Special Customs Duty Programs

Duty *drawback systems,* the practice in both countries of refunding customs duties levied on materials and components imported from third countries when incorporated into goods which are subsequently exported to the other party, will be eliminated after five years for bilateral trade. Where duties continue to apply between Canada and the United States, drawbacks will continue to be permitted until January 1, 1998, when all bilateral duties will have been eliminated. For example, if a Canadian manufacturer imports components from the United States and pays Canadian customs duties on them, such duties can continue to be drawn back if the final product is subsequently exported to the United States. The Agreement will not affect the current drawback arrangements as they relate to third countries, i.e. Canadian manufacturers importing components from the United States or elsewhere and re-exporting them as part of a final product to another third country will continue to benefit from the drawback system.

Duty remission programs effectively constitute a reduction or removal of the tariffs that would normally apply. The right to continue this practice is unaffected under the Agreement provided such programs are not conditional on the beneficiaries achieving performance requirements such as increased exports, production, import substitution, new investments, or employment. Canada has agreed not to introduce any new "performance-based" duty remission programs after June 30, 1988, or whenever the U.S. Congress approves the Agreement. All existing customs-duty waivers or remission programs which incorporate performance requirements are to be eliminated by January 1, 1998.

The United States will phase out customs-user fees on imports from Canada over a five year period.

For certain manufacturers, these changes have important implications for their cost structures and their access to alternative sources of supply, especially third country sources. Manufacturers in many sectors, such as clothing, automotive parts and machinery, now take advantage of these mechanisms. It will be important that they position themselves early to meet the new bilateral trading situation.

Security of Access

While the removal of tariffs and improved customs arrangements are very important for Canadian manufacturers, the Agreement's provisions relating to dispute settlement, which provide increased security of access to the U.S. market, are also of great significance. Many Canadian manufacturers, particularly in the 1980s, have, of necessity, become acutely aware of the dangers associated with U.S. trade remedy laws (antidumping, countervailing duties and emergency actions). The large volume of goods which Canada ships to the U.S. market makes Canadian producers particularly exposed to the threat of protectionist pressures in the United States. In some cases, these pressures have resulted in specific actions against Canadian goods such as softwood lumber, fish products, and shakes and shingles. While these actions have had real negative impacts on both