

## NORTH AMERICAN FREE TRADE AGREEMENT

On December 17, 1992, Brian Mulroney, George Bush and Carlos Salinas de Gortari simultaneously signed a new North American Free Trade Agreement (NAFTA) in Ottawa, Washington and Mexico City, thus signifying their intention to seek domestic approval. In less than two years, they and their negotiators had successfully met the challenge of putting together a new trading framework for North America. The Agreement provides a new set of rules to cover investment and more than \$300 billion in annual three-way trade, and it will open the door to a vast new potential in trade and investment relations among the three countries.

The NAFTA provides for the progressive elimination of all tariffs on goods qualifying as North American under its rules of origin. For most goods, existing customs duties will either be eliminated immediately or phased-out in five or 10 equal annual stages. For certain sensitive items, tariffs will be phased-out over a period of up to 15 years. Tariffs will be phased-out from the applied rates in effect on July 1, 1991, including the U.S. Generalized System of Preferences (GSP) and the Canadian General Preferential Tariff (GPT) rates. Tariff phase-outs under the Canada-U.S. FTA will continue as scheduled under that Agreement. The NAFTA provides that the three countries may consult and agree on a more rapid phase-out of tariffs.

The Agreement extends the benefits of the Canada-U.S. Free Trade Agreement (FTA) to include Mexico. It also strengthens and expands that accord to provide an even firmer foundation for trade and investment. It provides a framework of rules within which private entrepreneurs can seek to expand their market and investment activities. It is tailored for the demanding conditions of a large, open economy. It will make the three economies more capable of taking on broader competition on a global basis. The gradual elimination of most Mexican tariff and non-tariff barriers through the NAFTA will open up even more opportunities to Canadian exporters and investors in Mexico.

Like the FTA, the NAFTA forms an integral part of the GATT-based multilateral trade relations system and is fully consistent with GATT requirements. The NAFTA incorporates the fundamental national treatment obligation of the GATT. Once goods have been imported into one NAFTA country from another NAFTA country, they must not be the object of discrimination. This commitment extends to provincial and state measures. The three countries have agreed not to impose new customs users fees similar to the U.S. merchandise processing fee or the Mexican customs processing fee ("*derechos de trámite aduanero*"). Mexico will eliminate by June 30, 1999, its existing customs processing fee on North American goods.

The FTA continues to govern agricultural trade between Canada and the U.S. Within the NAFTA, Canada and Mexico have a separate agreement. Mexico's market will be opened through the immediate elimination of import licences and phase-out of tariffs. Key Canadian exports include grains, oilseeds, pork, fish, potatoes and processed foods. Canada's import quotas for supply managed egg, poultry and dairy products remain unaffected by the Agreement, Mexico will also exclude these sectors. Canada and Mexico retain the right for 10 years to impose special tariffs to prevent sudden surges of import-sensitive products. For Canada, the safeguards apply to certain fruits and vegetables. Health and safety standards are maintained and can be strengthened.