TRADE POLICY REVIEW MECHANISM

Review of Canada, 21-22 November 1994

GATT Council’s Evaluation

The GATT Council conducted its third review of Canada under the trade policy review mechanism (TPRM) on 21-22 November 1994. The text of the Chairman’s concluding remarks is attached as a summary of the salient points which emerged during the 2-day discussion of the Council.

The TPRM enables the Council to conduct a collective review of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country’s trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council’s discussions and of the Chairman’s summing-up, together with these two reports, will be published in due course as the complete trade policy review of Canada and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

I. General economic and trade performance

Council members welcomed Canada's economic recovery in the two years since the last review, and noted the rôle of trade as the engine of its recovery. In the three years to 1993, the direction of trade had decisively shifted in favour of bilateral trade with the United States; it was suggested that the NAFTA would accentuate this trend. Some participants noted the high level of internal debt, which had reached 70 per cent of GDP, and questioned the potential impact of high fiscal deficits on macro-economic and exchange rate policy; they asked how far exchange depreciation had conditioned the growth of exports. A number of questions were asked about Canada's policy towards foreign direct investment, including Canada's own investment abroad.

In response, the representative of Canada agreed that trade had played a major rôle in the economic recovery. Canada had also been well placed to benefit from the U.S. recovery, but the aim was to achieve greater diversification, hence Canada's active pursuit of other market opportunities, including through APEC. Monetary and fiscal policies naturally had an impact on Canada's market-determined exchange rate. Fiscal deficits were also being progressively reduced. Outbound foreign investment was not restricted; rather, it had been facilitated by bilateral agreements. Details were provided.

II. Multilateralism and regionalism

Canada's rôle in achieving, and commitment to, the Uruguay Round results was praised by all. Participants noted the commitment to eliminate tariffs in a number of key sectors, and to reduce remaining industrial tariffs by an average of 40 per cent over the next five to ten years. The liberalization of certain services sectors, procurement markets and new intellectual property protection legislation were all welcome. Concern was expressed, however, about the level and administration of the above-quota tariff rates to be introduced in agriculture as a result of the Uruguay Round.

Several participants raised questions about the implementation of NAFTA and, in particular, its relation with the GATT in a number of areas, including dispute settlement. The potentially trade-diverting nature of NAFTA rules of origin was another source of concern. Details were sought on differences in local content rules on motor vehicles between the FTA and the NAFTA, and whether the new rules were consistent with Article XXIV of the GATT. Participants also asked about Canada's plans for future developments in regional cooperation, and noted that the expansion of trade with the Asia-Pacific region had become a priority of Canadian trade policy. In this context, some participants asked about the position of Europe in Canada's current trade policy objectives, noting that the share of trade with European countries had declined.

The representative of Canada noted that multilateralism and regionalism were two sides of the same coin, whereby Canada sought to advance its objectives of trade liberalization within rule-based frameworks. Canadian estimates of Can$3 billion in gains from the Uruguay Round were probably underestimates; they did not capture the dynamic effects, nor did they cover services. NAFTA was believed to be trade-creating and was open to others; it would be discussed in a Working Party in 1995. Discussions, but not yet formal negotiations, were taking place with Chile on its possible accession. Despite some persistent trade disputes with the EU, Canada was also strongly committed to fostering trans-Atlantic trade relations; the Canadian representative gave some examples of present and planned
co-operation which should lead to increased trade. He confirmed that NAFTA investment thresholds would be accorded to all WTO members under Canada’s Uruguay Round implementing legislation.

III. Federal-provincial relations

Several members welcomed the renewed efforts to remove inter-provincial trade barriers within Canada, whose estimated costs to the Canadian economy exceeded the quantified benefits of the Uruguay Round for Canada. Remaining restrictions to inter-provincial trade with effects on external trade were identified in the fields of procurement and trade in alcoholic beverages and food products. Clarifications were sought regarding the coverage and implementation of the July 1994 Agreement on Internal Trade.

The representative of Canada said that all provinces had been fully consulted on the implementation of the Uruguay Round agreements and no commitments had been made without prior agreement with the provinces. Rules established under the Internal Trade Agreement were scheduled to enter into force on 1 July 1995. Further negotiations were underway. Details were given on procedures for mutual recognition or full harmonization of standards, including in specific sectors, as well as on the opening up of government procurement practices. Canada would make its offer under the Government Procurement Code by mid-October 1995 and supported the initiative for further negotiations during 1995.

IV. General trade policies and practices

The complexity of the Canadian tariff was criticized by some participants; at the same time, they welcomed the reduction in tariff levels carried out autonomously, regionally and multilaterally over the two years since the previous review. Tariffication in agriculture revealed extremely high above-quota rates averaging 173 per cent. Questions were asked regarding the evolution of Canada’s GPT scheme. The recent move to simplify the tariff was welcome, and members sought further details. In this connection, it was suggested that Canada might consider a move to global free trade on an m.f.n. basis.

Several participants expressed concern on the level of recourse to anti-dumping procedures; the duration of orders even when exports had ceased; new cases of self-initiation; and high dumping margins in recent cases. Participants welcomed Canada’s stated priority of reforming current anti-dumping legislation within NAFTA, and asked what instruments were considered as replacement and whether the reform could not be extended to other trading partners.

The widening of government procurement markets subject to GATT rules was recognized by participants, who nevertheless regretted that provincial discrimination remained after the signing of the new Internal Trade Agreement. Canada was urged to include a larger number of Provincial Crown corporations under non-discriminatory and transparent procurement rules.

Issues were raised relating to standards and other technical and environmental measures in agriculture, fishing and forestry. Some participants noted that rules on bulk shipment, container sizes, and inter-provincial trade in alcoholic beverages continued to be obstacles to trade. Canada was asked to clarify the reasons for its decision to stop and search vessels fishing outside its territorial waters.

In response, the representative of Canada noted that the tariff review would take place over three years; it was, therefore, too early to speculate on the outcome. He noted that the existing complexity was the result of preferences which had benefited many countries, including developing countries. The review would not cover non-tariff measures. Legislation to extend the GPT had been tabled, and

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consultations had just been completed on the product coverage and the reduction of rates. The draft results of the review would be published shortly for comment.

He noted that Canada’s licensing system was fully consistent with its GATT obligations and gave details on the functioning of the system. Restrictions under the Import Control List were administered on the basis of HS items and were, therefore, transparent for importers. Only in-quota imports under tariffed agricultural items would be subject to specific licensing, allocated on a first-come-first-served basis; over-quota imports would enter under General Import Permits.

Rules of origin for motor vehicles under NAFTA were intended to encourage the purchase of parts in North America and provide a more accurate and transparent calculation of regional value added. Details were provided. Depending on the outcome of the WTO harmonization of non-preferential rules of origin, Canada might review the harmonization of rules for other tariff treatments.

Within the NAFTA framework, trilateral groups were to complete, by the end of 1995, work on subsidies and anti-dumping with a view to reducing trade disputes on such practices. An explanation was given of Canada’s procedures for determining “normal values”, which were said to help importers avoid the imposition of anti-dumping duties. Canada would remain in the Tokyo Round Anti-Dumping and Subsidies Codes for the acceptance period of the WTO.

V. Sectoral issues

Some participants observed that Canadian agriculture was still heavily protected and benefiting from substantial government assistance. Participants noted the very high above-quota tariff rates resulting from the Uruguay Round Agreement on agriculture. Clarification was sought regarding the rates to be applied in the first year of implementation. Points were made concerning the safeguard action on boneless beef, which had been taken in a context of growth in the industry, and did not apply to NAFTA partners. Some participants asked for clarifications regarding export pricing of grains.

Export restrictions on logs were perceived by some as potential subsidies to the domestic processing industry. Continued protection of the "cultural" industries was noted. At the same time, Canada was commended for its recent steps to liberalize trade in telecommunications services and improve patent protection.

Some participants voiced concern about recent developments in trade policy regarding textiles and clothing. Both the geographical scope and frequency of import restricting measures had increased, with developing countries bearing the brunt. Strong expansion of bilateral trade in textiles and clothing with the United States was perceived as a potential sign of trade diversion.

The representative of Canada provided information on the size and administration of the various tariff rate quotas to replace the existing system of agricultural import controls. The TRQs, to be introduced on 1 January 1995, were consistent with Canada’s obligations under the Uruguay Round. The United States would, like other members, be subject to the Uruguay Round TRQs: The level of the beef and veal quota was based on negotiation, while the adjustment of the boneless beef action under Article XIX was made in response to changing market conditions. Quotas would now be allocated to domestic processors based on allocations in the prior period, providing for increased stability in the market. Bilateral discussions on quota allocation were continuing with Australia.

Support for grains had been declining since 1991. The level of Canada’s total "non-green" domestic support in coming years would be even lower than its commitment over the transition period. Canada would also meet its export subsidy reduction commitments. A Memorandum of Understanding
(MOU) with the United States on trade in grains was reached in August 1994, establishing a joint commission to examine all aspects of the two countries’ marketing and support systems for all grains with a view to reaching long-term solutions to problems in the sector.

No fundamental change was expected in the dairy sector as a result of the Uruguay Round, although there would be some operational changes to ensure compliance with Canada’s obligations.

Trade-weighted average tariffs on textiles and clothing would fall from 21.3 per cent at present to 14.5 per cent under Canada’s Uruguay Round commitment and all lines were currently bound. Because of low levels of unemployment in the sector and market disruption from increases in low-cost imports, some new bilateral restraint agreements had been reached with exporters. Canada was committed to the re-integration of the sector into the GATT. The products which it would integrate as of January 1995 would benefit a number of restrained exporters.

A number of changes had taken place in recent years in import regulations on alcoholic beverages, with considerable liberalization of provincial liquor board practices. Barriers would also decrease as a result of the Internal Trade Agreement. Given these changes, Canada considered its alcohol marketing practices now to be GATT-consistent.

VI. Conclusion

Canada’s trade policy is dynamic. NAFTA and the Uruguay Round have led to new or imminent obligations and to trade liberalization in traditional and new areas; participation in APEC expands horizons to fresh geographical links. The coming years will see further growth and change in Canada’s trade policies. I am confident that the WTO framework will provide the firm foundation for the coherent and consistent application of all the trade policy measures to be taken by Canada in these different contexts.