. For example, in 1983, the overall direct import content of total public purchases was one-third, but that for office, store and business machines, and aircraft and parts was more than 80 per cent.

232. Complaints about bidding for projects not covered by the Canada-United States Free Trade Agreement are heard by the Department of Supply and Services. Within the Department, the Contracts Settlement Board, an informal body, helps to resolve problems arising after a contract is awarded.

233. Under the Free Trade Agreement, Canada and the United States have agreed on a three-stage approach to opening up their procurement markets. They will build on and improve the GATT Procurement Code trade, work together in the Uruguay Round of Multilateral Trade Negotiations to increase the coverage and procedures of the GATT Code, and will negotiate further bilateral improvements after the conclusion of the Uruguay Round.

234. The threshold level above which procurement is open for competition has been lowered to CAN$31,000 in 1989, compared to the GATT Code threshold level of CAN$213,000.139 An impartial reviewing authority, the Procurement Review Board, will investigate situations where suppliers believe they have been unfairly treated. This Board will ensure timely decision, and will also be able to recommend changes in procurement procedures in accordance with the FTA. The governments agreed upon a common rule of origin and improved transparency measures, particularly for those procurements which are tendered by a single firm.

235. The exclusions for the Free Trade Agreement are the same as for the GATT Code. Canada's access to the United States' defence procurement of military goods under the Defence Production Sharing Arrangements will not be affected by the new Agreement.

139 According to an estimate of additional government procurement due to such liberalization, the Canadian Government procurement may increase by about CAN$130 million, with more than half of it being for scientific equipment. For the United States, additional government procurement may be about US$110 million, more than half of which accounted by industrial machinery and non-metallic mineral products. See Magun, S., S. Rao, B. Lodh, L. Lavallee and J. Pierce (1988), "Open Borders An Assessment of the Canada-United States Free Trade Agreement", Economic Council Of Canada Discussion Paper No. 344, Ottawa.
Voluntary restraints and similar arrangements

236. Most of the voluntary restraints by countries exporting to Canada are on clothing exports (Table IV.20). Unilateral moderation of exports of footwear not covered by the Canadian global quota was earlier practised by Taiwan and the Republic of Korea. For 1990, the Republic of Korea has unilaterally fixed a restraint level of 6.6 million pairs for exports of leather footwear to Canada under its internal monitoring programme.

237. Canada and Japan negotiated an informal voluntary restraint arrangement on automobiles in 1982 which continued for about five years. In 1987, this arrangement was terminated and Japan unilaterally restricted its exports of automobiles so as not to disrupt the Canadian market. This was discontinued and according to the Government of Canada, there are only periodic consultations regarding this market on an annual basis.

238. In 1986, export levels for automobiles from the Republic of Korea were established through negotiations. An informal understanding was reached for 1987-88 that the Republic of Korea will exercise prudence in its vehicle exports to Canada. This understanding has not been renewed.

239. Canada monitors imports of carbon steel, specialty steel and selected products of these items. Import monitoring of carbon steel commenced on 1 September 1986, when the Canadian Import Tribunal determined that there was a possibility for this product to be dumped in Canada, given the existing global overcapacity. Specialty steel imports have been monitored since 1 June 1987, in order to collect information to deal with concerns that Canada may be used as a conduit to export these products to the United States, whose voluntary export restraints régime for steel imports does not include Canada. Carbon steel import monitoring was to expire on 1 September 1989, but was extended for another three years on the basis

140. The Republic of Korea is unilaterally monitoring exports of footwear to Canada in order to avoid anti-dumping or countervailing measures. This is part of its general policy of monitoring exports of products which have been subject to anti-dumping or countervailing actions abroad.

141. During the period 1986 to 1988, the Ministry of International Trade and Industry of Japan monitored exports of passenger cars to Canada. Other Japanese exports to Canada which are restrained or require approval in Japan, are ball bearings, pottery and chinaware, and cotton-made clothing. See GATT (1990), Trade Policy Review - Japan, Geneva.

142. A dumping case on Hyundai of the Republic of Korea in 1987 ended in a decision that the exporter was filling a market niche not catered to by domestic producers. This case was subsequently withdrawn.
that conditions in the steel industry were not yet settled. The programme for monitoring specialty steel expires on 1 June 1990. The Government has not yet decided on the future of this programme.

(xvi) Countertrade

240. Canada does not have an official policy towards countertrade nor any government agency to authorize such transactions. There have been some offsets deals. The Canadian Export Association, a private sector body, has an information centre for countertrade.

241. Under the Defence Production Sharing Program with the United States, there is a loose monitoring of bilateral trade with the objective of "best efforts" to balance trade. Since there is not much possibility of achieving balance in trade, this policy has not been followed with much enthusiasm.

(xvii) Local content schemes

242. Canada has several concessionary schemes to which access is available only if certain local content requirements are met. These cover items such as clothing, automotive products, colour television picture tubes, and certain paper products (Table IV.21); information on the concession schemes for the automotive sector is not available. Most of the provisions relate to clothing or to automotive products. Canadian-content requirements are also specified for domestic exporters who take advantage of the export financing and guarantee schemes of the Canadian Export Development Corporation. As mentioned earlier, similar incentives are provided through Government procurement.

(xviii) State-trading enterprises

243. Canada has a large number of State-trading enterprises, with a variety of statutory powers. Some of them, like the Canadian Dairy Commission have conducted both imports and exports, while others have been involved primarily in either imports or exports only (e.g., the Provincial Liquor Boards largely deal with imports). The operations of some enterprises incorporate production controls which may in turn affect trade. Among the enterprises which have "special or exclusive privileges" within the meaning of Article XVII of the GATT are the Canadian Wheat Board, the Canadian Dairy Commission, the Canadian Freshwater Fish Marketing Corporation, the Canadian Saltfish Corporation, and the Provincial Liquor Control Authorities.

143 Under the Agricultural Products Board Act, the Agricultural Products Board has the authority to engage in international trade.
244. The Canadian Wheat Board has exclusive privileges to licence or undertake imports and exports of wheat, barley and their products to and from Canada. It either makes the sale itself or employs private trading companies to act as agents. Most sales involve the Board and private traders, and where credit is provided, the Canadian Government. On behalf of a "designated area", the Wheat Board has exclusive authority to conduct interprovincial trade in wheat and barley. As a result of a policy change in 1974, the sale of western feedgrain for use as animal feed within Canada was extended to the open market from the sole jurisdiction of the Canadian Wheat Board; the proportion of commercial grain marketings controlled by the Wheat Board has been reduced to about 80 per cent for wheat, 10 per cent for oats, and 45 per cent for barley. The Wheat Board has some other responsibilities, too. It administers a delivery quota system for all deliveries of grains and oilseeds into the elevator system; recommends initial payment levels to the Government for wheat and barley, for operating its price pooling programme; and is empowered to finance sales of grain from its designated area on credit terms for three years or less at commercial rates of interest.

245. The Dairy Commission has the power to purchase any dairy product and package, process, store, insure, import, export or sell or otherwise dispose of any dairy product purchased by it. Import permits for butter issued under the Export and Import Permits Act are granted only to the Dairy Commission. It operates the supply management programme, collects levies, provides export assistance for dairy exports, and makes payments for stabilizing income.

246. Imports and interprovincial trade of alcoholic beverages are controlled by Provincial Liquor Boards or by those vested by it with this authority.

247. Canada has some marketing agencies under the Farm Product Marketing Agencies Act. They do not import themselves, but their plans for managing domestic supply control programmes determine the level of imports allowed into the country.

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144 The designated area includes Manitoba, Saskatchewan, Alberta, and parts of British Columbia.

145 Such authority could be vested in a commission, an officer or a governmental agency. Imports exempted from the control of the Board are alcoholic beverages for sacramental or medicinal purposes, or for manufacturing or commercial purposes other than the manufacture or use thereof as a beverage.
Transit trade

248. In 1974, Canada acceded to the Customs Convention on the International Transport of Goods under Cover of TIR Carnets. This facilitates the movement of motor vehicles and containers from an exporting country to the importing one through one or more intermediate country. Under the Customs Convention on Containers, Canada permits authorized international container shipments to move across its borders without detailed customs examination.

(3) Measures Directly Affecting Exports

(i) Taxes and other charges, tax exemptions

249. Relief or drawbacks of customs duties are provided to exporters in Canada under certain conditions. The three main programmes relate to imported goods processed domestically and then exported, manufactured goods which are exported, and goods imported and then exported.

250. The Inward Processing Program provides relief from duties levied under Schedule I of the Customs Tariff on imported materials other than fuel or plant equipment, used in processing of goods which are exported. A distinct feature of this programme is that, instead of paying customs duty and subsequently claiming the drawback, the processor can get the benefits by posting a security. The drawback scheme for manufactured goods which are exported, results in relief of duties (except those levied under the Special Import Measures Act) on imported materials other than fuel or plant equipment. In addition, there is a provision for the exporter to receive interest at the prescribed rate. This also applies to the other category of drawbacks, namely for goods which are imported into Canada and subsequently exported if they have not been used in Canada for any purpose other than the development or production of goods to be exported; used as plant equipment; or damaged prior to exportation.

251. As a result of an understanding between Canada and the United States reached on 8 January 1987, Canada agreed to charge 15 per cent on certain softwood lumber products exported to the United States, including rough, dressed, or worked, softwood lumber, and softwood siding. The

146 For details see, Revenue Canada, Customs and Excise, Memorandum D7-3-1, December 1988; op. cit., Memorandum D7-3-4, December 1988; and op. cit., Memorandum D7-3-4, December 1988.

147 The duty is charged on ad valorem of the f.o.b. first mill price. Softwood lumber is placed on the Export Control List for this purpose. The understanding is without prejudice to the Canadian position that stumpage programmes and practices do not constitute subsidies under either United States' law or any international agreement.
Memorandum of Understanding was amended twice, first in December 1987 and then in April 1988. The first amendment resulted in an exemption for the Atlantic Provinces, a partial exemption for lumber exported to the United States produced from logs imported from the United States, and for full replacement of export charges for British Columbia producers based on its forest policy changes. The second amendment allowed a reduction in export charge to 8 per cent for producers in Quebec based on changes in its forest policy. All export charges are collected by the federal Government and reimbursed to the provinces. In 1988, these export charges were CAN$65 million.

252. There is a provision for some taxes in the minerals and metals sector which could be used in case certain extent of export processing does not take place domestically.

253. The Free Trade Agreement between Canada and the United States prohibits either country from maintaining or introducing any tax, duty or charge on exports to the other's territory, unless it is also maintained or introduced on the product in the domestic market. All duty drawbacks are being phased out under the Agreement.

(ii) Export controls

254. Canada controls its exports through permits. Two different criteria for controlling exports are used. One is to control all exports to particular destinations, and the second is to control exports of certain products to all or specified destinations. These two are contained, respectively, in the Area Control List and the Export Control List; regarding control on exports of strategic, nuclear and military goods, a list of countries proscribed by COCOM is the operative list. Both the Export Control List and the list of countries with whom trade is proscribed by COCOM are motivated largely by foreign policy objectives.

255. When the Export and Import Permits Act was adopted, the Area Control List contained Warsaw Pact countries and their allies. In September 1986, Canada altered its policy regarding exchange of non-military goods, and the Area Control List now includes only Libya and South Africa. However, the COCOM list of proscribed countries remains unaltered.

148 British Columbia represents 60 per cent of Canadian production and 72 per cent of Canadian exports to the United States.

149 These countries are Albania, German Democratic Republic and East Berlin, Bulgaria, People's Republic of China, Democratic People's Republic of Korea, Hungary, People's Republic of Mongolia, Poland, Romania, the Czech and Slovak Federal Republic, Soviet Union, and the Socialist Republic (Footnote Continued)
256. Products are placed on the Export Control list for several reasons. They include meeting defence or other domestic needs by ensuring adequate supply and distribution of a product; to avoid any action taken to promote the further domestic processing of Canada’s natural resources becoming ineffective as a result of unrestricted exports; to implement an inter-governmental agreement or commitment; to monitor exports; to control the export of military or strategic goods for national security reasons; or to keep exports of non-agricultural raw materials under surveillance in times of surplus supply and depressed prices.

257. The Export Control List is divided into five parts, namely industrial products, military products, atomic products, technological goods and non-strategic goods. The first four groups largely reflect the groups in the COCOM list. The export of these products to a number of countries requires an Import Certificate by the importer, and possibly a Delivery Verification Certificate to ensure that the delivered goods are not diverted or transhipped from the country of destination. In addition to goods and technologies identified by COCOM, controls have also been implemented on certain chemical weapon precursors, missile technology and nuclear goods. Changes in the political situation with respect to the Warsaw Pact countries are likely to result in some alterations in the Export Control List.

258. The fifth part of the Export Control List is entitled miscellaneous products. It includes items whose exports are restricted on account of federal domestic policies such as promotion of domestic processing of logs, pulpwood, and red cedar, Canada’s membership in the Convention on International Trade in Endangered Species, and monitoring of exports of carbon steel and specialty steel (in the latter case, only exports the United States). It specifies the restrictions on exports from Canada of goods originating from the United States, and includes sugars, syrups and molasses exported to the United States for the purpose of allocating quotas imposed by it. The most recent item included for export licensing is roe herring (8 March 1990) as a result of settlement of a dispute with the United States (Table IV.22). Some concerns like drug problems and environmental hazards are likely to lead to export controls on hazardous wastes, domestically prohibited substances, and on chemicals used for manufacturing narcotics.

(Footnote Continued)

of Vietnam. In recent years, Canada has extended the list of goods authorized for export to China to include an increasingly wide range of strategic goods as a result of a strengthening of China’s economic links with industrial nations.
259. Permits for exporting to the United States are required only for atomic energy materials and equipment, and for goods subject to controls because of Canadian domestic policies or bilateral agreements.

260. Apart from the Exports Controls Division of the Ministry of External Affairs, other government agencies involved in controlling exports include Revenue Canada (Customs and Excise) which inspects goods to be exported, and Environment Canada which administers export controls for endangered species. Regarding interdepartmental consultations concerning the evaluation of strategic or military equipment, the agencies involved include the Atomic Energy Control Board and the Departments of National Defence, Communications, and Environment.

(iii) Voluntary restraints and similar arrangements

261. In conformity with the import monitoring of carbon and specialty steel to prevent diversion to the United States, Canada also monitors exports of these products (Table IV.20). Specialty steel products have been placed on the Export Control List with reference to exports to the United States. The controls on carbon steel are for exports to all destinations.

(iv) Export assistance

262. The federal Government assists eligible exporters by providing guarantees, and through financial assistance for export promotion and identification of export opportunities. The facilities include a Trade Commissioner service, the Export Development Corporation for short-term financing, insurance, and export guarantees, some export promotion schemes like the Program for Export Market Development, and some assistance from agricultural institutions such as the Canadian Wheat Board, to promote trade in the products covered by them. Export promotion activities are also conducted by the provinces.

150 The Canada-United States Free Trade Agreement specifies that a restriction otherwise justified under provisions of Articles XI:2(a) and XX(g), (i) and (j) of the GATT on exports by either country to the other's territory will be allowed only if: (i) exports are continued to be allowed to the other in proportion to the previous export and domestic consumption patterns, and (ii) the price charged for exports to the other Party is not higher than that for domestic consumption. Some exceptions in the Agreement result in maintenance of export controls on a few products, including unprocessed fish exports by Canada, and logs of all species exported by both.
(a) Export Development Corporation

263. The Export Development Corporation was established in October 1969 as a successor to the Export Credits Insurance Corporation. This Crown Corporation, wholly owned by Canada, is Canada's official export credit agency. It is authorized to borrow, to lend and to guarantee loans, to enter into export and foreign investment insurance contracts against risks, and to issue guarantees regarding export transactions.

264. Some export credits are made on the Government's own account and funded by borrowings from the Consolidated Revenue Fund. In some cases, transactions do not meet the risk or rate of return criteria for Export Development Corporation (EDC) lending, but are judged to be in the "national interest". Such lending is administered by the EDC, but the Corporation maintains a separate account of all moneys received or disbursed under this facility.

265. The responsibilities of the Board of Directors of the Corporation do not extend to the Government account. The Corporation operates on a financially self-sustaining basis and provides financial terms at or near market rates. Its outstanding liabilities today are about CAN$6.5 billion.

266. There is no minimum value of export business required to qualify for support from the Export Development Corporation. The Corporation provides a large range of insurance services for export credit and foreign investment (normally assuming 90 per cent of the commercial and political risks); several types of guarantees to banks making export loans or issuing performance and bid securities; and export financing for up to 85 per cent of the contract value to foreign buyers of Canadian goods, equipment, and services. To get assistance, a Canadian content requirement must be fulfilled; generally it is 60 per cent or more. Among the financial services provided by the Export Development Corporation, guarantees play a small role, and insurance is mainly for short term.

267. Most schemes of the Export Development Corporation are not product or sector specific. Two of them, however, are tailored particularly for

151 In addition to charging premiums for insurance, fees for financing and interest on loans to foreign borrowers, the Corporation funds its operations by issuing notes in international capital markets and through a range of cash management activities.

152 The Canadian content level is determined at the time of application for support to exports. The Export Development Corporation advises exporters on how to meet or exceed the Canadian content levels established for their products.
agricultural exports. These are the Short-Term Bulk Agriculture Credit Insurance and the Medium-Term Bulk Agricultural Credits Insurance. The list of countries eligible to purchase grain on credit terms, and the credit ceilings applicable to individual countries, are reviewed annually by the federal Cabinet.

268. Statutory limits are specified by the Export Development Act for different operations of the Corporation.

269. The national interest account, or the Canada account, covers loans and insurance programmes entered into under the authority of the Governor-in-Council. The Canada account includes two types of transactions, concessional mixed credits and non-concessional credits. In the former case, the standard OECD consensus has to be met. Rates lower than those allowed under the OECD Arrangement on Export Credits are not offered. Loans under the Canada account to foreign borrowers were CAN$187 million in 1987, CAN$345 million in 1988, and CAN$208 million in 1989. For these three years, the liabilities for insurance and guarantees under the Canada account were CAN$91 million, CAN$71 million, and CAN$90 million respectively. In contrast, insurance guarantees of CAN$4.4 billion were provided by the Export Development Corporation under its own account in 1989.

153 The short-term programme provides cover for credit terms of up to 360 days to the exporter of bulk agricultural products against commercial and political risks inherent in export sales to foreign governments, and in exports sales to buyers under irrevocable letters of credit. The medium-term scheme provides cover for up to three years when warranted by officially supported international competition to the exporter of bulk agricultural products, against political and commercial risks inherent in export sales to foreign governments.

154 At present the liability limits for loans made directly by the Corporation are ten times authorized capital or CAN$15 billion for the corporate account, and CAN$6 billion for the Government account; for export insurance and guarantees, the limits are ten times authorized capital for the corporate account, and CAN$7 billion for the Government account.

155 Including its own account and the Canada account, 431 insurance claims amounting to CAN$38.3 million were paid in 1988 by the Export Development Corporation. Recoveries from claims previously paid amounted to CAN$43.1 million in this year.
(b) Program for Export Market Development

270. The Program for Export Market Development was established in 1971 to assist Canadian exporters by sharing with them the costs and risks of entering new markets. The Program provides eligible firms with partial finance for types of several expenses including air travel, accommodation abroad, space rental in trade fairs, and preparation of export contracts. Necessary criteria for getting this assistance are that sales promoted should be incremental, and that the activities would normally not be undertaken by the companies on their own.

271. Generally, up to 50 per cent of the eligible incurred cost is provided, for projects initiated by industry as well as those planned by the Government. An important feature of this Program is that firms which are successful in their marketing efforts are required to repay the amount of assistance received by it. However, only about 15 per cent has been recovered for government-planned activities, and slightly above one-third for industry initiated programmes.

272. The budget for this Program in 1989-90 is CAN$20 million for the industry-initiated component, and CAN$13.9 million for government-planned activities. In 1988-89, 43 per cent of industry initiated expenditure was for the market in the United States, followed by about 12 per cent in Africa and Middle East. For government-initiated programmes, the 1989-90 budget allocates about one-third of the expenditure to the

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156 All firms resident and incorporated in Canada, private sector non-sales trade associations or organizations, Crown Corporations, or provincial/municipal agencies are eligible to participate.

157 The Government planned activities cover trade fairs abroad, and trade missions to markets abroad, and for foreign business persons and government officials coming to Canada or to trade shows where Canadian business participation is substantial. The 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, marketing campaigns by medium sized companies with export experience consisting of trade fairs and visits directed toward a single market, special activities of private sector non-sales trade associations or organizations, establishment of a permanent office abroad for sustained marketing efforts in an area where applicant is currently active, and innovative marketing activities not covered elsewhere.

158 In 1988-89, 59 per cent of total approvals went to firms with total sales less than CAN$2 million each, and manufacturing accounted for almost two-thirds of the total approvals.
United States market, about one-fourth to Europe, and slightly above one-fifth to Asia and the Pacific. Sectors with a relatively large share of the budget in 1989-90 were advanced technologies (17.3 per cent), agriculture and food (14.8 per cent), consumer products (11.6 per cent), transport (7.6 per cent), and industrial machinery (7.1 per cent).

(c) Others

273. Canada has a Credit Grain Sales Program, administered by the Grain Marketing Bureau of Agriculture Canada. In recent years, most credit sales have been financed by the Canadian Wheat Board with a Government loan guarantee to Canadian lending institutions. The programme provides for credit terms of three years or less, at commercial rates of interest. The liability limits for different destinations are annually approved by the Cabinet. In recent years, about 10 per cent of grain sales have been on credit.

274. Under the Technology Inflow Program which assists Canadian firms to acquire foreign technology, contributions are made towards visits abroad, incoming visits by foreign experts, or those undertaken to implement technology transfer. In 1988-89, CAN$5.6 million was spent for 340 projects under this programme.

275. The Department of Industry, Science and Technology provides assistance to Canadian exporters through the New Exporters to Border States Program, New Exporters to Overseas Markets Program, and New Exporters to the U.S. South Program.

(d) Canada-United States Free Trade Agreement

276. The Free Trade Agreement prohibits the use of export subsidies on bilateral trade in agriculture. The two Governments have agreed to consult more closely to take into account each other's exports interests when using such export subsidies to third markets.

159 In 1988-89, there were 2,158 participants in this programme, including 569 buyer representatives.

160 These three respective programmes assist companies in visiting importers or agents of customs offices in Canada and the United States; and in holding discussions with Canadian consulate staff; selling to overseas markets (for those already successful in the United States); and selling to south and south-western States in the United States (for those already successful in northern United States).
(v) Marketing boards

277. Marketing boards operate at both the federal and the provincial levels, and number more than 100 in total. In some cases they are regulated by Governments at both levels. Generally, boards in charge of interprovincial or export trade come under federal authority, but in some cases such as tobacco, a provincial board may also have its authority extended to include interprovincial and export trade. The functions of marketing boards may include price negotiation, designation of sales agents, establishing production and trade quotas, and setting transport allowances.

278. The marketing boards can also obtain the power to subsidize exports. Some have direct power to control exports, e.g. the Canadian Wheat Board, while others such as the Canadian Egg Marketing Agency provide disincentives to export through high levies on exports above a given level. Federal marketing boards with rights to set prices, and allocate production and export levels, are the Canadian Broiler Hatching Egg Agency, the Canadian Chicken Marketing Agency, the Canadian Dairy Commission, the Canadian Egg Marketing Agency, the Canadian Turkey Marketing Agency, and the Canadian Wheat Board. Most of these run domestic supply management schemes. A few boards act only as marketing agents and do not set prices, namely, the Canadian Freshwater Fish Marketing Corporation and the Canadian Saltfish Corporation.

279. The Canadian Freshwater Fish Marketing Corporation has the exclusive right to market fish in interprovincial and export trade from the areas which have agreements with the federal Government under Section 25 of the Freshwater Fish Marketing Act. Similarly, the Canadian Saltfish Corporation has the exclusive right in interprovincial and export trade to market cured fish and by-products of fish curing from provinces participating in an agreement under Section 25 of the Saltfish Act. Both these Corporations compete with private trade in the domestic markets and in exports.

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162 The areas are Alberta, Saskatchewan, Manitoba, Northwest Territories, and an area of Northern Ontario bordering the province of Manitoba.

163 The provinces are Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island and Quebec.
280. In most cases other than supply management programmes, production is affected through financial assistance (Tables IV.23 and IV.24). The majority of assistance programmes is not product-specific. For most sectors, the estimated rate of assistance has been low. Exceptions include the assistance provided to fishing, agriculture, coal mines, and certain wood products. Assistance for reducing production costs in industry is now generally not provided. Increasingly, the orientation is towards subsidizing modernization of capital, research and development, and labour adjustment.

281. The estimates in Tables IV.23 and IV.24 cover federal support only. Provinces also provide considerable financial assistance, in particular to agriculture. Their share in total government expenditure on agriculture ranged from about one quarter to more than two-fifth in the period 1981-82 to 1989-90 (Chart IV.3).

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164 The OECD has calculated that during the 1980s, total subsidies provided by Canada were between 2 to 2.8 per cent of GDP at market prices. See R. Ford and W. Suyker (1990), "Industrial Subsidies in the OECD Economies", OECD Department of Economics and Statistics Working Paper, No. 74, Paris. In addition to financial assistance through grants, tax rebates and credit programmes, the government assistance also takes the form of provision of services.

165 Production subsidies to shipbuilding were terminated in 1985, and now mainly a one-time financial support is provided for labour adjustment.
Chart IV.3
Federal and provincial shares in government expenditure on agriculture in Canada, 1981-90

Source: Government of Canada.

282. At the federal level, most of the expenditure on agriculture is for stabilization, crop insurance and transport (Table IV.23). Two product groups, namely grains and dairy products, account for much of this support. As a result of lower grain stabilization payments, the phasing out of some temporary assistance programmes and reductions of some others, the amount spent in 1989-90 was down by almost one-half from the 1987-88 level.

283. In contrast, the amount spent on non-agricultural business has increased in recent years, largely on account of a rise in expenditure on regional programmes (Table IV.24). Some schemes, such as those providing incentives for exploration, have been terminated.

166 Before 1984-85, several incentives were provided for exploration and conservation. Similarly, some major industrial subsidy programmes (Footnote Continued)
284. With the budget of 1990, straight grants to business will be eliminated, subject to some exceptions. A new emerging feature is that most government contributions will incorporate stricter repayment terms. Several policies are under review with this aspect in mind.

(i) **Supply management policies**

285. Canada regulates the domestic supply of two broad commodity groups, dairy and poultry and eggs. The programme for dairy products is administered by the Canadian Dairy Commission and provincial milk boards. The dairy sector receives substantial assistance from the Government through a subsidy paid on industrial milk (Table IV.23).

286. Marketing Agencies have been created for the other commodities under the National Farm Products Marketing Agencies Act, which currently covers chicken, eggs, turkey and broiler hatching eggs. To set up a supply management agency, producer groups must establish that a majority of producers favour supply management. Thus marketing agencies can be set up with some provinces not being its members. Once established, detailed marketing plans of the agencies, incorporating pricing, and production quotas and marketing arrangements at the provincial level, must be submitted to the National Farm Products Marketing Council for approval. The supply management schemes regulate both inter-provincial and international trade.

287. Quantitative restraints on imports are used in the framework of administering supply management programmes. Over-production and exports in excess of allocation for most of these products are discouraged through high levies as penalties.

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(Footnote Continued)

(167) These plans include allocations for sales by non-members to provinces which are members of the programme. Prices are based on cost of production.

(168) Most recently, Canada imposed quotas on imports of yoghurt and ice cream, claiming that this was needed to implement its supply management programme. The United States requested a GATT Panel to investigate this issue.
288. From time to time, the restraints on production and sales imposed under the supply management programmes have elicited complaints from consumers and producers. Certain shortcomings have been highlighted by official enquiries. Recently, there have been complaints by consumers of milk and chicken. Dissatisfaction with the operations of the Canadian Chicken Marketing Agency led British Columbia to end its eleven year old membership on 31 December 1989.

(ii) Stabilization programmes

289. The Canadian Government implements or assists several programmes to stabilize prices received by producers of some agricultural commodities. In the second half of the 1980s, the expenditure under stabilization programmes increased rapidly for some years on account of droughts and depressed commodity prices. Currently, efforts are being made to ensure that these programmes remain financially sound.

290. At the federal level, two main stabilization programmes are the Agricultural Stabilization Act and the Western Grain Stabilization Act. Deficiency payments by the federal Government for the programmes operated under the Agricultural Stabilization Act were about CAN$86 million in 1986-87, CAN$222 million in 1987-88, CAN$161 million in 1988-89 and CAN$95 million in 1989-90. Costs to the Government under the Western Grain Stabilization Act for the corresponding years was about CAN$855 million, CAN$1,396 million and CAN$954 million.

291. For calculating deficiency payments, the Agricultural Stabilization Act distinguishes between two categories of products. One is named commodities: cattle, hogs, lambs and wool, industrial milk, industrial cream, corn, soybeans, and for the area not covered by the Canadian Wheat Board, spring and winter wheat, oats and barley. Second, are those added by the Governor-in-Council to the list of products whose price has to be stabilized (designated commodities).

292. Though the statutory support for named commodities is at 90 per cent of the base price plus a factor to reflect the change in estimated production costs, it can be supported at a higher rate upon approval of the Governor-in-Council (Table IV.25). For designated commodities, the support

169 The Agricultural Products Board, established under the Agricultural Products Board Act, can also take action in support of the Agricultural Stabilization Act. The Board can sell products at prices below the purchase price plus handling and storage, if authorized by the Governor-in-Council. Since 1986-87, federal expense for this account has generally been around CAN$3 to 5 million, with a high of CAN$12 million in 1988-89.
level is determined by the Governor-in-Council at a level usually similar to that for a named commodity (Table IV.25).

293. In April 1985, the Agricultural Stabilization Act was amended and the method of financing stabilization programmes was altered. This led to tripartite plans incorporating equal contributions from producers, and federal and provincial authorities. These plans are an important component in the attempt to harmonize deficiency payments schemes across provinces. Some provinces such as Quebec and British Columbia, continue to maintain their own stabilization programmes for several products, including a few for which there are tripartite agreements.

294. Quarterly calculations for stabilization are made for tripartite plans for hog, lamb, and slaughter and feeder cattle. Annual calculations are made for cow and calf, apple, sugar beet, white pea bean and other dry edible beans. Though the programme for livestock came into effect in 1986, and those for sugar beet, beans and apple started in 1987, not all provinces joined at those times. For example, British Columbia signed the tripartite programme for hog, lamb and beef in 1989. Once a tripartite agreement is established for any commodity, deficiency payments envisaged by other sections of the Agricultural Stabilization Act are not permitted. Payments made to producers under tripartite stabilization programmes increased from less than CAN$5 million in 1986-87 and 1987-88, to CAN$244 million in 1988-89.

295. The criteria used for stabilizing prices through the tripartite plans are linked to an indexed moving average price adjusted to account for inflation or to a guaranteed margin over average cash costs, with some variation in the stabilization formulae used for different products (Table IV.25). In the case of these stabilization programmes, the federal

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170 The basic principles are: that participation by producers is voluntary; all producers in participating provinces receive the same level of support per unit; the scheme is cost shared between Canada, the province and the producer; the scheme must be actuarially sound; over time, total premiums and interest should equal total payout; the scheme must operate at a level that limits losses but does not stimulate production.

171 Though tripartite programmes do not have all provinces as members, all major producer provinces for a particular commodity have joined the tripartite programme for it.

172 These payments were from the funds of the tripartite programmes to which contributions are made by producers and the federal and provincial Governments.
Government has put an upper limit on its contributions in terms of proportional value of the product.

296. The Western Grain Stabilization Program covers seven main grains and a list of special crops grown in the Canadian Wheat Board area. This voluntary programme was recently amended in 1988. Participating producers pay a specified annual levy of 4 per cent, until an allowable maximum in eligible grain sale proceeds is realized. The federal Government pays 2 per cent more than the producers on all eligible producer proceeds. It also pays the administrative costs of the programme, which is run by the Western Grain Stabilization Administration. In times of low cash income, payments to producers from the Stabilization Fund are made in proportion to their contribution into the programme over the preceding three-year period. Since price averages are going down, there is a safety net programme which prescribes the lower limit for receipts. The stabilization programme is currently being reviewed in the context of the overall agriculture policy review. The goal is to have a new safety net programme for grain and oilseeds in place for the 1991-92 crop year.

297. For the basic grades of wheat and barley under the area covered by the Canadian Wheat Board, the Government has established initial payments for each crop year since 1935. If the sales price obtained by the Board is insufficient to cover its operating cost plus the initial payments already received by producers, the Government meets the deficit. The Canadian Wheat Board losses over the past year have been in excess of CAN$350 million. According to the Government of Canada, this was primarily due to the larger than expected decline in grain price resulting from the grain subsidy/trade war.

298. The Canadian Wheat Board, along with Agriculture Canada, administers a programme under the Prairie Grain Advance Payments Act providing Government guaranteed advance payments to grain producers in the Canadian Wheat Board designated area. Until 1989, these advances were interest free; this was changed in the 1989 budget. The liability for defaulted advances under this programme is borne by the federal Government. Repayments of the advance must begin as soon as grain can be delivered to elevators under the quota. In the 1987-88 crop year, interest payments amounted to CAN$20 million and payments for defaulted accounts was less than CAN$1 million.

173 These include wheat, barley, oats, rye, flax, canola, mustard seed, triticale, mixed grain, sunflower seed, safflower seed, buckwheat, peas, lentils, fababean, and canary seed.

174 The Canadian Wheat Board currently operates four pool accounts, namely for wheat, durum, barley and designated barley. Prior to 1 August 1989, it operated six accounts.
299. Government guaranteed advance payments are also made under another programme administered by Agriculture Canada and authorized by the Advance Payments for Crops Act 1977; these advances were also interest free until 1989. This applies to all storable Canadian crops, except wheat and barley grown in the Canadian Wheat Board area. Producer organizations are provided guaranteed loans to make advance payments based on a portion of the expected price. During 1988-89, advance payments were made to producers of nineteen different products, and the federal expense on this account was an estimated CAN$12 million.

300. The Canadian Dairy Commission sets a target return for dairy farmers, and supports the price of industrial milk by offering to purchase butter and skim milk powder at a price sufficient to maintain the target return. The Fisheries Prices Support Board investigates and, when appropriate, recommends action under the Fisheries Price Support Act to support prices of fishery products where declines have been experienced. No price support programmes for fisheries are currently in effect.

301. In 1989, Canada phased out a two-price scheme for wheat and its products. This policy was legislated to protect producers and consumers from wide fluctuations in the price of wheat and its products meant for human consumption. It specified a range for the domestic price, thus delinking the domestic price from the export price. As a result, consumers were subsidized when the export price was above the domestic price and producers were subsidized in the reverse case.

302. The Free Trade Agreement accepts the right of the federal Government and the provinces to maintain or introduce programmes to protect and stabilize farm incomes.

(iii) Subsidies

303. In addition to stabilization programmes, subsidies are also paid for other reasons in Canada (Tables IV.23 and IV.24). For example, the Agricultural Stabilization Board pays a direct subsidy of CAN$6.03 per hectolitre for industrial milk produced within the National Market Sharing Quota. During the 1980s, federal expense on this account has generally ranged between CAN$280 to 300 million per year. Also, in order

175 Agriculture Canada prescribes the rate of advance per unit crop and determines the maximum guarantee. Currently, it guarantees repayment of 98 per cent of the amount borrowed by producer organizations from the bank, and pays the interest on these loans.

176 The products were potatoes, carrots, rutabagas, onions, cabbage, apples, pears, sunflower seeds, oats, corn, barley, honey, rye, tobacco, soyabees, canola, alfalfa seed, leeks and flax.
to reduce the impact of the subsidy competition between the European Community and the United States, Canada provided cash payments under its Special Canadian Grains Program. Under the 1987 programme, CAN$1,067 million was paid to 214,559 recipients in 1988. No such payments were made in 1989-90.

304. Major financial assistance to the defence and defence-related industry is provided through the Defence Industrial Productivity Program (Table IV.24). Contributions are repaid with interest where production has commercial application. The conditions governing repayment have been tightened under a new policy which is currently being developed. The budget has been reduced by CAN$25 million per year beginning 1991-92.

305. Transport and insurance are two important elements of costs which are subsidized by the Canadian Government. The programmes for subsidising transport costs include payments by the federal Government of a portion of total railway cost of transporting grain under the Western Grain Transportation Act (WGTA), the Act and East Grain and Flour Subsidy Program administered by the National Transportation Agency, the Freight Charges Equalization Program administered by Agriculture Canada, and the Feed Freight Assistance Program administered by the Canadian Livestock Feed Board.

306. The WGTA applies to export grain movements to British Columbia ports and Churchill, and to all grain movements to Thunder Bay (most of which is for export). The freight subsidies amount to about 70 per cent of the transportation cost and are paid directly to the railways by the federal Government. During 1985-89, the payments ranged between CAN$496 million (1985-86) and CAN$941 million (1987-88). In 1989-90, an estimated CAN$570 million was paid.

307. The payment under the WGTA is based on the difference in 1981-82 between the total cost of transporting grain and the payment producers were making at the time for transporting grain. The Government can also be required to pay an additional amount (or reduced amount in the event of cost saving), on account of an inflation sharing provision of the Act. A safety net was established so that freight rates do not exceed a specified final percentage of average grain prices. Under the Feed Freight Assistance Program, the federal Government pays a portion of the transportation cost incurred in shipping feed grains to users in feed deficit areas of British Columbia, the Yukon, the Northwest Territories and parts of Eastern Canada.

177 Legislation has been introduced to terminate the Freight Charges Equalization Program and the Feed Freight Assistance Program.
308. The At and East Grain and Flour Subsidy Program, administered by the National Transportation Agency, evolved in response to a 1959 rate reduction by the United States railways for grain movements from points "at and east of Buffalo, New York to Atlantic Ports". Payments of more than CAN$30 million were made in 1987 and 1988 under this programme, which was terminated in mid-July 1989. The Freight Charges Equalization Program aims to equalize freight charges between eastern and western Canada on the transport of flour for export markets. A relatively small amount is spent on this programme; in 1987-88, appropriations were CAN$634 thousand, with the average subsidy being CAN$6.24 per tonne.

309. The Government of Canada also subsidizes non-rail transport services. Major expenditure under these schemes has been for Marine Atlantic, mainly for provision of ferry services, and to the St. Lawrence Seaway Authority for the operation of the Seaway. In 1987-88, CAN$126 million and CAN$32 million were paid by the Government for these two purposes, respectively; the latter was a one-time capital improvements subsidy to repair an engineering failure.

310. A noteworthy feature in the context of rail transport subsidies is that in order to compensate for the advantages bestowed by these subsidies, some provinces have introduced offsetting price subsidies of their own. Currently, a Task Force on Transport is reviewing transport subsidies, and financial aspects of the Western Grain Transportation Act are being considered as part of a major overall review of policies used to assist agriculture.

311. Under the authority of the Crop Insurance Act, the federal Government can enter into an agreement with any province to make contributions towards insurance premium, or the premium and the administration costs of that province's insurance scheme. All provinces take part in this scheme, and virtually all crops are covered. Whenever indemnities greatly exceed premiums and reserves, risk-sharing arrangements can also be made by way of loans or reinsurance of part of the Province's liability.

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178 The purpose is to encourage the use of Eastern Ports for the export of grain and flour.

179 As of this year, federal and provincial Governments will contribute 25 per cent each, and producers will cover the cost of the rest of the premium. The cost of administering the programme is shared between the Governments involved. Until now, this formula applied only in Quebec and Newfoundland. In all other provinces, the earlier scheme involved farmers and the federal Government equally sharing the insurance premium, and the provincial Governments absorbing the administration costs.
312. Crop insurance payments are made whenever the yield of a given crop drops below the guaranteed level, usually 80 per cent of the historical average in a given area, (i.e. average for the previous 10 to 15 years). During fiscal years 1985-86 to 1989-90, the cost to the federal Government ranged between CAN$182 million (1987-88) and CAN$316 million (1989-90).

313. Under the Agricultural Products Co-operative Marketing Act, the Minister of Agriculture can enter into an agreement with a cooperative association, processor or selling agent to pay the difference between the actual average price received at the end of a crop year and the initial payment, plus the eligible costs of the organization. Since the conception of the programme, there have been very few instances where the Government has had to make a liability payment.

314. Across all sectors of the economy, the Government provides limited assistance to the private sector by way of finance at concessional rates, and by guaranteeing loans arranged between private sector companies. The two main credit programmes are conducted under the Federal Business Development Bank and the Small Business Loan Act. The former provides funding not otherwise available to commercially viable businesses, at reasonable terms and conditions. The latter is aimed at small businesses and assists them through loan insurance. Among the subsidy programmes recently phased out by the Government of Canada is the Commodity Based Loan Program, which was introduced in 1986 to provide subsidized loans to low equity Farm Credit Corporation clients in financial difficulty.

315. There are several small programmes, such as the programme for marketing of wood products which is funded equally by the producers, and the federal and provincial Governments (only CAN$3 to 4 million per year federal contribution).

316. The estimates for assistance provided in this report are mainly those relating to federal expenses. As pointed out earlier in this chapter, considerable assistance is also provided by the provincial Governments. The general orientation, however, is towards containing or reducing expenditure.

317. Under the Free Trade Agreement, Canada will eliminate the Western Grain Transportation subsidies to the United States shipped through the west coast ports.

(iv) **Technology and market development initiatives**

318. In recent years, the Government has increasingly emphasised technological development, and has implemented several programmes to

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180 The costs of these programmes are not easy to estimate.
achieve this objective. On 12 March 1987, the federal, provincial and territorial Governments signed Canada's first National Science and Technology Policy. On 24 March 1987, the federal Government launched InnovAction, focusing on five areas: industrial innovation and technology diffusion; development of strategic technologies; effective management of federal science and technology resources; human resources for science and technology; and public education in science and technology. The Government has developed the Decision Framework, which is a set of principles and guidelines to co-ordinate and direct its CAN$5.1 billion annual investment in science and technology.

319. Technology upgrading is being emphasised through established programmes as well as through new ones. For example, technological development is an important component of the Defence Industry Productivity Program mentioned above. New programmes include the Microelectronics and System Development Program, Technology Outreach Program, Sector Campaigns, Strategic Technologies Program, and Advanced Manufacturing Technology Application Program. Rather than capital assistance, the new science and technology programmes are oriented towards technology diffusion, problem-solving, and alliance among firms. A new feature for these programmes is the specification of sunset provisions.

320. Private sector R&D is supported by the Government through grants, contributions, contracts, and tax concessions. During the 1980s, grants and contributions from the federal and provincial Governments have totalled between 9.1 per cent to 12.7 per cent of the in-house R&D expenditure by industry; in 1989, it was 11.8 per cent of a total in-house R&D expenditure of CAN$4.6 billion by industry. Since the mid-1980s, federal sources have accounted for about 90 per cent of the total amount provided

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181 Specific initiatives under InnovAction include a microelectronics strategy, a technology centres policy, Canadian Manufacturing Advance Technology Exchange, and the Canada Scholarship Program.

182 An important reason for this initiative, which incorporates upgrading of skills, is that 70 per cent of the Canadian labour force for the year 2005 is already estimated to be a part of the current labour force.

183 For example, though projects under the Sector Campaigns have been approved for many sectors such as auto components, environment industries, medical devices, advanced manufacturing technologies, plastics, fisheries and the Canadian Wine Institute, several of them involve studies or data gathering and assessment. For some details of the science and technology programmes in Canada, see Industry, Science and Technology (1990), ISTC Programs and Services, Ottawa.
by the Government. Data on assistance provided through tax incentives is not available.

(v) \textbf{Structural and rural development policies}

321. In addition to the various schemes which support rural and regional development without being particularly targeted for these purposes, the Government also implements some programmes which are meant specifically to achieve these objectives. The explicit regional development efforts of the federal Government have typically involved federally delivered business assistance programmes in combination with joint federal-provincial cost-shared efforts under the long-term federal-provincial regional development agreements. They represent a new decentralized federal approach to regional development after the expiry in 1988 of the Industrial and Regional Development Program.

322. Federal spending on regional development programmes has risen sharply over the last five years, from CAN$600 million in 1984-85 to an estimated CAN$1.3 billion in 1988-89. Among different development programmes, the largest funding is provided for Economic and Regional Development Agreements (including forestry), a framework within which specific initiatives are implemented through subsidiary agreements developed jointly by the federal and provincial Governments (Table IV.24). The expired Industrial and Regional Development Program has been superseded, with respect to its regional development aspect, by new regionally tailored business support programmes carried out by each of the regional development agencies, e.g. the Atlantic Canada Opportunities Agency's Action Programme, the Western Diversification Department's Western Diversification Programme, and in various programmes of Industry, Science and Technology Canada with respect to Quebec and Ontario, including the special Northern Ontario Development Fund.

323. With the exception of certain agricultural programmes, no industry-specific structural adjustment programmes are in operation. The agricultural programmes include the Canadian Rural Transition Program, the Farm Debt Review Board, the Grape and Wine Industry Program, and the Tobacco Industry Program. Such support has been limited to these sectors though some other sectors or industries are also currently facing adjustment pressures, namely the Atlantic fisheries, shipbuilding, textiles and clothing, and the automotive industries.

\footnote{Commitments for this programme are still being paid out. An estimated CAN$196 was paid in 1988-89.}

\footnote{Establishment of the regional agencies re-oriented assistance towards development of small and medium-size local firms.}
(vi) **Taxation policies**

324. The Canadian Government implemented a programme of tax reform in 1987, which has reduced assistance through taxation.

325. Several tax deductions are provided for manufacturing and processing, logging, gas, and mineral exploration, and there are special provisions for the agricultural sector. The largest programme relating to corporate income tax deduction is the Manufacturing and Processing Deduction Program.¹⁸⁶

326. The major programmes for agriculture are Five Year Block Averaging for Farmers and Fishermen, Flexibility in Inventory Accounting, Cash Basis of Accounting, Deferral of Tax on Capital Gains on Inter-generation Rollovers of Family Farms, Excess of Tax Depreciation over Book Depreciation, Deferral of Income on Grain Sales and from Destruction of Livestock, Depreciation of One-half the Value of Producer Quotas, and Provision for 10-year Reserve on Instalments Received from Sale of Farms to Children. There are some federal exemptions from energy taxation on the farm sector.

327. Excise tax rebate on gasoline and diesel fuel for off-highway use by primary producers expired in 1989. The sales tax rebate remains in effect until the end of 1990 when the goods and services tax will apply.

328. Details of tax concessions provided by provinces are not available to the Secretariat.

(vii) **Conservation policies**

329. Protection of the environment is an important and expanding policy area for Canada. Tax concessions for environmental reasons were mentioned above. Funding for soil conservation was increased in 1989. The Department of Supply and Services works with Environment Canada for increasing procurement of materials friendly to the environment. Similar

¹⁸⁶ Other programmes include Drilling Funds, Flow-Through Shares and Other Resource-Related Deductions, Canadian Exploration Expenses, Canadian Development Expenses, Canadian Oil and Gas Properties Expenses, Foreign Exploration and Development Expenses, Logging Tax Credit, Regional Investment Tax Credit and Fast Write-Off for Canadian-Built Ships; Manufacturing and Processing Assets; Mining Assets; Current R&D Expenditures; Pollution Control Equipment; Energy Conservation Machinery and Equipment. For details, see the Government Report on Canada's trade policies.
attempts for adopting environment-friendly policies are being adopted by some other departments, especially Energy, Mines and Resources Canada. 330. While Canada is itself adopting environment friendly policies, it emphasises that such measures should not be used to unduly construct barriers to trade. One area of special concern to it is newsprint, for which the United States recently adopted some conditions specifying stipulations for recycling.

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187 In March 1990, the Canadian Council of Environment Ministers agreed to design measures aimed at cutting in half, by 1998, the amount of packaging that ends up in garbage dumps. See "Canada environment ministers agree to packaging reductions", The Globe and Mail, 21 March 1990.
V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Overview

331. A salient feature of Canadian trade policies is the wide variation in assistance granted to different product categories. The overall picture of rankings by tariffs weighted in terms of production and imports shows that average tariff protection to non-manufacturing sectors is low (Table V.1). Tariffs play a much more important rôle in industry than in agriculture, where many other trade-related policies apply. Product categories with low average tariffs include automobiles and parts, and machinery and equipment, which are significant import items for Canada (Table V.2). Particularly high tariffs are levied on textiles, clothing, footwear, furniture and fixtures, and some tobacco products. Average tariffs for several sub-categories are above 20 per cent.

332. As noted in Chapter IV, many other measures are in place, and their incidence differs substantially across sectors. Some products such as clothing get high protection through both tariffs and non-tariff barriers. In contrast, tariff concessions are provided to encourage imports of items such as automobiles, chemicals, and machinery. Domestic processing of natural resources is encouraged through policy. Standards for health and safety, and marking and packing are in place for a wide variety of products. An Import Control List contains several agricultural products, while export controls apply mainly to industrial products. Supply management programmes are implemented for certain agricultural products; the protection granted to some items, e.g. dairy and poultry meat, has resulted in very high implicit taxes on consumers.

333. Over the years, especially due to tariff reductions on industrial items during the Tokyo Round, assistance to industrial sectors has

188 Due to availability of data, two different types of sector classifications are used in this Chapter. One is according to the GATT Tariff Study, and the other is the Standard Industrial Classification. Exact comparability among the two systems is difficult to attain. Nonetheless, the information provided in this Chapter does give a general perception of the trade policies for different product categories, and the importance of these items in trade. An index such as the effective rate of assistance, which combines the effects of these different policies to give a measure of the extent of assistance across sectors, is not available for Canada; estimates of producer subsidy equivalent (PSE) which account for non-tariff measures, have been computed only for agricultural products.

189 The estimates in this table are calculated under special assumptions, and hence should not be compared with the other tariff averages in this document.
decreased relative to agriculture. As a result, the agricultural sector has become more able to retain domestic resources.

(2) Agriculture

334. Agriculture's share in both employment and gross domestic product of the Canadian economy has declined over time, to its current level of about 4 per cent. This estimate, however, does not give an indication of the importance of agriculture in Canada's trade, particularly for exports. Agriculture accounts for about one-tenth of Canada's export earnings from merchandise items, and about 6 per cent of its merchandise imports (Table V.2). This indicates the significance of external markets for Canadian agriculture. In recent years, about one-third to half of Canada's value of production of food and agricultural raw materials was exported.

335. For several agricultural products, a summary statistic for indicating the degree of support granted through various policies is provided by estimates of producer subsidy equivalent (PSE). The net percentage PSE for Canada has generally followed the trend for the OECD countries, remaining slightly below the group average (Table V.3). The PSE estimate for Canada, nonetheless, was 35 per cent in 1989. The corresponding estimate for consumer subsidy equivalent was -23 per cent.

336. A noteworthy feature of the support provided by Canada is that the PSE per unit of area farmed in Canada is much lower than that for OECD. However, the support per farmer is similar, indicating the large average size of farms in Canada in international comparison (Table V.3). The OECD estimates suggest that, in 1989 Canada granted support worth US$13,000 per farmer through its policies supporting agriculture.

190 In the context of indicators of protection, it is important to bear in mind that different sectors are inter-related. Assistance to any sector (or group of people) is at a cost to another. Thus indicators of protection do not provide a complete picture if considered in isolation for a single sector, because the incentives/disincentives depend on how different policies affect the attractiveness of any particular sector in relation to others.

191 The definition of agriculture in calculating PSEs is not the same as that for the definition of agriculture according to the Tariff Study. The latter includes certain manufactured items also. Among the shortcomings of the PSE concept is that an exogenous change in world price can alter it even with the policies remaining unchanged. However, in this case, the new situation in the world market is not fully reflected in the domestic market because of the policies in place.
337. Agriculture is a shared federal-provincial responsibility. Governments at both levels are involved in activities such as inspection and regulation of food quality and safety, price stabilization, market development, research in crops and livestock, and land use and conservation. Both levels of Government provide substantial financial assistance to agriculture.

338. In the past two years, the overall level of financial assistance was about two-thirds of agriculture's gross domestic product (Chart V.1). During the 1980s, this share has increased dramatically, to a large extent on account of payments resulting from the effect of bad weather and droughts on output. The overall level of financial assistance has declined in 1989-90 compared to the previous year, but continued to account for about two-fifths of the total output of agriculture.

[Chart V.1: Federal and provincial government expenditure on agriculture in Canada as a per cent of agricultural GDP 1981-89]

Source: Government of Canada

339. Most of agricultural imports are either unprocessed products or processed products, with the share of semi-processed products being very small (Chart V.2). Tariffs on unprocessed agricultural commodities are generally low or zero, with higher tariffs being applied to processed products and for seasonal fruits, vegetables and tobacco.
Ad valorem tariffs apply to only about three-fourths of the tariff lines for agriculture, compared to 98 per cent for industry (Chart V.3). The simple average of m.f.n ad valorem tariffs in January 1990 was 5.3 per cent. The simple and weighted averages of applied tariff on agriculture were, respectively, 5.3 per cent and 3.0 per cent in 1988.\textsuperscript{192}

\textbf{Chart V.2}
\textbf{Share of imports into Canada according to stage of processing, 1988}

![Chart showing the share of imports into Canada according to stage of processing, 1988.]

\textbf{Source}: GATT Secretariat estimates based on data provided by the Government of Canada.

\textsuperscript{192}The term "applied tariff" is used in this report for the actual tariff inclusive of concessional tariffs and the ad valorem equivalent of specific tariffs. The latest available estimates for these tariffs are for 1988. The ad valorem tariffs for January 1990 are the m.f.n. ad valorem rates given in Schedule I of the Customs Tariff. Because of lack of trade data by categories for 1990 only simple averages of these tariffs can be computed at present.
340. In comparison to industry, agriculture has fewer preferential tariffs (Table IV.8).

341. One-third of the value of agricultural imports come in duty-free, and another two-fifths face applied tariffs of up to 5 per cent (Chart V.4). In comparison, the share of industrial imports at duty-free tariff is much smaller, but considerably larger for positive tariffs up to 5 per cent (Chart V.4). About 13.5 per cent of the value of agricultural imports and 10.3 per cent of industrial imports entered Canada at applied tariffs above 10 per cent in 1988 (Chart V.4).

Source: Canadian Customs Tariff, Schedule I.

The share is calculated for value of imports excluding duty. Applied tariff rates below 0.001 per cent are treated as duty-free in Chart V.3.
342. About 95 per cent of the tariff lines for agriculture are either fully or partially bound. This is slightly lower than in industry. Nevertheless, the share of the value of agricultural imports coming in at bound tariffs is larger than in industry. Generally low tariffs, coupled with a high level of support through financial transfers, result in tariffs providing only a small share of the assistance to agriculture (Table V.4).

343. Major policies used for assisting agriculture include transport subsidies, price stabilization schemes, subsidized credit, crop insurance, disaster relief, and import restrictions especially in the context of supply management programmes. The PSE estimates show that about half the recorded support provided to agriculture in Canada is through federal market support policies (Table V.4). Though infrequent, the significant

194 According to the OECD, the methodological issues regarding estimates of support to milk and beef and veal are under review. Canada does not accept the accuracy of the estimates for beef and veal.
assistance for disaster relief is indicated by the sharp increase of expenditure on this account in 1988. Another noteworthy feature is the substantial share of sub-national or provincial policies in the support provided to agriculture. These accounted for one-sixth to one-fifth of the aggregate PSE during 1987 to 1989.

344. The support provided to agricultural producers has resulted in higher prices being paid by consumers, in comparison to the situation without support. Estimates for the 1980s show that prices paid by consumers for milk were more than double the world (or the OECD reference) price in some years (Chart V.5).

![Chart V.5](chart.png)

**Chart V.5**
Ratio of prices paid by Canadian consumers to world (OECD reference) price, 1979-89

Source: GATT Secretariat estimates based on OECD data.

345. Some policies which account for a large proportion of the aggregate support to agriculture apply to only a few products. For example, the OECD has calculated that about half of all the assistance to agricultural producers in Canada is due to a higher price paid by consumers. The point made in footnote 191 should be kept in mind when considering these estimates.
transport subsidies alone account for about one-tenth of the PSE. Given
large production of wheat, both in absolute and relative terms, the largest
percentage of transportation subsidies is paid to wheat. On the whole,
wheat has been accorded about one-fifth of the total PSE support to
agriculture in recent years (Table V.5). Other products with a large share
in the total support to agriculture are dairy and beef and veal.

346. During the last few years, percentage PSEs for different products in
Canada fluctuated substantially (Table V.6). In 1989, these were
generally lower compared to the two previous years, with wheat and
poultrymeat registering substantial declines (Table V.6). For a few items,
namely pigmeat and soyabeans, the percentage PSE in 1989 was higher than
the estimate for 1987. In general, the percentage PSE in 1989 remained at
levels of about 20 per cent or more, with the estimates for milk, beef and
veal, eggs and wheat ranging from 25 to 69 per cent (Table V.6).

347. For agriculture, the Free Trade Agreement encompasses a phased
elimination of all tariffs over a period of ten years, with a twenty year
safeguard provision for fresh fruits and vegetables; reductions in certain
non-tariff barriers; the prohibition of export subsidies in bilateral
trade, and closer consultation regarding each other's export interests when
using export subsidies in third markets; and a reduction of regulatory
barriers resulting from technical standards. Supply management programmes
and price stabilization schemes for agriculture will be maintained.

348. Currently, major policies affecting agriculture are being reviewed,
with the objective of altering the broad policy framework. Four main
principles are emphasized, namely market responsiveness,
self-responsibility of farmers, sensitivity to regional disparities, and
sustainable agricultural growth. On the basis of these principles,
seven major areas of agricultural policy are being reviewed, including
financing and managing the family farm, safety net programmes, supply
management, agricultural transportation, food safety and quality,
sustainable agriculture, and marketing, trade development and value-added
processing.

196. The point made in footnote 194 must be kept in mind when
considering these estimates.

197. As noted earlier, changes in PSE do not necessarily reflect changes
in policy.

198. See Agriculture Canada (1989), Growing Together. A Vision For
Canada's Agri-Food Industry, Ottawa.
(i) Dairy products

349. The Canadian dairy products sector is largely insulated by way of domestic supply management programmes. As a result, the international market is not of much significance for the dairy sector as a whole. Exports are only about 3 to 5 per cent of shipments, and imports about 2 per cent of domestic consumption. Dairy products account for less than 0.2 per cent of Canadian merchandise trade, and only about 2 per cent of agricultural trade (Table V.2). The policy régime delinking these markets from international trade has resulted in dairy products being among the most highly protected sectors in Canada, with a PSE of about 70 per cent for milk.

350. The dairy sector produces two different groups of products, namely fluid milk and industrial milk. Domestic supply management programmes are implemented for both these products. Under the programmes, producers must purchase quotas to gain market entry or to expand output.

351. For fluid milk, the provincial milk marketing boards allocate quotas to individual farmers on the basis of their estimates for annual requirements at the provincial level. Raw milk can be sold only to these provincial boards, which first channel deliveries to meet fluid milk requirements. All deliveries above the fluid milk requirement are considered as industrial milk. For industrial milk, domestic supply is managed under a federal-provincial agreement, the National Milk Marketing Plan.

352. The Plan is administered nationally by the Canadian Milk Supply Management Committee under a joint agreement between the federal Government and nine out of the ten provinces. The Committee sets national

199 Trade is of considerable importance for skimmed milk powder and concentrated whole milk. Since 1986, exports have been 40 to 60 per cent of domestic output of the former, and 20 to 32 per cent for the latter.

200 The fluid milk sector produces pasteurized fluid milk and creams, and utilizes about one-third of raw milk produced in Canada. The industrial milk is used to produce products such as cheese, creamery butter, condensed and evaporated milk, milk powder, ice cream, and yogurt. Under the supply management programmes, receipts from marketings are assigned to two different pool accounts, one for fluid milk and another for industrial milk.

201 Newfoundland has no industrial milk processing plants and produces milk only for its fluid milk market. The Canadian Milk Supply Management Committee is chaired by the Canadian Dairy Commission and has provincial Governments and producer bodies as members.
production targets for industrial milk, called the Market Sharing Quota (MSQ), based on estimates for domestic requirements net of imports plus a sleeve. The MSQ is periodically adjusted to reflect any anticipated changes in demand.

Provinces are allotted their share of the MSQ, which they subsequently distribute to producers according to their own quota policies. Surveyed costs of production of industrial milk is used to set a producer target price for industrial milk, and the support price for butter and skimmed milk powder. The administered prices have been higher than equivalent international prices, and represent substantial transfers from consumers to producers. The percentage consumer subsidy equivalent for milk has ranged between -40 per cent and -74 per cent during the 1980s.

Industrial milk producers get a subsidy of CAN$6.03 per hectolitre from the federal Government. This subsidy has remained unchanged for several years. It is deducted in the calculation of the cost of production used for setting support prices for butter and skimmed milk powder (Chart V.6). More than CAN$280 million per year has been paid as producer subsidies during 1986-90 (Table IV.23).

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202 For the period 1982-83 to 1988-89, the Market Sharing Quota has ranged between 46.3 million hectolitres to 47.6 million hectolitres.

203 The target price for industrial milk has increased over time from CAN$41.05 per hectolitre in August 1982 to CAN$47.45 per hectolitre in August 1989. Effective 1 August 1989, the target price for industrial milk was increased by 0.8 per cent, the support price for butter by 1.3 per cent, and for skimmed milk by 1.1 per cent. According to the Canadian Government, the "adjusted target price maintains but does not increase the aggregate level of government support for dairy producers." GATT, DPC/INV/4/Add.11/Suppl.2, 28 September 1989.

204 The main objective of the Canadian dairy policy has been to ensure the dairy producer a stable and adequate return and to provide consumers with a continuous and adequate supply of high quality dairy products through the establishment of the target milk price quoted to manufacturers. See GATT, L/6568, 27 September 1989, for details.
Chart V.6
Industrial milk subsidy and support prices for butter and skinned milk powder, 1982-89
CAN$ per hectolitre or kilogram

Source: Agriculture Canada

355. The producers are charged levies, with differential rates for output within the quota and above it. To discourage over-production, higher levy is charged for any milk produced above the allotted quota (Chart V.7). The marketing boards deduct the in-quota levies and over-quota levies, and transportation and administration charges, and pay the net amount from both
fluid and industrial milk pools to the farmers. Though the over-quota levy was raised in August 1989 by about 10 per cent from its August 1988 level, both the over-quota and in-quota levies have tended to decline since mid-1980 (Chart V.7).

Chart V.7
Over-quota and in-quota levies for industrial milk 1982-89
CAN$ per hectolitre

<table>
<thead>
<tr>
<th>Year</th>
<th>Over-quota</th>
<th>In-quota</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>18.5</td>
<td>3.7</td>
</tr>
<tr>
<td>1983</td>
<td>19.0</td>
<td>3.8</td>
</tr>
<tr>
<td>1984</td>
<td>20.5</td>
<td>4.3</td>
</tr>
<tr>
<td>1985</td>
<td>21.0</td>
<td>4.8</td>
</tr>
<tr>
<td>1986</td>
<td>22.0</td>
<td>5.5</td>
</tr>
<tr>
<td>1987</td>
<td>20.0</td>
<td>4.8</td>
</tr>
<tr>
<td>1988</td>
<td>19.5</td>
<td>4.5</td>
</tr>
<tr>
<td>1989</td>
<td>18.0</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Source: Agriculture Canada

356. Milk products in excess of domestic requirements are usually exported. The cost of disposing the surplus is covered by revenue from the levies imposed on in-quota and over-quota production. Earlier, an export subsidy of CAN$6.03 per hectolitre was paid to producers on 1.1 million hectolitres of milk produced above domestic requirements. As of 1 August 1989, the Government withdrew this export subsidy and stopped financing the operating costs for marketing skimmed milk powder (storage, handling and

205 The penalty for any milk produced above quota is equal to the cost of exporting the lowest value products, butter and skimmed milk powder. An additional penalty is imposed through withholding output subsidy on over-quota production.
transportation). Furthermore, the Canadian Dairy Commission’s operating budget related to surplus marketing activities will now be financed by producers.

357. Border controls are an important part of the framework for administering supply management programmes. Imports of many dairy products are controlled under the authority provided by the Canadian Dairy Commission Act and the Agricultural Stabilization Act. Controls are administered through import permits. For most products, import permits are given to importers; butter import permits are issued only to the Canadian Dairy Commission.

358. For some dairy products, import quotas are imposed in addition to permit requirements. The import quota for cheese, the main dairy import, has remained unchanged since 1978, and increase in domestic demand is met by domestic production. Ice cream products and yogurt are the most recent additions to the list of dairy products whose import volume is restricted. A GATT dispute settlement Panel, established in December 1988 at the request of the United States, determined that these restrictions are not consistent with the GATT.

359. In January 1990, 15 out of a total of 25 tariff lines for dairy products had specific tariffs, with none of the tariffs for cheese being ad valorem. Though tariffs provide a small proportion of total policy assistance to dairy products, the ad valorem tariffs are high, ranging from 15 to 17.5 per cent in January 1990. However, the simple and weighted averages of applied tariffs, i.e. inclusive of concessional tariffs and the ad valorem equivalents of specific tariffs, were 7.7 per cent and 2.4 per cent, respectively (Table V.7).

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206 The Canadian Government has estimated that the total cut due to these policies will be CAN$14 million in a full fiscal year.

207 The products are animal feed containing more than 50 per cent of non-fat solids, butter, butterfat in most forms, cheese, buttermilk and skimmed milk in various forms, dry casein and caseinates, dry whey, evaporated and condensed milk, blends in any form, yogurt, ice cream, ice milk or any product of ice cream or ice milk.

208 A bilateral agreement with the European Communities results in 60 per cent of the cheese quota being issued for imports from the EC countries.

209 The low weighted average tariff mainly reflects low tariffs for cheese, which has an import quota.
360. All the 25 tariff lines for dairy products in Schedule I of Canada's Customs Tariff have bound tariffs. Preferential tariff rates for Australia and New Zealand are provided for more items than in other preferential schemes, and the preferential margins in trade with these two countries are larger.

361. Imports of dairy products covered by the Canada Agricultural Products Standards Act are allowed only if they originate in a country that has grade requirements similar to those set out by the Canadian Dairy Products Regulations, and meet the standards, grading, labelling and packaging specifications of the Regulations. Health and safety requirements are also specified for imports, and domestic dairy plants are inspected by the federal Department of Agriculture. Imports from countries which are not free of foot and mouth disease are prohibited.

362. A Dairy Task Force has been asked to advise on a new price-setting mechanism which reduces the extent of direct Government involvement, while balancing the interest of producers, processors and consumers. In addition, this Task Force will provide options for a new long-term dairy policy to commence in August 1991.

(ii) Animals and products thereof

363. Animals and their products contribute about one-tenth of Canada's exports of food. Pork and beef and veal are of similar importance in exports, while beef and veal dominate the value of imports under this product category. Beef cattle and calves are Canada's largest commodity source of farm cash income. In 1988, these products accounted for 18 per cent of total farm receipts. About 14 per cent of the value of this sector's shipments are exported, and imports cater to about 6 per cent of the domestic market.

364. Of the 106 tariff lines for animals and products, only two are unbound. A large number of the tariff lines are duty-free. In January 1990, the ad valorem tariffs ranged between 0 and 17.5 per cent.

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210 In this report, estimates of the number of tariff lines with preferential rates, and averages of these rates, are for January 1990.

211 Provincial programmes aimed at developing regional self-sufficiency have contributed to major shifts in the centres of livestock production and the location of slaughter and cutting operations. Notable examples are hog production in Manitoba and Quebec and beef slaughtering and cutting in Alberta. Regional Industrial Expansion, Ministry of State, Science and Technology Canada (undated), Industry Profile. Meat and Meat Products, Ottawa, p. 2.
and their average was 4.6 per cent. More than two-fifths of the tariff lines do not have ad valorem tariffs.\(^\text{212}\) Taking into account the ad valorem equivalents of all tariffs, the 1988 simple and weighted average applied tariffs were 3.7 per cent and 2 per cent, respectively (Table V.8).

365. There is some tariff escalation for these products on account of rates above 10 per cent for several categories of prepared and preserved meat and meat products (Tariff Study Category 26.03). Some items get General Preferential Tariff and Australia or New Zealand tariff preferences, i.e. 15 items for Australia and 16 for the other two preferences. British Preferential Tariff is available for 4 tariff lines.

366. Authority to regulate the imports of fresh, chilled and frozen beef and veal into Canada is provided by the Meat Import Act, which came into effect in 1982. Generally, imports can not be restricted to levels below the Global Minimum Access Commitment (GMAC) which was negotiated in the Tokyo Round, and is adjusted annually for population growth.\(^\text{213}\) Authority to regulate the imports of fresh, chilled and frozen beef and veal into Canada is provided by the Meat Import Act, which came into effect in 1982. Generally, imports can not be restricted to levels below the Global Minimum Access Commitment (GMAC) which was negotiated in the Tokyo Round, and is adjusted annually for population growth.\(^\text{213}\)

367. The Meat Import Act requires that, based on the best estimates of likely import levels, the federal Government should decide in December of the preceding year whether or not the Act is to be used in the following year. Beef and veal imports are closely monitored by holding consultations with major meat suppliers on a quarterly basis, regarding forecasts of exports by each supplying country. Restrictions on beef and veal imports are imposed if the GMAC is less than import levels suggested by a specified formula, or if the average per capita consumption in the most recent three year period falls below that for the previous three years.\(^\text{214}\) Regarding the decision to impose restrictions, other factors to be taken into account are the supply and price of beef, veal and other meats in Canada, and any

\(^{212}\) Some of the non-ad valorem tariffs given in terms of limits, e.g. 12.5 per cent but not less than 11.02 c/kg or more than 22.05 c/kg.

\(^{213}\) For 1990, the GMAC has been fixed at 69.4 million kgs. This does not include imports not exceeding 9 kgs. for personal use of the importer and importer’s household.

\(^{214}\) The formula import level, calculated for the year ahead, is equal to base level average imports, i.e. average for 1971-75, multiplied by (average disappearance for current and two previous years divided by average domestic disappearance during 1971-75) multiplied by (average domestic cow and heifer marketings in current and previous four years divided by these average marketings during the current year and the preceding year). Long time periods are taken to account for the cyclicity of the industry. The formula import level was below the GMAC level in 1985, the only year when import restrictions have been imposed under the Meat Import Act.
significant change in health measures or trade restrictions which affect Canada's international trade in beef and veal.

368. Canada imposes import quotas for chicken, turkey and their products in the context of its supply management programme for poultry. As part of the Free Trade Agreement, Canada has increased the quota for the import of these items from the United States.

369. Under the Free Trade Agreement, meat inspection for bilateral trade will be limited to occasional spot checks. In addition, the two countries have also agreed that they will exempt each other from the import restrictions arising from their meat import laws. If quantitative restrictions are imposed by one Party on meat imports from third countries, imports from the second Party can be restricted only to the extent (and only for the period of time) as is "sufficient to prevent frustration of the action taken on imports of the meat goods from third countries". The two countries have also begun their attempts to harmonize their health and safety standards.

370. Canada attaches importance to health and safety standards for both domestic and international trade in animals and meat. The Government of Canada operates a National Animal Health Program which includes the detection, control and eradication of animal diseases. In general, imports of animals and animal products must be free of diseases that can be transmitted through animal products such as meat.

371. The standards, as well as the marking and packing requirements which must be met when meat imports take place, are specified by the Meat Inspection Act and Regulations. Grading regulations have been devised for veal, lamb, and mutton, processed poultry, pork and beef.

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215 Reportedly, a change in the system of meat import inspection system of the United States has resulted in some unanticipated problems for Canada.


217 The main diseases are anaplasmosis, anthrax, bluetongue, brucellosis, cysticerosis, foot and mouth disease, mange, rabies, rinder-pest, tuberculosis and vesicular stomatitis, as set out in the Animal Disease and Protection Act.

218 The regulations focus on factors such as fat content, musculature and the colour and texture of the flesh. Canada recently altered its beef cutting standards to make them more compatible with international practices.
must also be accompanied by an official veterinary certificate of origin authorized by the Ministry of Agriculture in the exporting country, indicating among other information, that the country has been free of serious animal diseases for at least six months prior to exports taking place.

372. The approval system for meat imports is based on the approval of an exporting country's system of meat inspection, the approval of production units operating within that system, and the approval of individual meat products prepared there. This involves inspection of plants by Canadian authorities to ensure that Canada's health requirements are met. 219 Meat products can be imported into Canada only if they originate from production units that have been approved by Canadian authorities for shipment to Canada.

373. Stabilization programmes are used to avoid extreme fluctuations in prices received by producers. Tripartite Price Stabilization Programs are in place for lambs, hogs, and cattle (i.e., feeder calves, feeder cattle and slaughter cattle). The federal government has stipulated upper limits for its own contributions under these programmes.

(iii) Grains

374. Among Canada's agricultural exports, grains account for the largest share mainly due to the importance of wheat. For example, in 1987, wheat and flour contributed almost one-third of export earnings from food items.

375. Grains are divided into 19 items in the Canadian customs tariff. Six tariff lines have unbound tariffs. There are only nine lines with ad valorem tariffs, all of which were zero in January 1990. Even if ad valorem tariff equivalents of specific tariffs are considered, grain imports have low tariffs. For example, the applied tariffs on grains ranged between 0 and 1.6 per cent in 1988 (Table V.9).

376. General Preferential Tariffs are provided for two tariff lines, namely broken rice and semi-milled or wholly-milled rice. There are no other preferences except the phase-out of tariffs under the Free Trade Agreement.

219 Following a request from any country for approval of its meat inspection system, a review of all relevant legislation and related technical information is also conducted.

220 Not all provinces are members of the Tripartite Programs. For example, currently, all provinces except Quebec and Newfoundland are participating in the scheme for cattle.
377. Despite low tariffs, the rate of PSE for grains is relatively high on account of several other measures. Grain producers are major beneficiaries of transport subsidization policies, and the Government also implements many schemes for stabilizing grain prices.

378. In recent years, financial aid from the government had risen due to compensations for the lower output on account of bad weather, and low export prices resulting from export subsidies by other major trading nations. In 1990, overall payments are expected to be low because some programmes have been discontinued, and wheat output in 1989-90 increased by 52 per cent compared to the previous year. Nonetheless, of the CAN$500 million new federal assistance programmes for agriculture, 90 per cent is planned for grains and oilseeds.

379. Strict health, safety and quality standards are imposed for grains. The maintenance of high and consistent quality of domestic wheat is an important reason for maintaining import controls for wheat and barley and their products.

380. The Free Trade Agreement has resulted in greater bilateral market access for grains and an elimination of export subsidies in bilateral trade. Canada has also agreed to eliminate the Canadian Western Grain Transportation rail subsidies on exports to the United States through the port of Vancouver. Unrestricted imports of wheat, barley, and their products, from the United States will be allowed when the level of Government support in the United States is not more than Canadian levels. The licensing requirement for importing oats from the United States was lifted recently under this scheme. If grain imports in Canada or the United States increase significantly as a result of substantial changes to support programme, import restrictions can be imposed by either country.

(iv) Fish, shellfish and products

381. Commercial fishing contributes about 1 per cent of Canada's GDP. However, Canada is among the top two exporters of fisheries products in the world, exporting over 80 per cent of its fishing industry's output. While the federal Government has jurisdiction over coastal and inland fisheries,

221 The programmes, announced 30 March 1990, are contingent on provincial assistance to producers.

222 Import permits are automatically issued for wheat and barley products if the item is not produced in Canada.

223 There is a provision for consultations regarding export subsidies to third countries. However, reportedly, not much has happened in this context.
management of these resources is a cooperative endeavour with the provinces. One of the structural problems currently facing Canadian fisheries is excess capacity in the fishing industry in Atlantic Canada.

382. Conservation of fisheries resources is an important objective for Canada. Other nations are not allowed to fish in its waters without a bilateral treaty. Its annual fishing management plans specify harvesting controls for the various fleet sectors, seasonal constraints, permissible gear and other regulatory controls.

383. Virtually all tariff lines of this category, i.e. 118 out of 120, have ad valorem tariffs. Though some items have high tariffs, with an upper limit of 17.5 per cent, the overall average is less than 3 per cent. The high tariffs are on processed items, with unprocessed products getting low or duty-free treatment (Table V.10).

384. Only one tariff line for fishery products has unbound tariffs. General Preferential Tariffs are provided for 21 tariff lines. Almost one-third of total imports of fisheries products in 1988 came from countries which benefit from General Preferential Tariffs (Table V.11).

385. Prior to importing fishery products, an automatic import licence issued by the Inspection Branch of the Department of Fisheries and Oceans (DFO) in Canada must be obtained. This licence, whose validity is till the end of the calendar year, is issued mainly for monitoring purposes. The DFO finalized a consolidated policy manual on licensing policy in

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224 For example, fisheries in Ontario are managed by provincial authorities; the provincial Government in Quebec administers fisheries for freshwater and diadromous species and the federal Government manages marine fisheries; and in British Columbia, freshwater fisheries are managed by the provincial Government and marine and anadromous salmon by the federal Government.

225 The Coastal Fisheries Protection Act established the parameters within which the Canadian Government may grant port privileges to or authorize foreign fishing vessels to engage in fishing in Canadian fisheries waters. Conservation policies adopted by Canada include limited licensing provided to factory freezer trawler, limits on the size of vessels, increase in the minimum trawl mesh size to allow more small fish to escape, and a moratorium on driftnet fisheries in Canada's 200-mile fishing zone. There is also a federal-provincial Task Force on Foreign Overfishing.

226 The figure refers to the total imports from these countries, and not imports which benefit from GPT preferences. This holds also for corresponding calculations given elsewhere in this paper.

386. Inter-provincial and international trade in fish must comply with certain marking and packing requirements, and quality, health and safety standards prescribed in the Canadian Fish Inspection Act and its Regulations. Establishments which process fish are required to register, and their facilities and operations are inspected regularly. Similar inspection of vessels, unloading, handling and storage operations and equipment is also required. Further, the prepared fish products must use only the additives and ingredients specified in the Marine and Freshwater Animal Product Section of the Canadian Food and Drug Regulations. The importer is responsible for determining that the additives and ingredients used by the exporter are permitted in Canada. The importer is also required to notify the Department of Fisheries and Oceans, not later than 48 hours following imports, the type, quality and name of the product, and the country of origin for each product contained in a shipment.

387. There is a Mandatory Inspection List of the Department of Fisheries and Oceans (DFO) for imported products which fail to comply with Canadian Fish Inspection Regulations. These items are subject to mandatory inspection till four consecutive importations comply with the Regulations. Importers are charged a fee for such mandatory inspection. For other imports except those of fresh fish, an inspection fee is charged for each shipment.

388. Canada does not have any export quotas for fishery products. There are, however, some restrictions on the form in which certain fish items are exported, mainly intended to help the small-scale processors. Exports are inspected to check for compliance with these restrictions. Export controls on certain unprocessed fish is one of the exceptions to the Canada-United States Free Trade Agreement.

227 Appeal against the decision of an inspector can be made to the Minister who can order a reinspection.

228 This list contains products to be inspected and names of the companies which export them.

229 For example, exports of clams from the Province of Quebec is prohibited unless they are shucked or canned. Frozen pink or sockeye salmon exports must meet the "Canada Inspected" provision of Canadian Government Specification Board Standard, and must be accompanied by an inspection certificate issued under the Canadian Fish Inspection Act.
389. The United States requested a GATT Panel to investigate Canadian prohibition on exports of unprocessed Pacific herring and pink sockeye salmon. The Panel report found in favour of the United States. It was adopted by the Council in March 1988. Canada subsequently announced that it would eliminate the export restrictions, and impose new requirements for landing and inspection of certain species of fish for reasons of conservation. The United States regarded the landing requirement as a replacement for previous GATT-inconsistent measures. A bilateral dispute settlement Panel was established under the Free Trade Agreement, which ruled that a 100 per cent landing requirement was not required for conservation. Subsequently in February 1990, Canada reached an agreement on the outline for an interim settlement with the United States. Instead of a 100 per cent landing requirement, Canada agreed to allow 20 per cent in 1990 and 25 per cent for 1991 to 1993 of Pacific salmon and roe herring, to be eligible for at-sea exports to the United States.

390. In terms of the value of output, the fishery sector has got a relatively high degree of financial support. Substantial assistance to the fisheries sector is provided through the federal-provincial Economic Regional Development Agreements, which help with the development of resources, productivity and markets. CAN$83.5 million, with federal contribution of CAN$52.5 million, was spent in 1987 for the subsidiary agreements with Nova Scotia, New Brunswick and Prince Edward Islands. These expired at end-March 1989. Current agreements include one with Quebec till end-March 1990, and another with Newfoundland till end-March 1993: the federal Government spent CAN$13.7 million in 1988-89 and CAN$8.4 million in 1989-90 to meet its agreements with these two provinces.

391. Other support programmes include the Salmonid Enhancement Program, under which the federal Government paid about CAN$40 million per year during 1986-87 to 1989-90. Concessions are also provided through the Small Business Loan Act. The Act puts a ceiling on the rate of interest of 1 per cent above chartered bank premiums for loans to fishermen from private lenders. The loans are allowed for purchasing land, fixed installations, vessels, fishing gear or related equipment. An upper limit

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230 Another dispute concerning fisheries is with the European Communities regarding Canada's maritime boundaries.

231 Grants and contributions by the Government were about 15 per cent of the value of output in the mid-1980s.

232 This programme gives grants and contributions to increase stocks of salmon and anadromous trout to pre-World War II levels. About CAN$9 million is cost-recovered through licence fees, taxes and sales of surplus fish.
on total loans to fishermen of CAN$100,000 repayable over a maximum of ten years is imposed.

392. Finance is also provided for technology upgradation, e.g., CAN$3.5 million was provided through the Atlantic Fisheries Technology Programme in 1987. Special depreciation provisions of investments in the harvesting sector (for vessels) and the processing sector are available.

393. A few assistance schemes were discontinued in recent years. They include insurance coverage provided through the Fishing Vessel Insurance Plan of the federal Government, and the Department of Fisheries and Oceans loans guarantee programme under the Fisheries Improvement Loans Act.

394. Generally, there is no price support for fisheries products, and no price intervention has occurred for at least ten years. However, the Fisheries Price Support Board can recommend floor prices in case of a large decline in market prices. The Board facilitates the purchase of fishery products for food aid and development programmes.

395. The fisheries sector has two marketing agencies, namely Canadian Saltfish Corporation and Canadian Freshwater Fish Marketing Corporation. These agencies do not have the rights to control production or trade.

(v) Beverages and spirits

396. In 1988, beverages and spirits had the highest applied tariff peak among all the Tariff Study categories (Table IV.6). However, tariff averages are much lower. For example, in 1988, the simple average applied tariff for the sub-categories ranged from 5.4 per cent to 14.4 per cent, and weighted average from 2.5 per cent to 3.6 per cent (Table V.12). Relatively high tariffs are imposed on wine.

397. In January 1990, 31 out of a total of 92 tariff lines for beverages and spirits had ad valorem tariffs. The ad valorem tariffs ranged between duty-free to 25 per cent. For the majority of items, specific tariffs are in place, whose ad valorem equivalents vary with changes in import prices. There is also an excise duty imposed on imports of alcoholic beverages in Canada, which is equal to the duty applied to domestic products.

398. Tariff preferences in trade with Australia and New Zealand affect 18 tariff lines, equal to the number of lines with General Preferential

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233 For distilled spirits, federal and provincial taxes together account for about 85 per cent of the retail price in Canada. In the case of wine and beer, the tax burden is 69 per cent and 53 per cent, respectively. The excise levies and other related taxes are applied equally to both imported and domestic alcoholic beverages.
Tariffs. About one-third of the imports of fruit and vegetable juices came from developing countries.

399. All tariffs on beer, wines and spirits are bound. Five tariff items for beverages have unbound tariffs. The products with unbound tariffs are mainly ethyl alcohol, denatured spirits and certain spirituous fruit juices.

400. The alcoholic beverage industry in Canada is highly regulated. Provincial marketing agencies (liquor boards) or their agents have monopoly rights to sell alcoholic beverages in their province. Any supplier of alcoholic beverages must obtain a "listing" from the provincial marketing agency. If listing is granted, the products can be sold under stipulated conditions such as minimum sales quotas and size of bottles or packages. Prices are determined by provincial liquor authorities, with the objective of fiscal revenue and moral and health preservation. The retail price in the province is established by adding provincial mark-ups and taxes to the base price.\textsuperscript{234} Mark-ups are not uniform across provinces.

401. A report by a GATT Panel requested by the European Communities found that provincial liquor board practices discriminated against imported alcoholic beverages, and were hence inconsistent with the GATT. The agreement between Canada and the European Communities, formally signed on 28 February 1989, addressed discriminatory pricing and distribution practices of provincial liquor boards. It provides national treatment for products from the European Communities including pricing, listing and distribution of spirits; national treatment on the listing and distribution of wines from the European Communities; phasing out of discriminatory mark-ups on wine over seven years beginning 1989, with some exceptions for 100 per cent Canadian wines and some blended wines; and national treatment in the listing of European Communities beer, as well as a cap on the maximum differential mark-up charged on beer. The new regulations are applied on an m.f.n. basis.\textsuperscript{235} Nevertheless, the extent of intervention in this sector will remain pervasive, with different regulations for certain items across provinces.

\textsuperscript{234} The base price is the invoice price plus standard freight to a pre-set destination, plus federal taxes and customs duties. For further details, see GATT, L/6304, 5 February 1988.

\textsuperscript{235} For wines, Ontario has blending restrictions linking the use of imported grapes, grape equivalent or wine to purchase of domestically grown grapes. Furthermore, there are limits on the proportion of imported materials used in any wine. In Canada, distillers can import bulk spirits from countries other than the United States, only for blending with domestic spirits.
402. Anticipating the structural adjustment required to cope with a changed industrial environment, the Government is implementing some adjustment programmes for the wine industry. Funding for a CAN$100 million adjustment programme for the Ontario grape and wine industries, and a CAN$28 million programme for the grape farmers in British Columbia has been agreed by the federal Government and the respective provincial Governments. The programmes include assistance to remove grape vines, purchase surplus grapes (in Ontario only), provide some income support, and provide marketing and research assistance to grape growers and wineries. Both provincial Governments have introduced additional adjustment programmes of their own. The federal Government has implemented a twelve-year CAN$5 million market development programme intended to promote Canadian wines on a generic basis.

403. As part of the Canada-United States Free Trade Agreement, wines and spirits from the United States will be listed and priced in Canada solely on the basis of commercial considerations. While the national treatment in listing for both wines and spirits applies immediately, discriminatory mark-up on wines will be phased out over a seven-year phase-in period. Discriminatory mark-up and any other discriminatory pricing measure on distilled spirits were eliminated when the Free Trade Agreement came in force. In addition, any requirement that distilled spirits imported in bulk from the United States for bottling be blended with domestically produced spirits will be rescinded.

404. Though beer and malt-containing beverages are among the exceptions to the liberalization arising from the Agreement, national treatment with respect to listing of beer and a cap on the differential mark-up is provided under the Canada - European Communities agreement pertaining to Liquor Boards, which applies on an m.f.n. basis. Canada's internal

236 The mark-ups are supposed to cover only a reasonable cost of service. Differences in mark-ups above cost of service considerations were reduced by 25 per cent on 1 January 1989, by another 25 per cent after 365 days, and then will be eliminated in equal steps over the next five years. However, opinions still differ regarding the correct method of calculating the cost of service.

237 Canada will also grant bourbon distinctive product recognition for the purposes of standards and labelling.

238 For beer, under the Free Trade Agreement, Canada is not to worsen the treatment accorded to beer from the United States since 4 October 1987. New measures implemented by Canada would be required to meet a national treatment criterion. Under the Canada-European Communities agreement, any existing discriminatory mark-up on beer would not be increased beyond the level in place as of 1 December 1988.
barriers to trade in wine or relating to wine-content regulations remain unaltered under the Free Trade Agreement.

(vi) Tobacco

405. The tobacco industry makes a small contribution to export earnings of Canada (Table V.2). In recent years, it has been facing problems of structural adjustment. To assist tobacco producers wishing to exit from the industry, the federal Government announced funding of CAN$15 million in 1987 for a three year programme.

406. In addition to customs duties, Canada also imposes excise duties on these products. Most tariff lines, i.e. 14 out of 18, do not have ad valorem tariffs. Cigars, cheroots and cigarillos have mixed tariffs, i.e. a specific tariff and an ad valorem component. In some cases, the ad valorem tariff equivalent has been high. For example, the applied tariffs ranged between duty-free and 24 per cent in 1988 (Table V.13). This was mainly on account of higher tariffs on manufactured products. The average applied tariff for these items was about 13 per cent, compared to about 7 per cent for unmanufactured tobacco (Table V.13).

407. Tariffs are bound for all tobacco items. Tobacco is one of the few product categories for which the number of tariff lines with British Preferential Tariffs exceeds those with General Preferential Tariffs. The former preferences are provided to 11 out of 18 tariff lines, while the latter are available for ten of them. Imports from countries which get General Preferential Tariffs accounted for about 5 per cent of total tobacco imports in 1988 (Table V.11).

408. Tobacco is one of the few products for which provincial marketing boards conduct international trade.

(vii) Foodstuffs

409. This category has a very wide range of products including fruits, vegetables, tropical beverages, sugar, eggs, and preparations of cereals and flour. Fruits and vegetables are the most important imports items, accounting for about one-sixth of agricultural imports (Table V.2). Other

In addition, if alternative outlets such as liquor stores are available for wine from the United States, Quebec may continue with its requirement that wine sold in grocery stores be bottled in Quebec. The current listings of estate wineries in British Columbia will be retained, and private wine stores in British Columbia and Ontario were permitted to operate under existing regulations. In the case of British Columbia, the latter policy has been revoked and private wine stores now carry a broad range of both domestic and imported wines.
important imports among this category include bakery products, sugar and confectionery, tea and coffee.

410. Altogether, there are 510 tariff lines for foodstuffs, of which 24 are unbound. About three-fourths of the tariff lines do not have ad valorem tariffs, and, in consequence, applied rates vary over time. In 1988, the applied tariff for foodstuffs ranged between duty-free to 26.2 per cent; the simple and weighted averages were 6.1 and 3.5 per cent, respectively (Table V.14).

411. Tariff escalation is present for many foodstuffs. The applied tariff averages for prepared and preserved fruits were above 7 per cent in 1988, while those for other fruits were much lower. Similarly, tariff averages for fresh or dried vegetables were less than half of those for prepared vegetables.

412. Fruits and vegetables have seasonal tariffs. In season, when competition from imports is strong, a high rate of tariff can be charged. Out of season, low or duty-free tariffs are imposed. The duration of the season varies across different products.

413. Since tariffs rates in different seasons are given by different tariff lines, an average of tariffs does not give a correct picture of the tariffs impinging on imports. It underestimates the tariffs on fresh fruits and vegetables when their imports are most likely, i.e. during the season when high tariffs are imposed. In this situation, in-season tariffs are a better indicator of tariff protection. Most of the seasonal applied tariffs were in the 10 to 17.5 per cent range, while out of season tariffs were close to zero.

414. About 17 per cent of the tariff lines for foodstuffs get General Preferential Tariffs, and about 7 per cent are accorded British Preferential Tariffs. Some food items, such as tropical beverages and bananas, are traditional export products of developing countries. In Canada, a quarter of total foodstuff imports come from GPT beneficiaries (Table V.11).

415. Canada imposes import restrictions on fresh or semi-processed horticultural products in non-standard containers, i.e. bulk-shipment. Some food items can not be imported without an import licence. Recently, Canada has imposed import controls on broiler hatching eggs and chickens hatched from broiler hatching eggs for chicken production, in the context of a domestic supply management system for broiler hatching eggs and chickens. Other food items with supply management programmes are eggs and their products. The import quota for shell eggs, powdered eggs, and frozen, liquid and further processed eggs was increased under the Free Trade Agreement.
416. Regulations for health and safety requirements, and marking and packing requirements, apply to most foodstuffs (Table V.14). For example, the Fresh Fruit and Vegetable Regulations impose quality (grade) standards, and marking and packing requirements for fresh fruits and vegetables. Pesticide residues in these products are also specified, and their imports must meet Canadian phyto-sanitary requirements. If fumigants have been used, they must be those registered in Canada. Non-compliance with the specified standards can result in quarantine restrictions. Regular inspection for reasons of plant quarantine is conducted for imports of fruits from certain specified sources. In the Canada-United States Free Trade Agreement, the two countries will work towards removing technical barriers to trade in foodstuffs.

417. Price stabilization programmes are in operation for fruits and vegetables in general, and specifically for apples, sugar beets, and white peas and other dry edible beans. Provisions for safeguards with a short response period have been made for fruits and vegetables, given their seasonality. The Canada-United States Free Trade Agreement includes a twenty year safeguard provision for fresh fruits and vegetables. Bulk imports of fruits and vegetables for processing will continue to be restricted.

418. Sugar, syrups and molasses exports to the United States are controlled.

(viii) Oilseeds, fats, oils and their products

419. Exports of oilseeds and their products account for almost one-tenth of agricultural export earnings, and their imports for about one-twentieth of agricultural imports (Table V.2). While Canola (or rapeseed) and its products dominate on the export side, soybeans and their products are the most significant import items in this product category.

420. Almost half the total imports under this category were oilcakes and residues, which came in duty-free (Table V.15). Except for two, all the 97 tariff lines for this product category have ad valorem tariffs. In January 1990, the simple average of m.f.n. ad valorem tariffs was 7 per cent. Vegetable oils and other fats belong to high tariff items within this category, with peak tariffs of 17.5 per cent (Table V.15).

240 Grade-labelling on 30 different fruits and vegetables in consumer packs has been required since 1990. The regulations do not apply to inter-provincial shipments.

241 The requirements vary across different types of fruits, and the list of countries whose imports are inspected differs across fruits.
421. General Preferential Tariffs are provided for 28 tariff lines, and British Preferential Tariffs on 10 lines. About 7 per cent of the total imports under this product category were sourced in countries benefiting from GPT preferences.

422. An import quota has been imposed on chicken fat. Imports of certain butter substitutes, such as margarine, are prohibited. In the context of the dairy supply management programmes, all provinces regulate the production and marketing of margarine and the production of "spreads" which have vegetable oils and butter.

423. Imports of certain oils and fats have to satisfy health and safety requirements, and imports of beeswax from certain pest-infested areas in the United States are prohibited on these grounds.

424. A price stabilization scheme is in place for oilseeds, including soybeans. Canada provides transport subsidies to Canola through the Western Grain Transportation Act. Other assistance to Canola producers includes support for research, plant establishment, and marketing.

(ix) Other agricultural products

425. This group covers a wide range of products. Imports of the residual plant products (Tariff Study Category 34) were 4 per-cent of agricultural imports in 1988, and cut flowers and plant material accounted for about 3 per cent.

426. Though the individual sub-categories have low average tariffs, the upper limits of applied tariffs are high, ranging from 11.7 to 25 per cent in 1988 (Table V.16). Relatively high tariffs are imposed on cut flowers (Tariff Study Category 28.01), whose applied average tariff was above 10 per cent in 1988.

427. Several animal and plant products have to meet marking and packaging requirements. Trade in many of these products is either restricted or prohibited for reasons of health and safety, and quarantine restrictions are imposed in some cases. Permission to import must be obtained prior to the arrival in Canada of certain imported plants, their parts, and seeds. Similarly, for narcotics or products containing it, permission to

242 Imports of certain items such as bristles and glue stock from countries which are not free of foot and mouth disease or rinderpest disease are prohibited. For health and safety reasons, import inspection is conducted for a wide variety of animal and plant products, including blood, bone matter and embryos. All imported seeds are tested to ensure that they meet Canadian standards. Pancreas glands, and human serum albumin are on the Export Control List.
import is needed in order to satisfy health and safety restrictions. Some plants and animals are endangered species, and their trade is either controlled or prohibited for this reason.

(3) Industry

428. Industry, as defined by the Tariff Study, includes some primary products such as ores and minerals, forestry products, leather and rubber. Canada encourages further processing of its natural resource products, and unlike for most other manufactures, a large proportion of the domestic output of some of these goods is exported. Canada imports a relatively large proportion of its input requirements for many manufactured items, such as machinery, leather and products, textile items, and certain chemicals (Table V.17). To ease the burden of tariffs on its domestic producers, Canada provides tariff concessions or remissions for certain machinery and equipment not available from Canadian producers, and on industrial materials like chemicals and yarn. Transport equipment and machinery are predominant in Canada's imports of manufactures (Table V.2).

429. In 1988, the average applied tariffs for industry were 7.2 per cent (simple average) and 3.7 per cent (weighted average), higher than the corresponding averages in agriculture. The simple average tariff estimates for industry display tariff escalation. However, the weighted average for finished industrial goods is less than for semi-processed products (Chart IV.1). This, in part, reflects the impact of tariff concessions on trade flows.

430. In contrast to agriculture, most industrial sectors are primarily assisted through tariffs. Ad valorem tariffs are the rule. General Preferential Tariffs apply to most items. About two-thirds of imports enter Canada at applied rates between 0 and 5 per cent (Charts V.3 and V.4). Product categories with high tariffs include textiles and clothing, footwear, office and stationary supplies, and furniture. It is noteworthy, though, that virtually all tariffs for these categories are fully or partially bound (Table IV.4).

431. The average applied tariff for textiles and clothing was about 17 per cent in 1988 (Table IV.6). In addition, substantial assistance

243 Ratio of exports to shipments has been about 80 per cent for aluminium, about 70 per cent for lead and zinc, about 60 per cent for refined copper, and about 50 per cent for wood industries.

244 Table IV.6 is not comparable with Table V.1 because the estimates in the two tables have been calculated under different assumptions. See notes to Table V.1.
is provided through unilateral or bilateral quantitative restrictions on imports from different sources.

432. Other industrial sectors get a relatively small degree of support from non-tariff border measures. Support through non-tariff barriers to certain sectors has been reduced in recent years. For example, import quotas on footwear were removed in 1988, and under the Free Trade Agreement, the embargo on imports of used cars from the United States will be phased out over the five-year period from 1989.

433. Assistance to industry is also provided through financial support and tax concessions. Federal assistance to non-agricultural business was 0.7 per cent of gross domestic product in 1987-88, with 60 per cent of it being direct grants. In 1987-88, about a quarter of the targeted assistance went to the oil and gas sector, about one-tenth to transportation equipment, and about one-twentieth each to forestry and coal.

434. A major source of grants and contributions to the manufacturing sector has been the Department of Industry, Science and Technology. Assistance from this source declined in the past two years to less than half its previous level, while aggregate assistance to non-agricultural business increased (Tables IV.24 and V.18). The rise in overall assistance is mainly due to regional development programmes and disbursements for energy programmes (Table IV.24). The latter have now been discontinued.


246 Assistance to transportation equipment was the highest among grants and contributions by the Department of Industry, Science and Technology to the manufacturing sector (Table V.18). Similarly, 41 to 69 per cent of expenditure under the Defence Industry Productivity Program was on transportation equipment during 1986 to 1989.
435. Tax concessions play an important rôle in the incentive structure for the minerals, mining and energy sectors. There has been considerable tax reform in Canada over the past three years, resulting in a reduction in some tax allowances. Financial assistance to these sectors has been also reduced, stricter repayment terms have been incorporated, and some major programmes assisting the energy sector, including oil and gas, have been terminated.

436. The nature of non-tariff measures differs between imports of industrial items and imports of agricultural products. For example, the Export Control List comprises mainly industrial goods, while the Import Control List mainly includes agricultural products (with steel and textiles and clothing being exceptions). Anti-dumping actions refer mainly to industrial products (especially steel items), as do the few voluntary restraint arrangements in place.

(i) Textiles and clothing

437. Textiles and clothing account for about 4 to 5 per cent of manufacturing shipments and imports, and about 1.5 per cent of these exports (Tables V.1 and V.17). Reflecting the labour-intensity of clothing, the share of textiles and clothing industries in manufacturing employment is higher than in output (8½ per cent). While the production and capacity utilization of the textiles and clothing industries have increased during the 1980s, employment in clothing has tended to decline after 1986. This is despite the fact that in the period 1984 to 1988, the financial performance for the clothing industry was above average compared to the manufacturing sector.

438. Less than 10 per cent of the output of the textile and clothing industries is exported, which is way below the manufacturing average (Table V.17). The export propensity for primary textiles products, i.e. fibres, yarns and fabrics, is about 13 per cent. The import penetration rate of less than 30 per cent for textiles and clothing products is also below the manufacturing average. Import penetration across products varies considerably. For instance, in 1987, it was 40 per cent for primary textiles products.

439. Like many other developed countries, Canada has traditionally protected its textiles and clothing industries. It was a member of the

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Long Term Arrangement Regarding International Trade in Cotton Textiles, and has subsequently been a member of the Multifibre Arrangement (MFA), though at times it resorted to GATT Article XIX actions.

440. Canadian textiles and clothing policy has undergone some changes in the 1980s. During 1981 to 1986, imports of clothing, on volume basis, grew by 11 per cent while the Canadian market demand grew by only about 2 per cent. In light of this experience, a textiles and clothing policy was announced in July 1986, with the stated aim of maintaining a viable output level for the industry in Canada, ensuring a stable and secure environment for it, and substantially moderating import growth and controlling import surges. To achieve these objectives, Canada specifically differentiated between the dominant, newly industrialized suppliers and the smaller, newer entrants in its negotiations under the MFA.

441. Bilateral restraint arrangements were negotiated with twenty-two countries for the 1987-91 period. Except for Bulgaria and Taiwan, which are not MFA signatories, the negotiations were in line with Article 4 of the MFA. These were in addition to the existing non-MFA bilateral restraint arrangements with Maldives and Mauritius for the period 1986 to 1990, and with Viet Nam for the period 22 July 1986 to 31 December 1991. Subsequently, further bilateral restraints have been negotiated with the Dominican Republic, the German Democratic Republic and South Africa. As a result, 28 bilateral restraint arrangements are currently in place. In addition, there are three unilateral restraints of textiles and clothing imports, one concerning imports of clothing from the Democratic Republic of Korea (1987 to 1991), another on terry towels from Thailand and the third imposed recently on winter outerwear imported from the United Arab Emirates (Appendix Text V.1).

442. The number of restraint agreements has increased under MFA IV. In two cases, the number of product categories included in the restraint arrangements was reduced (Brazil and Hong Kong). For several countries, the product coverage increased. The flexibility provisions in MFA IV are unchanged in most agreements, less advantageous in some cases, and in a few

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248 In 1976, following a substantial rise in imports, Canada invoked Article XIX to introduce global quotas for virtually the entire range of apparel products and some textile items. Most Article XIX actions were superseded on 31 December 1978, by MFA bilateral agreements and some unilateral actions.

249 These were Bangladesh, Brazil, Bulgaria, the Czech and Slovak Federal Republic, Hong Kong, Hungary, India, Indonesia, Republic of Korea, Macao, Malaysia, Pakistan, Philippines, Poland, China, Romania, Singapore, Sri Lanka, Taiwan, Thailand, Turkey, and Uruguay.
cases more favourable to the exporting country. In most cases, increases in the import base levels were either equal to or higher than 6 per cent. However, in several cases such as Hong Kong, Republic of Korea, Malaysia, Singapore, Sri Lanka and Thailand, the annual growth rates were lower than before (growth rates for Hong Kong and the Republic of Korea were only a fraction of the rates in the previous agreements).

443. The 1986 policy also incorporated a scheme for duty remission on men's and boys' tailored collar shirts. The formula for duty remission included certain incentives for domestic content. In order qualify, a manufacturer had to maintain the value and volume of production attained in 1984. Other policies have subsequently been adopted in order to help apparel producers, including a three-part programme of tariff relief measures designed to strengthen the competitive positions of the Canadian textile and clothing industries. It includes immediate tariff reductions on specialty fabrics, new duty remission programmes, and a plan to reduce textile tariffs in the future to levels comparable with those in other industrial countries. For example, in September 1988, the Government announced the reduction or elimination of tariffs on thirteen fabrics and yarns not made in Canada, with some reductions applying to imports from all sources, and some others only for imports from the United States. In January 1989, the Government extended the list of items eligible for duty remission. Further, the Customs Drawback Shirting Fabric Regulations and the Shirting Fabric Remission Order, introduced in 1969 and 1970 respectively, were combined and extended. The 1986 tailored collar shirt duty remission programme was extended with some modifications. Four new remission programmes were also introduced.

444. The most broadly-based Government initiative in this context has been to request a report from the Canadian International Trade Tribunal on the

250 One shirt could be imported duty-free for each shirt made in Canada with domestic fabrics. Three-quarters of the duty was to be remitted for each shirt made from imported unfinished fabrics, and if imported finished fabrics were used, the duty remission would be reduced to one-half.

251 In announcing these changes, the Minister of Finance noted that Canadian textiles producers chose to specialize in niche markets, and hence the full range of fabrics required by the apparel industry was not available.

252 The items were denim fabrics imported by textile producers and apparel manufacturers; woven greige fabrics imported for the purpose of finishing for use in apparel production; outerwear imported by apparel manufacturers and outerwear fabrics imported by textile producers; and girls' and ladies' blouses and shirts imported by blouse and shirt manufacturers and by ladies co-ordinate manufacturers.
extent and the pace of future tariff reductions on textiles. The objective is to help the clothing sector and to bring tariff protection for textiles to levels comparable with other industrial countries.

445. The Tribunal's recommendations include a gradual reduction of tariffs for different categories over a maximum period of nine years, delaying the tariff reductions until 1991 to get credit in the Uruguay Round, reducing tariffs without binding them in case of a delay in negotiations in the Round, and conversion of all specific duties to ad valorem rates. The maximum tariffs suggested are 5 per cent for fibres, 10 per cent for yarns, and 16 per cent for fabrics, woven or knitted. All tariffs currently below the maximum should not be changed. While the proposed reduction in these tariffs will decrease the effective rate of assistance to the Canadian textiles industry, it will increase the rate for the clothing industry (Table V.19).

446. The prevailing tariff structure for textiles and clothing items exhibits considerable escalation from the fibre till the fabric stage (Table V.20). Among fabrics, particularly high tariffs are imposed on those made with synthetic and artificial fibres. Their applied tariffs averaged about 24 per cent in 1988, slightly higher than the average tariffs for clothing (Table V.20).

447. All tariff lines, except one, have fully or partially bound tariffs. Ad valorem tariffs apply for 833 out of a total 936 textiles and clothing items. Yarns are the only product category with a relatively large number of non-ad valorem tariffs, notably 80 tariff items subject to specific tariffs.

448. Textiles and clothing is one of the few categories for which the number of lines with British Preferential Tariffs exceed those with General Preferential Tariffs. BPT preferences apply to 362 tariff lines and GPT preferences to 318 items.

449. In the 1980s, structural change of the Canadian textiles and clothing industries has been promoted by the Canadian Industrial Renewal Board. This Board was established in 1981 with an initial programme of CAN$350 million for five years. It had a three-fold mandate: to restructure the textile, clothing, footwear and tanning industries through its Sector Firms Programme (budget CAN$240 million); to strengthen and

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253 The Tribunal was also asked to hear suggestions and make recommendations on the possibility of accelerated cuts in textiles and apparel tariffs in the context of the Free Trade Agreement.

254 Tariffs are unbound for certain multiple folded or cabled viscose rayon yarn.
diversify the economy of regions heavily dependent on these industries through the Business and Industrial Development Programme (budget CAN$100 million); and to help the workers of these industries to adjust through the Labour Adjustment Programme. The programme expired in March 1986, but some payments are still being made. However, financial assistance to the textiles and clothing industry continues to be provided under the Industrial and Regional Development Program, and the Canadian Jobs Strategy Program for labour and community adjustment. Considerable assistance has also been provided under some other programmes such as the Small Business Loans Act.

450. Among other measures which affect trade in textiles and clothing are the labelling requirements established by the Department of Consumer and Corporate Affairs. The Canada-United States Free Trade Agreement includes a move towards harmonizing regulations on labelling and technical standards such as those for inflammability.

451. On the basis of the rules of origin under the Free Trade Agreement, fabrics or textiles made-up articles or clothing made from third country yarns or fabrics will not get duty-free treatment. Exceptions to this have been negotiated in the form of "tariff rate quotas". Canadian exports to the United States of apparel cut and sewn in the free trade area from offshore fabrics will get duty free treatment for 50 million square yard equivalent of non-wool apparel and 6 million square yard of woollen apparel. The corresponding levels for imports into Canada from the United States are 10.5 and 1.1 million square yards. Similarly, for Canadian exports of non-woollen fabrics or knitted or woven textile articles manufactured using yarn imported from a third country, duty-free treatment will be provided to an annual maximum of 30 million square yards for the first four years of the agreement. This tariff rate quota level is to be reviewed within two years after implementation of the agreement.

452. The m.f.n. rate will apply to items which do not satisfy the rule of origin criteria of the Free Trade Agreement. In the case of apparel exports, however, the benefits of the duty drawback provisions will continue to be provided indefinitely. For other sectors, duty drawback will be phased out within five years.

The payments have declined from CAN$73.2 million in 1986-87 to CAN$21.4 million in 1989-90.
(ii) Footwear and travel goods

453. Of the total imports under this category, footwear accounts for about 80 per cent (Table V.21). Import penetration for these products is above the average for manufactures, and export propensity is below average (Table V.17). Despite its small share in exports, imports and output, footwear has attracted considerable trade policy attention.

454. Following a report in 1977 that imports were causing serious injury, all importers were allocated 64 per cent of their previous year's imports as quota, subsequently increased to 80 per cent in 1978. Quotas were extended for another year in 1980, with an exemption for 500,000 pairs of specialty footwear. A review in 1981 found that the Canadian industry was competitive with respect to leather footwear, and import quotas on them were removed. Quotas on non-leather footwear were extended, and their coverage widened by including canvas shoes. An unsuccessful attempt was also made to negotiate voluntary export restraints with Republic of Korea and Taiwan.

455. However, a 19 per cent surge in imports during the first four months of 1982 led to a re-imposition of import quotas on leather footwear in July 1982. The review found that sufficient restructuring in the Canadian industry had occurred, and hence it could compete without special protection in all product categories of footwear except for women's and "Footwear and travel goods" are largely covered by the category "leather and allied products" in Table V.17, with some items being classified as rubber and plastic products.

256 The report was by the erstwhile Anti-dumping Tribunal. It found that imports of footwear were causing serious injury to Canadian producers of footwear at the higher end of the low price range and the lower end of the medium price range. Among the evidence given for this conclusion was that from 1971 to 1976, imports increased by 12 million pairs, far in excess of the increase of 9 million pairs in apparent consumption during this time period. Restrictions were not imposed on rubber and canvas footwear.

257 The high cost of these quotas to the economy has been highlighted in a few studies, including the 1985 review by the Canadian Import Tribunal. For the period 1978 to 1983, the cost of using import quotas to create a job in the footwear industry has been estimated at more than 7.5 times the average annual earnings of footwear workers in Ontario and Quebec. See, Economic Council of Canada (1988), Adjustment Policies for Trade-Sensitive Industries, Canadian Government Publishing Centre, Ottawa.
259. Consequently, from 1 December 1985, quotas were maintained only on imports of women's and girls' footwear. They were finally terminated in 1988.

456. A noteworthy recent feature is the prominence of footwear among the anti-dumping and countervailing cases initiated in 1989 (Table IV.15).

457. All footwear and travel products have either fully or partially bound ad valorem tariff rates. In general, high tariffs are applied, with most of them being close to the upper end of the duty-free to 25 per cent range for this category. The overall simple average tariff was 17.2 per cent in January 1990, with the average for footwear being 19.3 per cent. In 1988, the applied tariff for this category was second only to beverages and spirits (Table IV.6).

458. To some extent, the high tariffs are mitigated by GPT preferences provided to 36 out of all 58 items. British Preferential Tariff is provided for 27 tariff lines. However, the simple average tariff rate incorporating GPT preferences is still 15 per cent for footwear and 8 per cent for travel goods.

459. Among travel goods, handbags can not be imported without a permit.

460. Under the Canada-United States Free Trade Agreement, rules of origin for footwear stipulate that uppers must be from Canada or the

259. Women's and girls' footwear accounted for almost half of the industry's sales. The Canadian Import Tribunal, which conducted the review, was of the opinion that the restructuring had occurred mainly due to increased competitive pressures resulting from higher imports, and the contribution of quotas to restructuring and modernization was of a much lesser degree. Also see Chapter 5 of Economic Council of Canada (1988), op. cit.

260. For the categories not under quota, the Republic of Korea and Taiwan unilaterally monitored their exports to Canada. The news bulletin announcing the abolition of quotas mentions previous threats of retaliation by the European Communities as one of the reasons for removal of quotas. See External Affairs Canada, "New footwear policy," news release 173, Ottawa, 20 November 1985.

261. In May 1990, anti-dumping duties were imposed in all these cases.

262. The GPT benefits for rubber footwear (other than sandals and riding boots solely of rubber) classified under tariff categories 6401.10.00, 6401.91.00, 6401.92.10, 6401.92.90, 6401.99.00, and 6402.20.10 have been withdrawn till 31 December 1991.
United States, and 50 per cent of the production cost must be incurred in either country. The standards, testing and certification methods in the two countries are to be harmonized under the Agreement.

(iii) Transport equipment

461. Transport equipment includes automobiles, aircraft, ships, other vehicles, and their parts. A major industry in Canada, transport equipment accounts for one-sixth of the total shipments of the manufacturing sector (Table V.17). Both, import penetration and export propensity for these products is above 80 per cent, and hence their share in manufacturing exports and imports is more than double their share in shipments (Tables V.2 and V.17). Of the total imports of transport equipment in 1988, 86 per cent was motor vehicles and parts. The high export and import intensity reflects the large extent of intra-firm trade between Canada and the United States arising due to the rationalization of the industry under the Automotive Products Trade Agreement of 1965 (or the Auto Pact).

462. For transport equipment as a whole, the simple average of m.f.n. tariffs in Schedule I was 9.8 per cent in 1990. The simple average m.f.n. tariff for motor vehicles and parts was 7.5 per cent.\(^{263}\) Canada's current 9.2 per cent m.f.n. duty rate on foreign-made automobiles will remain in effect after the Canada-United States Free Trade Agreement is implemented. (Any future change would depend on the outcome of the Uruguay Round trade negotiations.) Higher rates are applied for ships and boats, and for transport equipment other than aircraft (Table V.23).

463. Ad valorem tariffs apply to all the tariff lines for transport equipment, and General Preferential Tariffs are provided to all except for one tariff line. British Preferential Tariffs are applied only to 12 tariff lines. Fifteen out of a total of 192 tariff lines for this product category are unbound.

464. Technical standards are important for transport equipment, especially regarding environment and safety control.

465. Substantial differences exist in regard to the production and trade policies, and their dynamics over time, for the individual sub-categories of transport equipment, especially the automobile sector and the shipbuilding sector.

\(^{263}\) Concessions under the Auto Pact are reflected by the much lower average applied tariffs. In 1988, these were 3.3. per cent (simple average) and 1.4 per cent (weighted average). The concessions are also reflected in the large share of imports of transportation equipment which enter duty-free (Table V.22).
(a) Motor vehicles

466. The Auto Pact of 1965 is an agreement between Canada and the United States which includes certain named automotive companies of the United States. Canada allows Auto Pact participants duty-free entry of vehicles and parts provided they meet certain requirements for domestic production and value added. The Auto Pact does not extend concessions to trade in after-market parts and components. It covers only new vehicles and original equipment parts, i.e. those used for assembling new vehicles. Specific details of the different duty remission and drawback schemes are not available.

467. Canada also grants production-based and export-based duty waivers outside the purview of the Auto Pact. These waivers are to be phased out under the Canada-United States Free Trade Agreement, which has incorporated the basic elements of the Auto Pact, with some modification. The list of companies eligible to Auto Pact privileges are those who met the criteria by the 1989 model year. This effectively excludes most Asian manufacturers with production facilities in North America. Under the Free Trade Agreement, Canada cannot add to this list once the Agreement starts operating.

468. Under the Free Trade Agreement, tariffs on vehicles and original equipment parts will be phased out by end-1998, and those on after-market parts by end-1993. To avail tariff reductions under the Free Trade Agreement, companies which are not members of the Auto Pact must satisfy the rules of origin. Members of the Auto Pact can import vehicles and original equipment parts duty-free into Canada from any market, as long as they meet the performance requirements. To obtain duty-free entry of exports to the United States, the Auto Pact requires that 50 per cent of the direct production costs must be incurred in Canada or the United States. Under the Free Trade Agreement, this requirement is maintained but the calculation of direct costs has changed. Consequently, the current 50 per cent requirement is equivalent to a 70 per cent requirement on the old basis.

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264 For signatories to the Auto Pact, Canada allows duty-free imports of new vehicles or of parts to assemble them, approximately equal to the same amount as the value-added by them in Canada. The main requirements by Canada are that the participating company will maintain its production to sales ratio (in terms of net sales value) in any year not less than in 1964, and will produce Canadian value-added not less than produced in 1964.

265 Exports and imports of after-market parts are about 10 per cent of the corresponding total Canadian trade in automotive parts.
469. The duty remission programmes of Canada will be phased out under the Free Trade Agreement as follows. Duty remissions based on parts exported to the United States became inoperative from 1 January 1989, and those from exports to other countries will be terminated by 1998. Value-added performance-based duty remissions (other than for Auto Pact participants) will not be provided from 1 January 1996. In the interim period, the scope of these remissions is not to be expanded. Furthermore, from 1 January 1994, duty drawbacks on exports will not be available for exports to the United States, in line with the general policy under the Free Trade Agreement.

470. Other changes due to the Free Trade Agreement includes a phase-out over five years, of the prohibitions on imports of second-hand automobiles from the United States. To deal with issues such as the competitiveness of the North American automotive industry, the two Governments have also established a binational advisory Panel.

471. Canada has a large surplus in trade in automobiles with the United States, and a deficit in parts. Government financial assistance is being provided to help the auto part segment of the industry. This assistance is mainly knowledge-oriented rather than production subsidy-oriented. Some financial assistance, on a cost sharing basis, is provided for diagnosis of production problems.

472. Canada's automobile industry is undergoing some restructuring on account of the prevailing excess capacity in the North American market. Structural adjustment projects, normally with a sunset clause, are tailored to specific requirements, e.g. Auto Worker Adjustment Package. The market structure for automotive products in Canada is undergoing considerable changes with several Asian companies starting their assembly operations.

473. In 1982, Canada negotiated an informal voluntary export restraint with Japan to limit the pressure on domestic industry from imports. This arrangement lasted for about five years. In 1987, the voluntary export

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266 Companies receiving both these types of remissions are listed in the Annex to Chapter 10 of the Free Trade Agreement between Canada and the United States.

267 This is on account of the realization that compared to other major parts producing countries, the Canadian parts industry has weak research and design capability.

268 For example, the Department of Industry, Science and Technology has estimated that by 1992, the combined share of Toyota, Hyundai and General Motors-Suzuki in Canadian output of light motor vehicles in volume terms may increase to about 30 per cent.
restraint was discontinued and Japan unilaterally restricted its exports of automobiles so as not to disrupt the Canadian market. This has now been discontinued and according to the Government of Canada, only periodic consultations are held regarding this market on an annual basis. For 1986, export levels for automobiles were negotiated with the Republic of Korea, and for 1987-88, an informal understanding was reached that the Republic of Korea will exercise prudence in its exports of vehicles to Canada. This understanding has not been renewed.

(b) Shipbuilding

474. The high tariffs on ships noted above reflect the Government's attempts to provide protection to the declining shipbuilding industry. The industry has also benefited from the Shipbuilding Industry Assistance Program which ended in 1985; the last payment will be made next year. In 1986, the federal Government announced a new policy for the shipbuilding sector. The main components of this policy are provision of assistance for industry-led rationalization policies, a continuation of the existing tariff protection, and assistance to shipyards through government procurement.

475. Recent examples of federal assistance to facilitate shipyard rationalization include CAN$14 million given in 1986 to Ontario to implement a private sector initiative that resulted in a one-third reduction in capacity. Other programmes include approximately CAN$149 million provided for Marine Industries Limited during 1987-88 to 1989-90, and CAN$39 million to Versatile Pacific Shipyard over the same period. However, despite a large reduction in capacity, and current employment (about 6,000 employees) being only one-third of a decade ago, capacity utilization does not exceed 40 per cent on a national basis.

476. Though tariffs on ships are being eliminated under the Free Trade Agreement, Canada has the right to impose quantitative restrictions equivalent to those arising due to the Jones Act of the United States.

(c) Aircraft

477. Regarding the aircraft sector, tariffs are not a major barrier in either commercial or defence deals. Canada is a signatory to the GATT Agreement on Trade in Civil Aircraft, under which the signatories have formally bound tariffs on commercial products at duty-free. For the


270 Though government procurement is supposed to follow the principles of competitive bidding, this has not always been so. For the extra cost arising from targeted government procurement, see ibid., pp. 90-91.
defence sector, there are many reciprocal arrangements which waive tariffs. Important among these is the Defence Production Sharing Arrangement with the United States. As a result of these duty waivers, and the Auto Pact, the share of imports of transport equipment coming in duty-free far exceeds that for most other categories (Table V.22).

478. Research and development in the aerospace sector is helped by contributions from the Defence Industry Productivity Program. For reasons of national security, certain aircraft, ships, and parts are placed on the Export Control List.

(iv) Wood, paper, pulp and paperboard

479. Wood products, pulp and paper, and converted wood and paper, account for over 15 per cent of manufacturing value added, and 13 per cent of its employment. Pulp and paper account for about 45 per cent of the output of forest products. Much of the remaining output of forest products is at the level of the primary wood industries, i.e. sawmills and planing mills, shingle mills, veneer and plywood mills, and particleboard plants. More than half of the shipments of manufactured products of this industry are exported. The export propensity for paper and allied products is higher than that for wood products (Table V.17). Over half the total exports of this industry are accounted by pulp and newsprint paper.

480. Softwood lumber contributes about a quarter of the total exports of wood products. Canada is the world's largest exporter of softwood lumber. It produces 15 per cent of the global output of this commodity.

481. Provincial Governments have the responsibility to manage natural resources (wood and timber in this case). The federal Government controls resources in Yukon and the Northwest Territories. The general policy is to encourage domestic processing of resources. Permits are required for exports of raw logs from a province, including inter-provincial trade. Export control on logs is one of the exceptions to the general trade liberalization under the Canada-United States Free Trade Agreement.

482. The forest product industry has experienced some restructuring through acquisition and amalgamation of assets over time. In terms of government aid, the pulp and paper industry was particularly targeted under the Pulp and Paper Modernization Program which lasted from 1979 to 1984. In the period April 1979 to April 1985, about CAN$540 million was spent by federal and provincial Governments together.

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*British Columbia, Ontario and Quebec are the leading timber-producing provinces. In the provinces, the federal Government owns national parks, military reserves and Indian lands.*
483. With the Canadian Forest Industry Policy of 1987, a major reorientation has occurred for policies for forest products. Instead of support for capacity augmentation using conventional technology, financial assistance is now being directed towards R&D and innovation, promotion of Canadian equipment for forest industry, and market development. Exceptions to this occur only for small business, native economic development, and regional development under certain conditions.\footnote{272}

484. The problems addressed by the 1987 policy are low productivity, inadequate domestic technological base, "over-reliance" on imported equipment and technology, high dependence on North American markets, and protectionism in traditional markets.\footnote{273}

485. New programmes worth CAN$43.5 million were announced for the forestry sector in February 1990. The focus of these programmes remains within the 1987 policy framework, i.e. they will assist in developing new technologies and new markets. CAN$30.2 million of these funds will be provided through a new Forest Industries Sector Campaign. The two major thrusts of this campaign are a three year funding programme of CAN$18 million for R&D and innovation, and a five year programme for market development and diversification, with CAN$12.2 million.\footnote{274} The funds are intended to give rise to more than CAN$100 million by the industry for R&D, and about CAN$20 million by the industry and provinces for market development.

486. Being a large producer and exporter of forest products, Canada maintains low tariffs on most of these items (Table V.24). However, for some categories, relatively high tariffs are imposed. For example, in January 1990, some printed material such as advertising catalogues had rates of tariff ranging between 24.3 per cent and 28 per cent. Most of the double-digit tariff rates, however, are 10.2 per cent; virtually all the

\footnote{272}{These conditions are that a support to product should not give rise to inequities or an unfair competitive advantage; exceptions must be consistent with Canada's international trading obligations and interests; and they should not negatively impact on the labour force of existing producers. In case of negative impact, its extent should be determined and corrective measures identified. Exceptions involving federal assistance of over CAN$5 million must be brought for Cabinet approval.}

\footnote{273}{For some additional information on R&D policies, see Industry, Science and Technology (1990), Forest Industries R&D and Innovation Program, Ottawa.}

\footnote{274}{The balance, i.e. CAN$13.3 million, is to be given by Forestry Canada to non-profit R&D corporations, or to External Affairs Canada for market promotion.}
double-digit tariffs are on items in the Tariff Study sub-categories "printed matter" and "manufactured articles". 275

487. Except for one tariff line for wood and cork, m.f.n. tariffs are ad valorem tariffs, and General Preferential Tariffs are provided. However, the share of imports coming from GPT beneficiary countries is low, with the exception of wood based panels. For example imports from GPT beneficiaries were 7 per cent of total wood imports and 2 per cent of pulp, paper and paperboard imports by Canada in 1988. For wood based panels, this share was 32 per cent. While all tariff rates for wood and cork are bound, there are 11 unbound tariffs concerning pulp, paper and paperboard items.

488. Inspection for phyto-sanitary reasons is an integral part of Canada’s forest products trade policy, and applies to both interprovincial and international trade. Quarantine restrictions for this purpose are imposed under the Plant Quarantine Act and Regulations. Imports of certain wood is also prohibited for reasons of health and safety.

489. Technical standards for wood are mainly product and application standards, including building codes. Canada has established a binational committee of experts with the United States to develop common performance standards regarding building codes, through assessment of technical data. 276 The Canadian authorities expressed some concern that, with respect to building standards, the European Communities might become more protectionist after 1992.

490. Canada is developing standards relating to the environmental effects of effluent from pulp and paper mills, keeping in mind that these standards do not unduly affect competitiveness. Environmental standards regarding use of recycled paper in the United States (Canada’s largest market), are currently causing concern in Canada. In another area, i.e. newsprint, Canada earlier settled a dispute with the European Communities regarding the latter’s move to reduce the GATT-bound duty-free quotas for Canadian newsprint.

491. Logs, pulpwood, red cedar and softwood lumber are on the Export Control List. In the case of softwood lumber, exports are monitored only to the United States for implementing an export tax policy. In 1987, Canada agreed to charge 15 per cent on certain softwood lumber products

275 These are Tariff Study Categories 04.03 and 04.04. About two-fifths and three-fifths of the tariff lines in these respective categories have double-digit rates of tariffs.

276 The Canada Mortgage and Housing Corporation has not approved the corresponding standards used by the United States.
exported to the United States, including softwood lumber, rough, dressed, or worked, and softwood siding. Amendments were made twice, first in December 1987 and then in April 1988. The first amendment resulted in an exemption for the Atlantic Provinces, a partial exemption for lumber exported to the United States produced from logs imported from the United States, and the elimination of export charges for British Columbia producers as a result of its forest policy changes. The second amendment allowed a reduction in the export charge to 8 per cent for producers in Quebec, based on changes in its forest policy. The export charge has thus been either eliminated or reduced on more than 80 per cent of Canada's softwood lumber exports to the United States. In 1988, revenue from these export charges was CAN$65.2 million.

(v) Non-electrical machinery and electrical machines and apparatus

492. Imports of machinery and equipment are about a quarter of Canada's merchandise imports, second in importance to only transport equipment. More than 60 per cent of Canada's requirements of machinery and equipment are met by imports, two-thirds of which come from the United States. Power generating machinery, office machines, and electrical equipment are the most important import items.

493. Canada has specialized in certain types of machinery, such as those required for mining or forest products, and some electronic and telecommunication equipment. The importance of export markets for the machinery industries is shown by the fact that more than 35 per cent of output is sold abroad (Table V.17).

494. In line with the large import-dependence, low tariffs are the rule. However, double-digit tariffs are applied to several items such as tools and certain electrical equipment (Table V.25). Tariffs for these products go up to 17.5 per cent.

277 The duty is charged on ad valorem of the f.o.b. first mill price. Softwood lumber is placed on the Export Control List for this purpose. The understanding regarding this export charge is without prejudice to the Canadian position that stumpage programmes and practices do not constitute subsidies under either United States' law or any international agreement.

278 British Columbia represents 60 per cent of Canadian production and 72 per cent of Canadian exports to the United States.

279 See Tables V.11 and V.17. In Table V.17, the corresponding categories would be "electrical and electronic products" and "non-electrical machinery".
495. The impact of m.f.n. tariffs for users of imported machinery is mitigated by several concessionary schemes operated by Canada. Duty concessions and drawbacks are offered for some machines on the basis of end-use criterion. Duty-free imports are allowed for machinery which is listed as not available in Canada, and for certain specified machinery and parts from the United States. For some machinery, which is not expected to be developed and produced in Canada, tariff rates are bound at duty-free level whether on an m.f.n. basis or under the Free Trade Agreement.

496. Of the total 1,343 tariff lines for the two Tariff Study categories non-electrical machinery and electrical machines and apparatus, only two are unbound. A majority of the tariffs are bound at 9.2 per cent or at 12.5 per cent. General Preferential Tariffs are granted to all, but two tariff lines. However, for most items, the import share of GPT beneficiary countries is small. In 1988, this share exceeded 10 per cent for only telecommunication apparatus (Tariff Study Category 12.02).

497. Procurement by public sector companies and public utilities play an important role in purchase of certain types of machinery, such as power generation equipment, industrial electrical equipment and telecommunications equipment. Much of the purchase of these items is not covered by the GATT Government Procurement Code. Preferences are generally provided in favour of local producers, both by federal and provincial Government entities. Most Canadian provinces have varying degrees of local preferences depending on the extent of local capability.

498. Technical standards for product safety and performance have to be met for machinery and equipment. Some machinery items figure on the Export Control List for reasons of national security.

280 For machinery and equipment considered to be "not available" (eligible tariff lines set out in Schedule VI of the Customs Tariff), Canada has also undertaken bindings in the GATT with some additional conditions. The rate of binding will not exceed 9.2 per cent, and the average of these bound tariffs and some other machinery items which are bound at duty-free, will not exceed 5.25 per cent. Canadian duties on imports of agricultural machinery from the United States were removed as far back as 1944, and similar duty-free treatment is granted to any machinery which is certified as that for agricultural end-use.

281 In telecommunications equipment, a major purchasing entity is a private corporation, Bell Canada. In this industry, "two of the major suppliers, Northern Telecom and Microtel Ltd., have close corporate linkages with the two largest operating companies, Bell Canada and B.C. Telephone, respectively." Industry, Science and Technology Canada (undated), Industry Profile Telecommunications Equipment, Ottawa, Page 1.
Along with easing the availability of machinery imports for domestic producers, Canada also implements several programmes to upgrade its capability for producing more sophisticated technology. For computers and office equipment, the federal Government operates a rationalization policy under which Canadian-content preferences in procurement are provided if multinationals meet certain trade and investment criteria. Some provinces also have similar policies to attract companies to their territories. For example, Quebec has an Economic Partnership Program which provides preferences through procurement to encourage companies to invest in the province.

(vi) Chemicals

The chemicals industry in Canada is among the larger manufacturing industries, accounting for about 7.5 per cent of manufacturing shipments. About one-quarter of domestic shipments of chemicals are exported, and a slightly larger proportion of domestic requirements are met from imports (Table V.17). Most of the chemical imports are for use as industrial inputs. For example, in 1988, about two-thirds of the chemical imports were chemical elements and compounds, plastic materials, and semi-manufactured chemical products (Table V.26).

Tariffs vary considerably across the different product categories of chemicals, with double-digit tariff averages for articles of plastics, and for perfumery, cosmetics, etc. Duties on imports of several chemicals have been reduced through concessions and drawbacks on tariffs. Consequently, the applied tariff average of about 6 per cent in 1988 was about one-third below the Schedule I m.f.n. average tariff in January 1990 (Tables IV.2 and IV.6).

General Preferential Tariffs apply to 97 per cent of the tariff lines. However, only about 2 per cent of chemicals were imported from GPT beneficiary countries in 1988.

By the very nature of these products, health and safety restrictions and marking and packing requirements assume importance. Imports of some chemicals are restricted, or prohibited on grounds of health and safety. Import permits are required for several of them such as barbituric acid, propellant powders, fireworks, pharmaceuticals, and chemicals including narcotics or relating to atomic energy. Similarly, for reasons of national security, some chemicals can not be exported from Canada without an export permit.

Many of the tariff items without GPT have duty-free m.f.n. rates.
504. Under the Canada-United States Free Trade Agreement, tariffs for finished dosage products will be eliminated over a period of 10 years ending in 1998 while tariffs for fine pharmaceutical chemicals will be reduced to zero over five years ending in 1993. Canadian pharmaceutical products can qualify for tariff reduction under the Free Trade Agreement rules of origin if the cost of materials of North American origin plus the direct costs of processing in the territory constitute 50 per cent or more of the value of the finished product when exported. However, a product will not qualify for Free Trade treatment if manufactured by taking a medicine from a third country made of two or more constituents already mixed for therapeutic or prophylactic uses and preparing it in a measured dose or form or packaging for retail sale.

(vii) **Mining, energy, metals and fertilizers**

505. Canada is a leading producer and exporter of several mining products. Mining, energy and metal products occupy an important position in its economy, contributing about one-fifth of merchandise export receipts (Table V.2). Some metal industries, such as aluminium, lead and zinc, export more than 70 per cent of their output.

506. All products under this category combined account for a tenth of total merchandise imports. Significant import items are semi-manufactures of iron and steel, crude petroleum and natural gas, manufactures of metals, and semi-manufactures of lead (Table V.27).

507. Most of the tariffs for these product categories are ad valorem. The simple tariff averages ranged from 5.9 per cent to 7.5 per cent in January 1990. On an average, tariffs escalate with the extent of manufacturing (Chart V.8). In 1988, peak applied tariff for these categories ranged from 12.5 per cent (coal, petroleum and gas) to 24.9 per cent (mineral products and fertilizers).

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283 Fertilizer imports enter duty-free into Canada.
Chart V.8
Tariff escalation for ores, minerals and metals in Canada, 1988

Per cent

Source: GATT Secretariat estimates based on data provided by the Government of Canada.
508. A substantial share of imports of ores and metals is sourced in GPT beneficiary countries. In 1988, this share was over 50 per cent for imports of unworked iron and steel. General Preferential Tariffs are provided for about 70 per cent of the tariff lines for ores and metals.

509. Encouraging domestic processing of natural resources is a general policy of Canada, and the provinces assume importance in this context. Mining and the disposition of the products from mines are under the responsibility of the provinces, except for the Northwest Territories and the Yukon, for which the federal Government has jurisdiction. To achieve domestic processing of natural resources, provinces impose several restrictions on transactions of ores and minerals. Legislation provides the rules for acquiring rights to explore, develop and mine minerals, specify the safety and mine abandonment provisions, and the rates of mining taxes or royalty. For example, in order to encourage processing, New Brunswick and Quebec have provisions that the mining tax could be increased if processing was inadequate. Similarly, Ontario and Manitoba have stipulations that inadequate processing could result in revoking production permits. Till now, however, no use has been made of these provisions.

510. The objective of enhanced domestic processing reflects the broad concern that national interest be served through the utilization of the nation's natural resources. For this purpose, (larger) export contracts are reviewed and incentives for investment are provided. Tax policies are the main component of the overall policy régime for the mining and energy sector. The tax reform in 1987 led to a decline in some incentives, such as a reduction in the depreciation allowance and abolition of investment credit in several areas.

511. In 1987, the Government issued a policy statement for minerals and metals, which recognized that allocation of investment be left largely to the private sector, while providing a "fair and balanced fiscal and regulatory framework". The statement also emphasized the need for technological upgradation, adjustment of different groups to the structural

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284 A Northern Mineral Policy has been announced for encouraging investment in the mineral and mining sector of the Northwest Territories and the Yukon. The federal Government is trying to develop a legal and regulatory régime for Canada's offshore mineral resource, an area of policy which requires tackling the question of the jurisdiction of provinces versus the federal Government.

285 Full cost can be written off for exploration, and for capital cost of new mines, and 30 per cent of development costs after production starts off.
change in the industry, and improving the export performance of the sector.

512. Assistance to develop the minerals and energy sectors is provided through regional development programmes such as the federal-provincial Mineral Development Agreements, and by supporting mega-energy projects, such as the Husky upgradation project or the Vancouver Island pipeline. A recent change in Government policy is that, with limited exceptions, grants to business will not be provided.

513. Financial assistance to the energy and mining sectors has dropped substantially in the last few years. The amount provided through the Petroleum Incentives Program came down from CAN$1.7 billion in 1984-85 to zero in 1988-89. Payments under the Natural Gas Programs was reduced from CAN$241.3 million to CAN$2.4 million over this period. The Canadian Exploration and Development Incentive Program was terminated end-1989. The federal budget in 1990 terminated the Canadian Exploration Incentive Program, which was the last open-ended, demand driven programme for the mining and energy industries.

514. Steady deregulation in the energy sector has occurred during the last six years, and the policies now are generally market oriented. The domestic price of crude oil was deregulated in June 1985, and buyers and sellers of natural gas have been negotiating prices since November 1986. However, export prices are monitored after the sales take place, to ensure that they are not lower than domestic prices. A regulatory review is also conducted, but no predetermined criteria specify when to intervene, except that sales should not give rise to any security problems. The review also considers environmental aspects. The federal Government has assisted with costs required to meet the new environmental standards, and

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287 For the mega-energy projects, the Government grants financial support provided it gets a good return on its investment, and if assistance can be given outside the tax system. For assistance to these projects, see Table IV.24.

288 Canada has a programme for fair market access for Canadian consumers under which the opportunities offered to Canadian consumers should be as good as those offered to exports.

289 The National Energy Board has a broad mandate that exports should not result in adversely affecting domestic requirements.
some changes in the system of approval for exports are also being implemented to include environmental concerns.

515. The policy framework for natural gas is derived in large part from the agreements between the federal Government and the provinces in 1985 and 1987. The objectives of these agreements have been to protect the domestic consumers, avoid market disruption, and to assess the domestic implications of energy exports. The procedure for approval became more market oriented in 1987, though with opportunities for Canadians to complain about export terms. In addition, the Government continued calculating the benefits and costs to the economy due to exports of natural gas. This practice has recently been abandoned.

516. Uranium exports are reviewed by the Uranium Exports Review Panel, with the objective to prevent nuclear proliferation, to ensure adequate supplies for domestic needs and fair returns to Canadians. In this context, restrictions are also imposed on re-exports and enrichment. The policy of not giving export permits for unenriched uranium is under review. The Export Control List contains several nuclear chemicals, as well as some other minerals and metal items. Under the Free Trade Agreement, Canada's policy requiring the further processing of uranium prior to export is not applicable for exports that are destined for the United States. The exemption is for cases where the Canadian uranium will be refined and converted in the United States for actual consumption in a reactor in the United States, or where the Canadian uranium will be refined, converted and enriched in the United States prior to export to a third country.

517. Health and safety restrictions and marking and packing regulations are of particular importance for many of mining products. For example, imports of asbestos items and of some PCB based oils are prohibited for reasons of health and safety.

290 The environmental concern has manifested itself in policy initiatives for several energy, mining and metal industries. For example, in 1985, the federal Minister of Environment, and some provincial Ministers agreed to a programme of environmental control. An Acid Rain Abatement Program has been established to give financial assistance to projects for reducing sulphur dioxide emissions in the industrial process.

291 In 1985, it was agreed that the price of gas had to recover its appropriate share of cost (to avoid dumping); prices charged in exports should not be less than those for domestic consumers; export contracts must have flexibility for changing situations; exporters had to give reasonable assurance that contracts will be honoured; and exporters had to demonstrate that the terms of the contract were from the producers supplying the gas. For contracts with a duration of less than two years, the requirements are not strictly imposed.
518. Canada monitors imports and exports of carbon steel and specialty steel and their selected products. Monitoring imports of carbon steel commenced on 1 September 1986, when the Canadian Import Tribunal determined that there was a possibility for this product to be dumped into Canada, given the existing overcapacity in the industry. Carbon steel import monitoring was to expire on 1 September 1989, but was extended for another three years on the basis that conditions in the steel industry were yet to be settled. Specialty steel imports have been monitored since 1 June 1987. The intention is to collect information to deal with concerns that Canada may be used as a conduit to export these products to the United States, whose voluntary export restraint agreements for steel do not include Canada. In fact, both carbon steel and specialty steel have been put on the Export Control List in order to avoid the circumvention of the voluntary export restraints of the United States with third countries. The programme for monitoring specialty steel expires on 1 June 1990. The Government has not yet decided on the future of this programme.

(viii) Firearms, ammunition, tanks and other armoured fighting vehicles

519. For reasons of security and health and safety, Canada has imposed restrictions or prohibitions on international trade in products under this category. Import and export permits are required for most items.

520. A large proportion of trade in these items takes place under defence agreements such as the Canada-United States Defence Production Sharing Arrangements 292 or the Canada-United States Defence Development Sharing Arrangement. In January 1990, the m.f.n. tariff rates for these products ranged from 0 to 11.3 per cent with a simple average of 7.2 per cent. Some concessions provided on these products are reflected in a lower applied average tariff of 5.1 per cent in 1988 (Table V.28). Tariffs for all items are bound.

521. General Preferential Tariffs are provided for all tariff lines. However, in 1988, only about 1.5 per cent of total imports of these products came from GPT beneficiary countries.

(ix) Other industrial products

522. This residual group includes a variety of products, ranging from leather and rubber items, professional and scientific equipment, to furniture and musical instruments (Table V.29). Major import items include

292 In 1988, the share of the United States in Canada's exports under this category was considerably more than its share in Canada's imports.
professional, scientific and controlling instruments, sound recorders and sound recordings, manufactured articles of rubber, and toys.

523. Most items are subject to ad valorem tariffs, and virtually all tariffs are bound (Tables IV.2 and IV.4). In 1988, the weighted applied tariff averages for these categories ranged from 0.1 per cent for works of art and collectors' pieces to 10.8 per cent for office and stationery supplies; tariff averages for some sub-categories were higher. Peak tariffs ranged from 8.8 per cent for works of art and collectors' pieces, to 25 per cent for manufactured articles not elsewhere specified (Table V.29).

524. Tariff escalation is widespread. Particularly steep tariff escalation is present, for example, in the case of leather items, rubber items and precious stones and precious metals.

525. General Preferential Tariffs are generally applied. A major exception is rubber, for which only 22 out of a total of 87 items have GPT rates (Table IV.8).

526. For some categories, a relatively large proportion of total imports come from GPT beneficiary countries. In 1988, for example, the share of imports from these countries was 65 per cent for manufactures of hides and skins, 41 per cent for watches and clocks, and 24 per cent each for pearls and precious stones, and articles of precious stones and precious metals.

527. Health and safety requirements and marking and packing regulations have to be satisfied for several of these products. In some cases, the restrictions result in a prohibition of imports. For example, imports of leather and its semi-manufactures are allowed only if they are from countries free of serious epizootic diseases; imports of certain toys, furniture items, sports goods, trick candles, exploding and sparkling matches, and pencils and crayons not meeting specifications for lead content, are prohibited on grounds of health and safety; and jewellery goods need to be labelled with standard quality marks.

293 These are Tariff Study Categories 14.02, 18.01, 02.03 and 19.00. In total imports for this residual category in 1988, their shares were 21.9, 11.6, 9.7 and 8 per cent, respectively.
VI. TRADE DISPUTES AND CONSULTATIONS

(1) Introduction

528. Canada settles its trade disputes via the diplomatic channels including the GATT. Most of the GATT Article XXIII cases involving Canada have been registered during the 1980s. Since 1989, Canada has also relied on the newly established dispute settlement mechanisms within the framework of the Canada-United States Free Trade Agreement.

(2) Dispute Settlement Under the GATT

529. During the 1980s, Canada has been an active user of the dispute settlement system in the GATT. Twelve of its fourteen Article XXIII complaints date from this period (Table VI.1). The majority of the nine complaints against Canada by other trading partners were also registered in the 1980s (Table VI.1).

(i) Article XXIII complaints against Canada

530. The Article XXIII complaints against Canada have been initiated by three contracting parties, namely the United States, the European Communities, and South Africa. Two-thirds of all the complaints were by the United States (Table VI.1).

531. The complaints against Canada have covered a wide range of issues, including administration of the Foreign Investment Review Act, discriminatory application of retail sales tax on gold coins, import restrictions on certain products like eggs, alcoholic drinks, and ice cream and yogurt, restrictions on exports of unprocessed salmon and herring, and Canadian export restrictions on unprocessed uranium (Table VI.2).

532. Virtually all the Article XXIII complaints against Canada have been investigated by GATT Panels. In one case the investigation was conducted by a Working Party. Of the eight findings, seven were against Canada. Except one, all reports have been adopted by the Council. In the case for which the report has not been adopted, the measure in question was withdrawn (Table VI.2).

533. Issues pertaining to federal-provincial relationship in Canada have been investigated by two Panels. One was a complaint by South Africa regarding discriminatory application of retail sales tax (in Ontario) on gold coins, and the other was a complaint by the European Communities on import distribution and sale of alcoholic drinks by provincial marketing agencies. In both cases the Panel reports found the provincial policies inconsistent with the GATT. The differential fiscal treatment for gold coins by Ontario was removed in January 1986 and the Parties agreed to a settlement. In 1989, Canada agreed to alter its discriminatory policies regarding import, distribution and sale of alcoholic drinks by provincial marketing agencies.
534. The two Panels in the period since the beginning of the Uruguay Round, have looked into complaints by the United States regarding Canadian restrictions on exports of unprocessed Pacific salmon and herring, and restrictions on imports of ice cream and yogurt. In both cases, the Panel reports found that Canadian policies were contrary to Article XI. The two reports were adopted by the GATT Council in April 1988 and December 1989, respectively.

535. Responding to the Panel finding, Canada introduced a GATT-consistent requirement that all commercially caught Pacific salmon and herring be delivered to shore-based provincially licensed buying stations. Under this program, foreign buyers had access to purchase unprocessed fish caught in Canadian waters. United States reserved its rights regarding this program, and subsequently brought it for investigation by a bilateral Panel under the Free-Trade Agreement (see below).

536. Regarding the restrictions on ice cream and yogurt, the issue involved is a subject of the negotiations in the Uruguay Round. Canada has indicated that it intends to maintain these restrictions until the outcome of these negotiations.

(ii) Article XXIII complaints by Canada

537. Canada has initiated, either alone or along with other contracting parties, fourteen Article XXIII complaints in the GATT (Table VI.3). These have been against three contracting parties, namely the United States, the European Communities, and Japan.

538. The complaints brought by Canada to the GATT reflect the large variety of Canadian concerns regarding trade policies of its trading partners, including import restrictions on several products such as leather, lumber and newsprint, a tax on petroleum, customs user fees, subsidies to producers and processors of oilseeds, and a countervailing duty on pork (Table VI.3).

539. Since the initiation of the Uruguay Round, Canada has brought six Article XXIII complaints to the GATT; three have been against the United States, two against the European Communities, and one against Japan (Table VI.3). Two of these six complaints involved Article XXIII:1 consultations, regarding prohibitions on imports of ice cream by the

294 This was for reasons of fisheries conservation and collection of information for management of these resources.

295 As yet, there is no decision on Canada's request to take recourse to Article XXIII:2 in the case regarding its Article XXVIII rights with the European Communities. See GATT, C/M/240, dated 4 May 1990.
United States, and subsidies provided by the European Communities to the producers and processors of oilseeds. Panels were instituted for the other four cases, the most recent one in December 1989 (Table VI.3). In two cases, namely imposition of the customs user fees and the tax on petroleum and certain imported petroleum products by the United States (*superfund* tax), the policies were found to be inconsistent with the GATT. With regard to the Japanese tariffs on dimension lumber, the Panel ruled that they were not inconsistent with the GATT.

(iii) Tokyo Round Agreements

540. Under the Tokyo Round Agreements, the number of requests by trading partners for conciliation regarding Canadian trade policies exceeds those made by Canada concerning their policies (Table VI.4).

541. Four requests for conciliation have been made regarding Canadian policies. Three of these requests pertain to countervailing duties and one is related to anti-dumping.

542. Two of the subsidy complaints were from the European Communities, and one from the United States. The case by the United States pertains to grain corn (for which the countervailing duty was reduced in Canada under public interest provision). The United States requested conciliation under Article 17 of the Code. A Panel was established to examine the case by the European Communities regarding Canadian countervailing duties on boneless beef. The Panel finding was against Canadian policies. However, the report of the Panel is yet to be adopted because Canada questions the definition of "domestic industry" used by the Panel to reach its conclusions. Canada, along with a few other contracting parties, has concerns that the Panel's reasoning implies an imbalance in the rights and obligations of signatories to the Agreement.

543. The sole anti-dumping case relates to Canada's duties on electric generators from the European Communities. An attempt to get a solution on the divergent views encompassed in this case is currently being made in the Uruguay Round.

544. Two requests for conciliation have been made by Canada. Both of them relate to investigation by the United States of the subsidy effect of Canadian stumpage practices. The first case was withdrawn when the United States made a preliminary determination that stumpage practices, *inter alia*, did not constitute a countervailable subsidy. In the second

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Canada recorded its formal reservation on the interpretation in the report of the rights and obligations of contracting parties regarding "like products" under Article I. It reserved its rights to request further examination of its concerns under the GATT dispute settlement system.
case, a mutually satisfactory settlement was reached by the two countries (see Chapter V).

(3) Other Cases

545. As mentioned earlier, the Canada-United States Free Trade Agreement provides for two types of dispute settlement mechanisms. One is the general dispute settlement under Chapter 18. In this context, a bilateral Commission has been established to resolve disputes arising from the Agreement, except for financial services, and anti-dumping and countervailing cases. Dispute settlement regarding anti-dumping and countervailing cases is provided under Chapter 19 of the Agreement. 297

546. For general dispute settlement, consultations take place under the Canada-United States Trade Commission subsequent to a failure of bilateral consultations. In this process, the decision is recommendatory unless binding arbitration is invoked. For safeguard cases, binding arbitration can be requested by either Party, while a consensus is required for the other cases. If the Commission cannot resolve the dispute, a Panel can be requested by either Party. The Commission uses the Panel's recommendations to resolve the dispute, failing which the complaining Party may retaliate by suspending benefits of equivalent effect. The time limits imposed on the different phases are such that the procedure does not take more than nine months.

547. Regarding dispute settlement under Chapter 19, the review of anti-dumping and countervailing final orders may be conducted by a bilateral Panel instead of the domestic courts. The objective of this review is to determine whether the decision was made in accordance with the law of the country. Panel findings are binding. 298

548. The first Panel decision under Chapter 18 was for the trade dispute involving landing requirements for Pacific salmon and herring mentioned above. As a result of the Panel decision, Canada will allow at-sea exports to the United States for 20 per cent of the catch in 1990, and 25 per cent in 1991 to 1993.

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297 The mechanism for anti-dumping and countervailing is in place for a maximum of seven years. During this period, a system of rules and disciplines applicable in both countries has to be developed. A failure to do so would allow either Party to terminate the agreement upon six months' notice.

298 When either Party suspects the integrity of the Panel, the matter can be referred to an extraordinary judicial committee whose judgement will be binding. A time limit of thirty days applies to these judgements.
549. A second Chapter 18 Panel is reviewing the restrictions on size of lobster imports by the United States. Bi-national consultations on several other trade issues are being conducted under the auspices of Chapter 18.  

550. Until February 1990, twelve Chapter 19 cases have been registered. Eleven of these pertain to actions by the United States (Table VI.5).  

299 For example, in January 1989, Canada initiated two consultations under Chapter 18 of the bilateral Free Trade Agreement. In the first case, Canada maintained that the United States was violating the agreement by not implementing the first stage of tariff reductions on plywood called for under the agreement. In the second case, Canada challenged the United States' definition of wool for the purposes of administering the tariff-rate quotas on fabric and apparel.
VII. SUMMARY OBSERVATIONS

(1) Canada in World Trade

551. Over the past ten years, Canadian exports and imports have expanded faster than world merchandise trade (Chart VII). As a result, Canada has become the seventh largest exporter and importer of merchandise in the world, up from tenth rank in 1979. In 1989, Canada's share in global merchandise trade was 3.8 per cent.

![Chart VII](chart-url)

<table>
<thead>
<tr>
<th>Year</th>
<th>Canadian Exports</th>
<th>Canadian Imports</th>
<th>World Exports</th>
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Source: GATT Secretariat.

552. The important role of international trade in Canada's economic development is evident from the fact that merchandise exports and imports each corresponded to about 21 per cent of Canadian GDP in 1989. Trade in services, which has not expanded as rapidly as merchandise trade, accounted for about another 6 per cent. The economy is further linked internationally through substantial foreign direct investment. Significant liberalization in this field occurred with the implementation of the Investment Canada Act in mid-1985.

553. Over two-thirds of Canada's merchandise trade is with the United States. Next in importance are the European Communities and Japan.
(shares of 10 and 5 per cent). Developing countries account for about 7 per cent of Canada's merchandise exports and 10 per cent of its merchandise imports, well below the average for industrial countries combined.

554. Boosted by the Auto Pact of 1965 with the United States, automotive products have become Canada's most important export and import item. In 1988, Canada was the fourth largest exporter of these products in the world. Canada is also among the leading exporters of several primary products such as wheat, forestry products, fisheries products, and certain minerals and metals.

555. Raw materials, food and fuel loom much larger in Canada's exports than in its imports, an exceptional feature for a developed country. However, exports of manufactures have been more dynamic, in particular exports of automotive products, electronic devices, and some chemicals. Currently, manufactures make up three-fifths of total merchandise exports.

556. Canada has traditionally recorded a surplus on its merchandise trade account, and a deficit on its services account. In the course of an investment boom, imports of machinery and equipment increased sharply in recent years. Because of the strength of domestic demand, the economy has been working virtually at full capacity, inflationary pressures have built up, and the trade surplus has declined. As a percentage of GDP, Canada's current account deficit increased from 1% to 3 per cent between 1985 and 1989. Measures to contain the current account deficit include efforts to reduce the Government budget deficit, a task made more difficult by a heavy debt-servicing burden. Ongoing and planned reforms in other economic policy areas, including trade policy, aim at raising potential output and increasing the structural flexibility of the Canadian economy.

(2) Institutional Framework

557. In Canada, a democratic federal state of ten provinces and two territories, the Federal Parliament has the exclusive constitutional and legislative authority over international and inter-provincial trade. Intra-provincial trade, including the distribution of imported goods, is under the jurisdiction of the provinces.

558. Trade policy is conducted by the Cabinet under the authority of the legislation passed by Parliament. The legislation also grants authority to the Cabinet to use executive orders (Orders-in-Council). The Trade Executive Committee of the Cabinet, chaired by the Minister of International Trade and comprising seven other Ministers, sets priorities for and formulates trade policies. Private business feeds its views into trade negotiations through the International Trade Advisory Committee and thirteen Sectoral Advisory Groups on International Trade.

559. A broad range of Government departments and agencies is involved in the implementation of trade-related policies. In general, administrative procedures are streamlined and transparent.
560. In 1988, the Government established a quasi-judicial body, the Canadian International Trade Tribunal, to assess injury in dumping, countervail and safeguard cases, and to hear appeals relating to customs valuation and certain excise matters. Affected parties have access to hearings, and the findings of the Tribunal are published. On request from the Government, the Tribunal also reviews trade policies. The Economic Council of Canada is another important independent advisory body involved in trade policy analysis.

561. The Canadian legislation provides for statutory appeal against administrative actions, such as anti-dumping and countervailing duties, customs valuation, and certain decisions regarding Government procurement.

(3) Trade Policy Features and Trends

562. Canada is a founding signatory to the GATT. It has signed all MTN Codes, except the International Dairy Arrangement, to which it is an observer.

563. Canada has frequently stated its support of the m.f.n. principle. However, a large share of Canada's merchandise trade is subject to preferences. The Canada-United States Free Trade Agreement (FTA), effective 1 January 1989, has forged even closer links between Canada and its largest trading partner. Under the Agreement, tariffs will be eliminated in bilateral trade by 1998 and several non-tariff measures liberalized; new institutions have been established to deal with bilateral disputes. On selected items, bilateral concessions are provided in trade with Australia and New Zealand.

564. Canada has four schemes for providing unilateral preferences to developing countries. The global scheme of preferences for developing countries, implemented since 1974, provides for preferential tariffs between duty-free and two-thirds of m.f.n. rates. Through periodic reviews, product coverage of the scheme has been enlarged and preferential margins for several items increased. Currently, the majority of agricultural products is excluded from GSP treatment, as are some manufactures of particular export interest to developing countries, such as certain textiles, clothing and footwear. For imports from least-developed countries, duty-free access is granted for all items covered by the GSP scheme. Developing countries from the Caribbean Commonwealth get duty-free access on a large number of their imports through the CARIBCAN scheme. British Preferential Tariffs are unilaterally provided on selected items to developing countries from the Commonwealth.

565. The complexity of the preferential arrangements, involving differences in product and country coverage, margins of preferences and rules of origin, makes it difficult to assess the extent to which Canada differentiates among its trading partners, including among developing countries. However, it is evident that, with the full implementation of
the FTA, the United States will have more predictable and freer market access than any other trading partner of Canada.

(i) Recent evolution

566. Since 1984, the Canadian Government has embarked upon a major programme of liberalization and deregulation. Canada has taken several steps to improve access to its market in both a multilateral and a bilateral context. Canada's average applied tariff was 3.7 per cent in 1989, down from more than 5 per cent in 1980. Import quotas for chicken, turkey, eggs and egg products have been increased, and quotas on footwear were terminated (1988).

567. Not all trade policy changes have been in the direction of improved market access. New import quotas were introduced for a few agricultural items. Canada's quantitative restraints on textiles and clothing under the current Multifibre Arrangement are broader, and applied more strictly, than under the previous one.

568. Significant developments with respect to non-border measures include a decline in federal financial assistance to agriculture from CAN$4.5 to 3.3 billion between 1986-87 and 1989-90. In 1988-89, overall Government financial assistance to agriculture, including assistance by provincial Governments of about CAN$2 billion, was equal to 68 per cent of the gross domestic agricultural product in Canada.

569. Financial assistance outside agriculture has almost doubled between 1986-87 and 1989-90, from CAN$1.4 to 2.7 billion. Regional programmes have expanded particularly strongly. The orientation of assistance policies outside agriculture is shifting to labour adjustment and support for technology, rather than subsidising production costs. With the exception of some primary products, no industry-specific structural adjustment programs are now in operation at the federal level.

(ii) Type and incidence of trade policy instruments

570. Tariffs are the most widely used import policy instrument in Canada. They are more important in industry than in primary production where assistance through other measures plays a more prominent rôle.

571. For the majority of products, tariffs are low; a large number of items enter duty-free. However, within several product categories, including textiles, clothing, footwear, chemicals, transport equipment, toys, office and stationery supplies, tobacco, furniture, and several agricultural items, the highest tariffs exceed 20 per cent (within alcoholic beverages, the ad valorem-equivalent tariff for one item was 71 per cent in 1988). According to estimates by the Canadian International Trade Tribunal, effective rates of tariff protection for manufactured textile items could range from 16 per cent (natural fibre woven fabrics) to 46% per cent (natural fibre knitted fabrics), and for clothing items from
22 per cent (man-made fibre woven clothing) to 29\% per cent (natural fibre woven clothing). Tariff escalation is present for a variety of products in both industry and agriculture.

572. Most tariff rates are ad valorem. Specific, composite or alternate rates apply to a number of items, including certain textiles, clothing, chemicals, metal products, and agricultural products. Seasonal tariffs are in place for fresh fruits and vegetables.

573. Tariff concessions are granted if a particular product is used for a specified purpose. For example, benzyl alcohol for photographic uses enters duty-free into Canada instead of facing the normal 12.5 per cent m.f.n. tariff rate for this product. Some agreements which provide tariff relief under the Auto Pact are confidential. The incidence of tariffs is also reduced through tariff remission schemes such as the Machinery Programme. As a result, the applied tariff rate for a particular import item can differ among m.f.n. sources.

574. Overall, the Canadian tariff régime, including preferential and concessional arrangements, appears complex and lacking in transparency. However, an element of security for domestic and foreign traders results from the very large extent of tariff bindings (98 per cent of tariff lines and 96 per cent of the value of 1989 imports).

575. Output of several agricultural products is substantially assisted by both the federal and provincial Governments through measures such as price support and subsidies for transport and insurance. In some cases, policies affecting trade, including certain regulations for alcoholic beverages, differ across Provinces. Quantitative restraints apply to imports of some dairy products, poultry and eggs. The restrictions imposed in the context of domestic supply management programmes often result in a high premium for domestic producers and high prices for consumers. For example, it has been estimated that, in 1989, the consumer price for eggs was 20 per cent above, and the consumer price for milk more than 100 per cent above the world price.

576. Within industry, non-tariff measures, largely in the form of bilateral restraints under the MFA, provide substantial assistance to textiles and clothing. Other non-tariff measures include financial assistance to several industries, with transport equipment being a major beneficiary.

577. According to the Canadian authorities, voluntary export restraint arrangements which previously limited imports into Canada of automobiles from Japan and the Republic of Korea have been terminated. In the case of Japanese automobiles, consultations on market conditions are held from time to time. For 1990, the Republic of Korea has unilaterally fixed, under its internal export monitoring policy, a restraint level of 6.6 million pairs of leather footwear exports to Canada.
578. Canada prohibits or restricts imports of specific products mainly for reasons such as health and safety, technical standards, preservation of endangered species and supporting domestic supply management programmes for some agricultural products. Import licensing covers items such as dairy products, eggs, poultry, textiles, clothing, steel and elephant ivory. There has been some increase in the coverage of import licensing in recent years.

579. Regarding technical standards, the policy of the Government of Canada is that all federal Departments and agencies comply with the provisions of the GATT Agreement. The Government encourages the use of international standards.

580. National security is the most important objective in restricting exports. A COCOM list of countries to which certain exports are prohibited is in operation. National security restrictions largely refer to industrial products.

581. Other reasons for restricting exports include ensuring adequate domestic supply, supporting domestic processing of resources, implementing an inter-governmental agreement, and health and safety concerns. Exports to Libya and South Africa are restricted. Canada monitors exports of specialty steel to the United States, and exports of carbon steel to all destinations to help prevent circumvention of the United States' voluntary export restraint agreements on steel. Export taxes are applied to some softwood lumber products sold to the United States, following a complaint by the United States that Canadian stumpage programmes and practices constituted subsidies, a view to which Canada does not subscribe.

582. As a proportion of total merchandise exports, financial assistance for Canadian exports is small. The two main support schemes for exports are the Program for Export Market Development, and the loans, guarantees and insurance provided by the Canadian Export Development Corporation.

583. Domestic processing of its natural resources is an important objective for Canada. Provinces have jurisdiction over their natural resources. They encourage domestic processing through several tax policies. Export restrictions apply to some unprocessed natural resources, such as uranium, logs and certain fisheries products.

584. In public procurement, the value-for-money criterion is used in combination with other objectives, such as promotion of small scale industries and developing domestic capabilities. About 5 per cent of the federal Government purchases of goods and services are covered by the GATT Government Procurement Code; in turn, federal procurement is about one-quarter of the total public procurement market of about CAN$70 billion. For procurement not covered by the GATT Code or by the Free Trade Agreement, a 10 per cent Canadian-content preference is applied. Additional preferences are provided in provincial procurement, with differing conditions for purchase across provinces. In the case of large
projects (CAN$2 million and above), certain types of offset requirements are negotiated in public procurement. Canada also operates a rationalization policy under which products of multinationals in certain sectors are granted Canadian-content preferences, provided these companies contribute "significantly" to the economy.

585. Canada has more than 100 Marketing Boards at both the federal and provincial levels, covering items such as wheat, dairy products, fish and alcoholic beverages. Several boards, including a few provincial ones, have authority to conduct interprovincial and international trade. The functions of different marketing boards vary, and may include price negotiation, establishing production or sales quotas, imposing levies for different levels of production, supporting exports, specifying limits on imports, and setting advance payments for certain products.

(iii) Temporary measures

586. Canada has been an active user of anti-dumping measures, with steel and other metal products being affected in a large number of cases. Though the use of these measures has declined in the second-half of the 1980s (three anti-dumping definitive duties were imposed in 1989), 117 definitive duties and 13 price undertakings were in place at end-1989. Many of the outstanding measures date from the early 1980s.

587. At end-1989, eight countervailing measures were in place. Most of these were on agricultural products.

588. A special feature of Canadian anti-dumping and countervailing legislation is a provision for public interest. Under this, the duty can be reduced or eliminated if the cost of the restriction to the public is determined to be higher than the gain from it. Thus far, the provision has been invoked once, resulting in a lower duty.

589. Canada uses short-term (maximum of 180 days) and long-term safeguard measures. The short-term measures are mainly for fruits and vegetables. With the establishment of the Canadian International Trade Tribunal, domestic industry can directly request enquiries related to long-term safeguard measures.

590. Canada has not taken any Article XIX action since 1985. Its last action, on women's and girls' footwear, was terminated in December 1988. The majority of Canada's Article XIX measures have lasted less than two years.

591. Safeguard provisions are in place for CARIBCAN and GSP tariff preference schemes. Since 1980, GSP preferences have been withdrawn in eight cases; some of these preferences have been subsequently re-instituted.

592. For all temporary relief measures, time limits are specified for different stages of the enquiry. Duties or price undertakings are subject
to sunset clauses: three years in the case of safeguards and price undertakings, and five years for anti-dumping and countervailing duties. Special temporary relief provisions and dispute settlement procedures apply under the FTA.

(iv) New initiatives

593. The trade policy environment for Canadian investors and traders is changing on account of several liberalization measures by the Government and its attempts to reduce the budget deficit. The budget of 1990 has eliminated straight grants, subject to some exceptions. Various assistance policies are being reviewed with the objective of imposing stricter repayment terms. The Government has stopped providing interest-free advances for certain agricultural support policies. It has recently amended the cost-sharing formula for the insurance scheme for agriculture, so that the federal Government has a lower financial burden. A major review of Canada's agricultural policies is under way, whose focus includes greater market responsiveness and lower reliance by farmers on public assistance.

594. The Government has adopted several policies to enhance the efficiency of the economy, including deregulation of certain sectors, tax reform, privatization and a Labour Market Development Strategy. At the request of the Government, the Canadian International Trade Tribunal has suggested a scheme for reducing textile tariffs. From 1 January 1991, the Government will substitute the current federal sales tax by a less distortionary goods and services tax.

(4) Trade Policies and Foreign Trading Partners

595. The new initiatives are likely to increase the flexibility and adaptability of the Canadian economy, including its responsiveness to changes in global markets. It has been estimated that the reforms, along with the Free Trade Agreement, are likely to raise Canada's potential annual growth rate by three-quarters of one percentage point in the early 1990s. As a result, the Canadian economy is likely to become more competitive in its export markets, and also to experience accelerated import growth.

596. However, expanding import demand is unlikely to result in the same expanding market opportunities for each of its trading partners, partly on account of the system of preferential arrangements, tariff concessions and the existing structure of protection in Canada. For example, reductions in non-tariff barriers and the elimination of tariffs in bilateral trade between Canada and the United States will strengthen the position of suppliers from the United States in competing with suppliers from third countries in the growing Canadian market. As long as some quantitative restrictions remain selective, in particular in textiles and clothing, restrained trading partners will face an additional constraint on realizing the potential growth of their exports to Canada.
597. Canada's trading partners have a variety of other concerns, including financial assistance to agriculture, import restrictions in the context of domestic supply management, Government procurement policies at the federal and provincial levels, and double-digit tariff peaks and several non-tariff measures affecting trade in areas such as beverages, tobacco, minerals and base metals, chemicals, textiles, clothing and certain engineering products.

598. In turn, Canada's own trade performance is adversely affected by the distortions in world agricultural markets resulting from production and export subsidies, and by a range of other trade policies and practices of its trading partners, including high tariffs and tariff escalation, quantitative restrictions, product standards and other technical barriers to trade, and restrictive Government procurement practices. To these problems, the formation of the free trade area with the United States will provide only a partial answer.

599. Canada is very actively using the Uruguay Round to deal with these concerns, focusing on areas such as greater market access through tariff reduction, progressive liberalization of markets in services and natural resource products, a broadening of the Government Procurement Code and strengthening of multilateral rules and disciplines, including those for anti-dumping and countervailing measures. Canada is a member of the Cairns Group which is seeking fundamental reform of world trade in agriculture. However, it has particular preoccupations relating to its supply management programmes.

600. Canada has recently launched a new trade development strategy designed to strengthen its links with trading partners inside and outside North America. The achievement of this objective could be effectively promoted if Canada used the Uruguay Round for scaling down financial support and further reducing, or eliminating, remaining tariff peaks, tariff escalation, quantitative restrictions and other trade-distorting measures. At the same time, Canadian trade liberalization in a multilateral context could help to appease the concerns of those trading partners who do not participate in Canada's preferential or free trade area arrangements. Finally, for Canada enhanced openness, stability, predictability and discipline in the multilateral trading system would by itself make an important contribution towards its goal to intensify relations with the world economy.