

NAFTA—the next step in trade liberalization

The Canada-United States Free Trade Agreement laid a foundation for Canadian prosperity. At a time of rising protectionist pressures throughout the world, including the U.S., Canada is in the enviable position of having, through the FTA, preferential access to the U.S. market.

The NAFTA preserves the benefits of the FTA. It ensures Canada remains a prime investment location. It provides continued protection of key domestic areas, including cultural industries, public education, health, and social services including child care.

The NAFTA substantially expands the benefits of the FTA. After four years of experience with the FTA, we had the opportunity to make improvements and broaden the coverage in such areas as intellectual property protection and land transportation. We now have clearer rules for regulating Canada-U.S. trade, and new market access in the U.S. in areas not covered by the Canada-U.S. FTA. These improvements give Canadian businesses new opportunities in the U.S. and Mexico and place Canadian business on an even sounder footing for expanding our exports in important offshore markets.

Let me review some of the major new areas covered by the North American Free Trade Agreement.

Duty drawback, which allows Canadian exporters to be refunded for the tariff paid on inputs into products that are later exported, was to be eliminated for Canada-U.S. trade after January 1, 1994 under the Canada-U.S. FTA. The NAFTA extends this deadline by two years. More importantly, new rules give permanent duty drawback rights for exporters who do not meet the NAFTA rules of origin.

The NAFTA rules of origin improve on those of the FTA. They are clearer and more predictable—a real benefit to Canadian exporters and potential investors in Canada:

- for many products, the necessity of calculating content has simply been eliminated and replaced by the more precise tariff-shift rules;
- for most products still subject to a "content requirement," there are two possible calculations from which an exporter can choose, at least one of which is considerably simpler than the one method available under the FTA;
- regulations will be established to ensure that Canadian, U.S. and Mexican customs officials apply the rules uniformly; and