

2 MONITORING THE DIRECT EFFECTS

2.1 What Is The Agreement, Including Its Details?

Identifying and then measuring the direct impacts of the FTA are the starting point for any rigorous analysis of the FTA impact. While we anticipate that the direct effects of most FTA changes will be difficult to measure, we, nevertheless, anticipate that some useful analyses can be conducted. In Appendix B a synopsis of the FTA articles is provided.

The starting point for defensible, detailed analyses of the FTA will have to include auditable lists of events that follow from the articles of the Agreement. The main items will include the following. (It needs to be emphasized that for almost all of these, information on changes in the United States, as well as in Canada, would be desirable.)

Measurement of the tariff effects will have to start from a by-commodity, by direction-of-trade view of tariff revenues collected. While seemingly straightforward, given normal collection in statistical systems, there are likely to be some problems in reporting this over time as Statistics Canada converts to the Harmonized System. As well, country-of-origin considerations can muddy any analysis since tariffs for goods imported from the U.S. that do not qualify as American are ineligible for tariff reductions under the FTA. Similar problems will exist for Canadian exports to the U.S. Current databases provide no basis for distinguishing between products that meet or do not qualify for country-of-origin tests.

The FTA will reduce or eliminate some non-tariff barriers (NTBs) on both sides of the border. Both sector-specific chapters, and the general chapters of the Agreement (Four through Six) should have this effect. As a general rule, reductions of NTBs will be expressed in legal or other non-market terms. A proper information base should include an auditable list of changes made to quantitative restrictions, technical standards that were formerly used as a barrier to trade, "national security" restrictions, etc. as they are negotiated. Conversion of these to direct, market-measured effects (as tariff equivalents, or in some other form) will also be required.

Articles 404-405, and the automotive chapter provide restraints, or directly reduce the use of duty drawbacks, waivers and remissions. An auditable list of information should include flows of payments, including information by detailed sector and firm. Ideally, this should be available for some past, as well as current, time periods, and should be linkable to information on investment. If the number of firms is not too large, it may be possible to identify them for "tracking" in the Statistics Canada micro database.

National treatment provisions, and some specific articles, place restraints on the use of domestic marketing and pricing systems as trade restraints. Auditable information will have to include the extent to which price differentials between domestic and imported goods sold in domestic markets are reduced. Linkage to trade flows will be crucial. Even with this information, as the case of wine illustrates, analysis will have to