Since the last trade policy review of Canada in 1992, the Canadian authorities have made efforts to improve the efficiency of the economy through more rational trade and industrial policies, including a greater opening of the economy, according to the GATT Secretariat’s latest report on Canada’s trade policies and practices. Trade has driven the economic recovery now under way in Canada, and the country’s principal trade policy objectives of the past two years have been met with the completion of NAFTA and the Uruguay Round.

Since the last review, Canada has introduced a number of autonomous trade reforms, complemented by deregulation in some domestic markets. Tariffs have been reduced or eliminated on certain textiles, motor vehicle components and chemical products; the long-distance telecommunications market has been liberalized, and some revisions have been introduced into patent protection law.

Under the Uruguay Round agreements, Canada has agreed to eliminate tariffs in a number of key sectors and to reduce remaining tariffs by an average of 40 per cent over the next five to ten years. As a result, import duties in 1995-96 will be about Can$200 million lower, according to Canadian Government estimates. In the agricultural sector, over 100 import quotas are intended to be replaced by tariff rate quotas with above-quota duties averaging 205 per cent in 1995 and 174 per cent in 2000. According to the Canadian Government, the purpose of these high above-quota tariffs is to provide sufficient protection to allow supply management systems to continue to operate effectively in the dairy, poultry and eggs sectors.
According to the Secretariat's report "provincial policy considerations continue to weigh heavily on the regulation of the domestic economy, with indirect effects on international trade. Inter-provincial trade barriers have become a major problem for Canada, hampering economic growth and job creation, as well as reducing competitiveness of Canadian-based firms." The report notes that according to the Canadian Manufacturers' Association, inter-provincial trade is affected by around 500 trade barriers. Although consultations between federal and provincial authorities continued throughout the last two years, limited results were obtained on such issues as free internal flow of goods and services in electric energy, agriculture, or procurement. "While provincial assistance was reduced in several cases following external challenge," says the report, "its persistence, and the distortion to competition which remain, bear witness to the difficulty of establishing clearly defined areas of federal and provincial competence in fields affecting the economy and trade."

Turning to specific trade measures, the report points out that the number of anti-dumping and countervailing investigations and actions undertaken by Canadian authorities has increased markedly in the last two years. With over 80 anti-dumping actions covering 23 products in place in 1994, Canada remains the third largest user among GATT contracting parties. The average margin of dumping in final determinations made on these measures was nearly 33 per cent, suggesting that, on average, exporters had to increase the price of these products by this amount if they wished to avoid paying anti-dumping duties. "Concentration of cases in the steel industry, with over 40 new investigations since 1992, reflects the problems of worldwide over-capacity in this sector," says the report.

Developments in the past two years have reinforced the role of trade as a major determinant of Canada's economic performance, summarizes the report. Improved international competitiveness resulted from more rational trade and industrial policies, stemming partly from the effects of the FTA and the NAFTA, and partly from policy responses to fiscal constraints; monetary policy, in turn, contributed to containing inflation and maintaining a competitive real exchange rate. "All these factors have led to a remarkable expansion of trade, particularly two-way trade with the United States. Developments in the context of the NAFTA may raise further concerns about the balance between regional and global liberalization and the risks of trade diversion."

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Government of Canada, will be discussed by the GATT Council on 21-22 November 1994 under the Trade Policy Review Mechanism (TPRM). This is the third biennial review of Canada since the launching of the TPRM in December 1989, and covers the period since the last review in June 1992.

2. The TPRM enables the Council to conduct a collective evaluation 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.

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

4. The reports cover developments in all aspects of Canada's trade policies, including domestic laws and regulations, the institutional framework, trade-related developments in the monetary and financial sphere, trade practices by measure and trade policies by sector. Attached are the summary extracts from these reports. Full reports will be available for journalists from the GATT Secretariat on request.

MORE
5. Since December 1989, the following reviews have been completed: Argentina (1992),
    Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada
Canada in World Trade

Since the last trade policy review of Canada in mid-1992, economic growth has resumed, with low inflation but continuing high unemployment. Exports, driven partly by recovery in the U.S. market, have made an important contribution to growth. However, Canada’s external competitiveness has also improved as a result of modest increases in wages and real depreciation of the Canadian currency against the U.S. dollar. The Canadian authorities have also made serious efforts to improve the efficiency of the economy through more rational trade and industrial policies, including a greater opening of the economy.

In the period, two-way trade under the free-trade agreement with the United States has increased rapidly, with growing integration in several sectors including, notably, automobiles. The first stage of the NAFTA Agreement, implemented in January 1994, is likely to lead to even greater integration in North America and to stimulate further restructuring of the Canadian economy. The effects of the Uruguay Round agreements on Canada will be felt progressively over the next decade, as world markets become more open to Canadian exports and Canada’s own commitments are phased in. The major pressures for continued rationalization in the next two years, however, are expected to stem from the ongoing implementation of the NAFTA and from further autonomous budget cuts which could affect sectoral assistance programmes both in industry and in agriculture. There has already been some useful liberalization in telecommunications, but greater opening of other services sectors could reduce costs across the economy. The Canadian authorities recognize that, as a result of the development of regional agreements, the tariff structure has become more complex, and an autonomous tariff rationalization and simplification process has begun.

Institutional Framework

Canada’s institutional framework has not changed over the past two years, nor have there been significant changes in trade legislation, with the exception of the Implementing Act for the North American Free Trade Agreement (NAFTA). The principal trade policy objectives of the past two years have been met with the completion of NAFTA and the Uruguay Round. Canada’s major objectives in the Round included better overall market access for its goods and services, placing agricultural trade under the disciplines of the General Agreement, the development of rules for trade in services and trade-related aspects of intellectual property and investment measures, the establishment of fairer and more equitable GATT rules, and the strengthening of the institutional framework for world trade.

Under the Uruguay Round Agreements, Canada has agreed to eliminate tariffs in a number of key sectors and to reduce other rates on industrial products by an average of 40 per cent over the next five to ten years. Provisions in the Subsidies Agreement will allow Canadian provinces to continue providing regional development subsidies and applying generally available subsidies within their jurisdiction without risk of countervail.

On 1 January 1994, NAFTA succeeded the Free Trade Agreement between Canada and the United States (FTA), and brought Mexico into the enlarged free trade area. The NAFTA retains the existing provisions of the FTA in the fields of agriculture and energy, but goes beyond it in services, land transportation, intellectual property and government procurement. Import prohibitions and restrictions
are also to be abolished between the parties, except to the extent permitted by GATT Article XI on the elimination of quantitative restrictions. The parties explicitly affirm their existing rights and obligations with respect to each other under the GATT; however, in the event of any inconsistency between NAFTA provisions and those of the GATT, the NAFTA provisions prevail, unless stipulated otherwise.

In the past two years, provincial policy considerations continued to weigh heavily in the regulation of the domestic economy, with indirect effects on international trade. Although consultations between federal and provincial authorities continued throughout the period, limited results were obtained on such issues as free internal flow of goods and services in electric energy, agriculture, or procurement. While provincial assistance was reduced in several cases following external challenge, its persistence, and the distortions to competition which remain, bear witness to the difficulty of establishing clearly defined areas of federal and provincial competence in fields affecting the economy and trade.

Trade Policy Features and Trends

Evolution since the last review

Since the last review, Canada has introduced a number of autonomous trade reforms, complemented by deregulation in some domestic markets. Tariffs have been reduced or eliminated on certain textiles, motor vehicle components and chemical products; the long-distance telecommunications market has been liberalized, and some revisions have been introduced into patent protection law.

Under the NAFTA, tariffs will be eliminated over time on imports from Mexico; restrictions on foreign direct investment have already been considerably reduced and a number of sectors in transportation and professional services were opened to regional competition. The NAFTA thresholds for investment will be extended to all contracting parties under Canada’s Uruguay Round commitment.

In the short to medium term, certain agricultural sectors covered by supply management schemes remain effectively excluded from market opening under the NAFTA and Uruguay Round agreements. Moreover, restrictions on ownership, pricing or trade in certain tertiary industries, such as electric energy, transport and distribution continue to hinder a more rational internal allocation of resources as well as international trade and investment.

Type and incidence of trade policy instruments

Since the previous review, Canada has extended m.f.n. treatment to the Russian Federation and Ukraine, while negotiations on further agreements are under way with Estonia, Latvia, Lithuania, Kazakhstan, Vietnam and Mongolia. All GATT contracting parties are accorded m.f.n. treatment.

Canada’s GSP system (the General Preferential Tariff or GPT) continues to apply to all developing countries eligible for m.f.n. treatment, as well as to most countries in Central and Eastern Europe. It covers most manufactured and semi-manufactured goods, with the exception of most textiles, apparel, leather footwear and certain steel products. Since the last review, GPT status has been extended to Armenia, Estonia, Latvia, Lithuania, the Russian Federation, Slovenia, Ukraine and the other former Soviet republics. In March 1993, Cambodia, Liberia, Madagascar, Mozambique, Solomon Islands, Zaire and Zambia were designated as Least Developed Countries under GPT. In March 1994, legislation was passed by the Canadian Parliament to extend the GPT scheme for a further ten-year period until 30 June 2004. The erosion of GPT and other preferences following the Uruguay Round and NAFTA
has also prompted a full review of the scheme, in consultation with Canadian manufacturers, with the objective of reducing rates and broadening product coverage.

Preferential tariff reductions under the FTA with the United States proceeded on schedule, while duty elimination on trade with Mexico will further increase regional import competition in the domestic market.

Canada still maintains a number of high m.f.n. tariffs. To offset their cost on inputs to Canadian industry, duties have been eliminated for many goods not produced domestically, thus increasing the dispersion of the tariff structure. In addition, tariff concessions, remissions and other drawback schemes continue to detract from the transparency of the trade régime. Since the last review, the number of different tariff régimes has increased to eleven, including new régimes for Mexican and Mexican-U.S. goods. Other régimes include preferences for certain Commonwealth countries, CARIBCAN, GPT and least developed countries. Recognizing the difficulties caused by this complex structure, Canada began a review of tariff policy in early 1994, to be implemented over three years.

New rules of origin, adopted under the NAFTA, are likely to increase trade diversion in favour of NAFTA partners, notably in the clothing sector (the "yarn forward rule") and motor vehicle component sector.

While no major changes have taken place in Canada’s import licensing system since the last review, the Uruguay Round and the NAFTA agreement will, over time, result in multilateral and/or regional liberalization. Quantitative restrictions on agricultural products are to be eliminated from the date of implementation of the Uruguay Round provisions, while integration of textiles and clothing into the WTO framework should bring long-term liberalization. Imports of used motor vehicles from the United States were liberalized in 1993. Licensing remains in place for monitoring purposes on imports of steel.

Federal and provincial government procurement accounts for about 17 per cent of GDP. Since the last review, Canada has made substantial market opening commitments in this field, notably by undertaking to place federal contracts for construction works and services under the disciplines of both the GATT and NAFTA. In addition to federal departments, nine public companies under federal jurisdiction will be subject to GATT disciplines, while procurement by two railways has been made accessible exclusively to U.S. and Mexican suppliers under the NAFTA. Uruguay Round commitments by the provinces on entities to be covered by new public procurement disciplines have yet to be made. These entities are mostly responsible for such areas as power and water utilities, airports, ports and urban transport.

A number of government-owned enterprises continue to have "special or exclusive privileges" as defined in GATT Article XVII (state trading). Most of these companies, mainly in the agro-food sector, will continue to operate in the post-Uruguay Round era.

The maintenance of export taxes, prohibitions or local processing requirements, in some cases by provincial authorities (e.g., herring, logs, uranium, other ores and minerals) may affect export growth. The Export Development Corporation’s export assistance programmes, partly conditioned on local content requirements, have recently been enhanced; since mid-1993, this agency has been empowered to take equity stakes, invest and manage companies and deliver special consulting services to exporters.

The Internal Trade Agreement, concluded in June 1994, abolished inter-provincial discrimination on grounds of ownership or control in the provision of provincial incentives to industry, recognizing that such subsidies distort both external and internal investment, trade and employment patterns. At
the federal level, there has been a certain shift away from direct industrial subsidization to such measures as tax credits for scientific research and development.

**Temporary measures**

The number of anti-dumping and countervailing investigations and actions undertaken by the Canadian authorities increased markedly in the last two years, with a large share affecting U.S. trade, despite Canada's stated trade policy priority of reducing resort to such trade remedies through less disruptive consultative procedures under the FTA and NAFTA agreements. The Canadian Bureau of Competition Policy has recommended the mutual replacement of anti-dumping legislation by competition rules as a way to improve efficiency and competitiveness in both countries.

With over 80 anti-dumping actions in place in 1994, Canada remained the third largest user among contracting parties. The average margin of dumping found during investigations carried out in 1992-94 was nearly 33 per cent, creating a substantial degree of price protection for the industries concerned. Concentration of cases in the steel industry reflects the problems of worldwide over-capacity in the sector.

Canada has, in the last two years, notified one GATT Article XIX safeguard action, on boneless beef imports from all countries except the United States. This measure, which followed the tightening of import restrictions on "commingled" beef in the United States, raised questions regarding unilateral restraints on m.f.n. trade in the presence of a free trade agreement.

A bilateral policy coordination issue arose between Canada and the United States from the application of differential excise taxes in the tobacco products market, whereby cigarettes exported duty-free were smuggled back into Canada; as a consequence, the federal Government reduced excise taxes while introducing an export tax.

**Sectoral policies**

Transfers to agriculture declined during 1992 and 1993, mainly because of reductions in subsidies for transport to cereal exports and in income support levels. Production and price management, combined with import quotas, continued to shield large segments of Canadian agriculture, notably livestock, dairy and poultry, from internal or international competition.

Under Canada's Uruguay Round commitments, over 100 import quotas in agriculture are intended to be replaced by tariff rate quotas with above-quota duties averaging 205 per cent in 1995 and 174 per cent in 2000.

Recognizing the burden of farm support policies on food manufacturers, the Government implemented a number of rebate programmes in 1992 and 1994 covering skim milk, cheese, frozen pizza, frozen desserts and confectionery, to reimburse a share of the difference between Canadian and U.S. prices of inputs to domestic processors.

During the period, several provincial liquor monopolies, which have authority over the warehousing, marketing and distribution of alcoholic beverages, abolished certain discretionary practices that had been highlighted by trading partners as discriminating in favour of suppliers located within the respective provinces.

The recent collapse of the Canadian Atlantic fishing industry has confronted policy makers with both an economic and environmental policy challenge, reflecting the difficulty of internalizing
external costs associated with the depletion of a common resource. A ban on commercial cod fishing introduced in July 1992 idled some 40,000 fishermen and employees in the processing sector, with little prospect of recovery in this century. In the same connection, in May 1994, Canada adopted new legislation allowing the stopping and searching of vessels outside the 200-mile limit. These provisions, which are intended to prevent fishing in spawning grounds, has attracted complaints by trading partners. Trade and environment policy problems also arose between Canada and the United States relating to salmon fishing on the Pacific coast. In June 1994, Canada introduced a fee for the use of its coastal waterways leading to Alaska, to exert pressure for an agreement regarding conservation measures to limit salmon fishing.

A number of measures were taken in the mining and energy sectors, notably in the context of NAFTA. The requirement of 50 per cent Canadian ownership in the oil and gas sector was abolished; however, takeovers are still required to pass a "net benefit test" if the transaction value exceeds Can$5 million. Differences between NAFTA and other foreign investors remain regarding the application of national treatment in the energy sector; in particular, the threshold of the net benefit test has been increased from Can$5 million to Can$150 million in constant 1992 dollars for U.S. and Mexican investors. Other changes in the sector included the elimination, on an m.f.n. basis, of the requirement for a licence for production offshore or on federal land above the 60th parallel. An ambitious exploration project off the coast of Newfoundland continued to be developed with government subsidies and, from 1993, a federal Government 8.5 per cent stake in the project.

The electricity industry is not, to date, subject to the disciplines of internal or external trade agreements. All Canadian power utilities are provincially-owned Crown corporations. Price setting by government-owned power-generating agencies is permitted under the NAFTA, provided price differentials do not discriminate against U.S. customers by setting minimum export prices or restricting quantities traded. Provincial price setting and restrictions on the use of the grid remove all domestic and international competition between electricity suppliers. The resulting differences in the cost of energy inputs may affect exports of goods and services and imports and may introduce distortions between domestic suppliers.

Regional liberalization of trade in textiles and clothing was accompanied by a remarkable rise in textile and clothing trade with the United States. In addition, the number and scope of quantitative restrictions on imports into Canada has increased both under the MFA and unilaterally. At the same time, tariffs have been reduced or abolished on certain textiles used as inputs in order to reduce costs and improve competitiveness, while duty remission schemes remain for the same reason.

Stringent rules of origin for textiles and clothing under the NAFTA are intended to ensure that the benefits of free trade accrue to producers located in member countries. As a result, a number of clothing products previously considered as originating under the FTA will not, under the NAFTA, qualify for preferential access. These new measures may, by redefining origin more strictly, increase costs for Canadian exports to the United States, which have traditionally relied on imported fabrics.

Trade policy developments in the wood and paper sectors during 1992-94 were dominated by environmental issues. The growing world-wide concern for environmental protection in forestry translated into trade measures against Canadian exports. Domestic restrictions defining maximum use of pollutants, as well as minimum recycling requirements in the United States, caused some restructuring in Canadian pulp and paper production and trade and could lead to a relocation of mills nearer to supplies of waste paper for recycling.

Since the last review, measures to protect the Canadian book publishing and other cultural industries have been reinforced. Amendments to the Investment Canada Act effective in June 1992
increased the coverage of companies subject to notification and review to determine whether a business in the cultural sector is Canadian-controlled. The Government reviews all investments, acquisitions and the establishment of new businesses by foreigners in activities related to Canada’s cultural heritage or national identity, including the production and distribution of books, magazines and newspapers, the publication, distribution and sale of films, music, video, audio recordings, radio and television broadcasting.

A number of significant changes have been made to the regulatory framework surrounding the pharmaceuticals sector since the last review, notably regarding patent protection. In 1993, drug patent compulsory licensing was eliminated; there should therefore now be no differentiation in patent protection between drugs invented in Canada and those invented abroad, or between drugs for domestic consumption and those for export. Drug patents now benefit from a full 20-year term of protection from the date of filing of application.

Over-capacity in several metal producing sectors worldwide led to a number of trade policy measures. In March 1994, the six largest aluminium producing countries concluded an agreement to cut global production in order to prevent price falls, inducing a brisk rise in prices on world markets. The Memorandum of Understanding contains a commitment to "refrain from maintaining existing protectionist pressures or introducing new ones in the trade in aluminium". According to the Canadian authorities, this agreement, made between governments rather than producers, is not a cartel-type arrangement, because it does not set out a schedule of shared, coordinated production cuts, and producers can make decisions on the basis of normal commercial considerations.

Since the beginning of 1992, imports of steel products have been subject to over 40 new anti-dumping investigations. The average final dumping margin was over 35 per cent, increasing the cost of such foreign supplies by over a third. Dumping margins on U.S. imports alone averaged 9 per cent.

Government strategy to promote telecommunications, computer services and software and computer-assisted manufacturing and design systems encourages partnerships between government and the private sector, and coordination between relevant programmes of federal government departments. Joint R&D between producers in industry, research in universities and provincial laboratories and buyers in both the public and private sectors is strongly encouraged, including through a tax credit régime.

Following complaints from a U.S. firm (AT&T) that a Canadian company (Bell Canada) favoured a Canadian telecommunications equipment supplier (Northern Telecom), in March 1994, the United States and Canada reached an agreement under which Bell Canada agreed to terminate its "preferred supplier" arrangement with Northern.

Under the 1993 Telecommunications Act, the government may deregulate certain services; in this connection some liberalization of rates has already occurred. The Act also placed under federal jurisdiction telecommunications common carriers that own and operate their own facilities. Competition in voice carrier services was increased in June 1992, following the deregulation of retail long-distance services. A decision was expected in 1994 regarding the continuation of price regulation through rate-setting, with implications in terms of the degree of competition within the industry. The effects of this deregulation in terms of foreign access and national treatment may, however, be limited, as carriers providing basic telecommunications services have to be 80 per cent Canadian owned. There is no limitation on foreign access for reselling and sharing of lines.

Duty-free trade is provided for motor vehicles and parts by January 1998 between Canada and the United States under the NAFTA, compared to a modal m.f.n. duty of 9.2 per cent, and a maximum of 25 per cent on certain car parts. M.f.n. tariffs are expected to be reduced by 30 per cent on average
in the Uruguay Round. Auto Pact provisions remain in force under the NAFTA, and participating companies continue to be entitled to import duty-free eligible automotive products from all sources.

The duty remission schemes which attracted Asian producers to Canada will eventually be terminated in NAFTA trade. A new duty refund system is to be introduced, designed to reduce input costs for non-Pact manufacturers. In March 1994, the Government announced that m.f.n. import duties on car parts would be eliminated or considerably reduced, in order to reduce the effect of abolishing the import duty drawback system under NAFTA.

Canadian manufacturers will gain access to the Mexican market for new cars, medium and heavy trucks and buses, subject to certain trade and production requirements during an adjustment period. More liberal trading conditions with Mexico have also been agreed for other vehicles and parts. By January 2004, Canadian-based firms will have full access to the Mexican market on equivalent terms to domestic suppliers.

Canada maintains its import ban on imports of used or second-hand motor vehicles of all sorts, except those imported from the United States, which were liberalized in 1993. Under the NAFTA, imports of used cars over ten years old from Mexico will be authorized from 2009 and, by 2019, all used cars from Mexico will be freely importable.

The new rules of origin for motor vehicles under NAFTA increase the North American content requirement for NAFTA benefits, from 50 per cent under the FTA to 62.5 per cent after January 2003. This more stringent rule of origin may penalize manufacturers which buy from the cheapest source worldwide. However, new rules established to define and "trace" North American content may, to a certain extent, facilitate m.f.n. imports of components.

**Trade Policies and Foreign Trading Partners**

Developments in the past two years have reinforced the rôle of trade as a major determinant of Canada's economic performance. Improved international competitiveness resulted from more rational trade and industrial policies, stemming in part from the effects of the FTA and NAFTA and in part from policy responses to fiscal constraints; monetary policy, in turn, contributed to containing inflation and maintaining a competitive real exchange rate. All these factors have led to a remarkable expansion of trade, particularly two-way trade with the United States.

Continued fiscal restraint at both federal and provincial levels should help to contain inflation and maintain Canada's overall competitive position. Further rationalization - particularly in certain primary and services sectors - would also improve intersectoral resource allocation. Similar benefits could derive from improvements in the legal framework for inter-provincial trade, currently being discussed. The Uruguay Round agreements should benefit Canada both through greater market access opportunities for its exports and through the effects stemming from its own commitments; however, developments in the context of the NAFTA may raise further concerns about the balance between regional and global liberalization and the risks of trade diversion.
The economic and trade environment

The overall economic environment in which Canadian trade policy has been developed and conducted since the last TPRM has been difficult. After strong economic growth through the mid to late 1980s, Canada entered a period of recession in the second quarter of 1990. Initially, the recovery from the 1990-1991 recession was very slow. It was not until the third quarter of 1993 that real GDP regained its pre-recession peak. The recession and weak recovery led to declines in total employment in both 1991 and 1992. The unemployment rate rose to a peak of 11.8 percent of the labour force in late 1992.

However, the foundation for renewed growth has now been laid. The Canadian inflation rate is now amongst the lowest in the OECD and wage pressures are almost non-existent. This has led to a substantial easing of monetary conditions, with both interest rates and the Canadian dollar well below levels at the outset of the recession. Canadian productivity has risen dramatically as the restructuring of the resource and industrial sectors has largely come to an end. Improved competitiveness and growth in Canada's principal foreign market, the USA, has led to substantial increases of Canadian exports which have contributed substantially to overall Canadian growth. Domestic investment, as well as imports of machinery and equipment, have also risen substantially in recent months, leading to a broadening of the recovery and an improvement of future Canadian growth prospects. Strong employment growth has resumed and the unemployment rate has fallen significantly since early 1994. Lower unemployment has led to a rebound in consumer confidence while higher capacity utilisation has led to higher business confidence. Further, renewed activity in offshore markets will reinforce Canadian economic growth prospects in the period ahead. All this will be underpinned by the increasingly outward-looking, more efficient Canadian-based business enterprises that have emerged from the recession and the process of adjusting to an increasingly globalized economic environment.


Within the past two years, the key developments in trade policy from Canada's perspective have been the completion and implementation of the North American Free Trade Agreement (NAFTA) and the completion of the Uruguay Round. Implementation of the Canada-USA Free Trade Agreement (FTA) has proceeded steadily and well, although there have been a number of trade disputes largely involving agricultural products or antidumping and countervailing actions that have been managed throughout the period. As well, a number of administrative actions have been undertaken by the Canadian Government, including tariff simplification.

The Uruguay Round

Of primary importance to the management of the Canadian trade policy agenda since the 1992 TPRM was the successful conclusion of the Uruguay Round. Canada set out major objectives for the Round early on, including a significant and comprehensive market access package, the full incorporation of agriculture into international trade disciplines, a multilateral agreement on trade in services, the
development of fairer and improved trade rules, particularly in the areas of subsidies and countervailing duties, and a stronger and more effective dispute settlement system. All of these Canadian goals, developed in close consultation with the provinces and the private sector were met or surpassed as part of the final outcome of the Round.

Estimates of the benefits of the Round to Canada indicate that Canada’s GNP will be at least 0.4 percent or $3.0 billion higher annually than it would have been without the Round. Importantly for Canada, the open, rules-based multilateral trade system has been renewed and has greater credibility. This is important in terms of the interests of business and of trade-dependent countries such as Canada that rely on a well-functioning, stable international trade regime.

The North American Free Trade Agreement

A second key trade development for Canada in the past two years was the completion and implementation of the North American Free Trade Agreement. This agreement moves beyond the parameters of the Canada-USA FTA by incorporating provisions which address a number of new trade issues, including competition policy, intellectual property, investment and services.

On December 2, 1993, the new Canadian Government announced that it would proceed to implement the NAFTA based on progress achieved on a number of conditions that it had set out during the October 1993 election campaign. In particular, with regard to subsidies and countervailing duties and dumping and anti-dumping duties, Canada sought and obtained the agreement of the USA and Mexico to establish two working groups with mandates to address these issues and to complete their work by December 31, 1995.

It is Canada’s view that the NAFTA meets fully the GATT Article XXIV requirement that freer trade agreements liberalize substantially all trade and do not create new barriers to the trade of third parties. Canada firmly believes that the NAFTA complements and enhances the GATT-based system by opening up markets further and strengthening trade rules in the context of two developed countries and one developing country - an unprecedented development in the evolution of the rules-based world economy.

The Canada-USA Free Trade Agreement

On-going implementation of the Canada-USA Free Trade Agreement was also an important feature of Canadian trade policy management over the past two years. With five years’ experience, the implementation of the FTA between the United States and Canada has seen a progressive rise in trade volume despite, until recently, relatively slow domestic economic growth in both countries. Total bilateral trade in goods and services grew by $91.6 billion, from $221.8 billion in 1988 (just prior to the FTA) to $313.4 billion in 1993. In 1993, Canada’s trade surplus with the United States topped $8.7 billion.

The FTA also spurred cross-border investment. Between 1987 and 1992, bilateral direct investment in the USA and Canadian economies grew by $29.6 billion, from $120.4 billion to $150.0 billion in 1992. The stock of Canadian direct investment in the USA increased by 33.6 percent while the stock of USA direct investment in Canada increased by 18.9 percent. Likewise, net foreign investment in the FTA trade area grew due to the increased attractiveness of both markets.
Internal Trade Negotiations

After fifteen months of intensive negotiations, federal, provincial and territorial representatives signed the Agreement on Internal Trade on July 18, 1994. The main elements of the Agreement include a general rules framework, dispute avoidance and resolution procedures, a commitment to future trade liberalization (including energy), a standstill on new barriers, a limited number of general exceptions (eg. regional economic development, aboriginal peoples and culture), and sectoral agreements on government procurement, investment, labour mobility, consumer-related measures and standards, agriculture and food products, alcoholic beverages, natural resources processing, communications, transportation, and environmental protection.

Tariff Simplification

Canadian tariff policy is undergoing a rapid evolution as a result of the FTA, NAFTA and the Uruguay Round. Despite these major developments, the Canadian tariff regime continues to be an important element of economic, trade and industrial policies, affecting the competitive position of the Canadian manufacturing and service sectors both domestically and internationally.

In the federal government's Budget of February, 1994, the Government announced a new initiative to simplify and streamline the Canadian tariff, including the reduction of tariffs on manufacturing imports. A Task Force has been formed to conduct a review over the next three years. Trade and industry associations, importers, manufacturers and other stakeholders will be consulted for their views on simplification proposals developed by the Task Force. The initial round of consultations was launched in May 1994 with regard to proposed reductions on a wide range of manufacturing inputs.

Future Policy Directions

Canadian trade policy has been largely successful over the past fifteen years in establishing a global and regional framework for improved market access and a stronger rules-based system. For the future, the fundamental underlying economic philosophy of freer and more open markets rooted in internationally-agreed rules and practices will remain the basis of Canadian trade policy.

Canadian trade policy over the next several years thus will:

- continue to be part of, and give effect to, the Canadian government’s micro-economic strategy.
- remain a central, and ever-more important, component of our foreign policy in the post-Cold War era.
- reflect continually the profound transformation taking place in Canada and in the world economy both geographically and in terms of sectors and issues.

GATT/World Trade Organization

The establishment and effective operation of the World Trade Organization will be among the Canadian Government's top trade policy priorities. Canada proposes to continue to use the forum of the GATT/WTO and other appropriate institutional fora for discussions on the emerging or "new" trade issues. As well, improved coordination and cooperation within processes such as the G-7, the QUAD and with other key international economic organizations, such as the IMF, the IBRD and the
OECD, remain a key priority for Canada in ensuring that the global trade and economic system runs effectively and openly.

NAFTA

Canada has made clear its commitment to a policy of open regionalism whether it be in Western Hemisphere, the Asia-Pacific region or elsewhere. It is our view that the NAFTA represents a set of GATT-consistent obligations that countries seeking to go beyond what has been generally agreed upon in other fora can aspire to and work towards. In the months ahead, Canada will be continuing to explore with many of its trading partners their interest in further opening up their markets and achieving a higher level of trade obligations.

The Emerging Issues

A number of trade-related issues have made their way onto the trade policy agenda over the past several years. The globalization of the world economy and the resulting impact on national policies will require the development of new or more precise rules to handle these emerging issues. Once the analytical work is done in various appropriate fora, Canada, working with its private sector and the provinces, will want the WTO to proceed on these matters in a manner consistent with its competence and mandate. There is a large agenda ahead that must be managed carefully and effectively to ensure that the world trading system and, beyond that, the world’s international economic system, evolve in the broadest interests of us all.