

Elements of the Agreement

A number of elements of the Canada-U.S. Free Trade Agreement are particularly relevant in assessing its implications for consumers.

Tariffs

Bilateral tariffs on all consumer goods will be removed starting January 1, 1989. Some tariffs will be eliminated immediately, some tariffs will be eliminated in five equal annual steps and some tariffs will be eliminated in 10 equal annual steps (see Table 4.1). On January 1, 1989 some portion of all tariffs will be eliminated. The Agreement's schedule for phasing out bilateral tariffs was designed to provide Canadian companies ample time to adjust to the free trade environment.

The elimination of tariffs will result in price benefits to consumers as well as more variety and improved quality in consumer goods. Because the tariffs on many consumer goods are to be phased out over 10 years, the year-to-year impact on Canadian consumers may be small, but the cumulative benefits will be significant (see *Impacts* in Section 5).

It must be noted, however, that customs duties will continue to be levied on products imported from the United States, which are deemed to originate in third countries. The Agreement includes rules of origin, which will determine how much of a product must be produced in Canada or the United States to qualify for duty-free access to the other country. Moreover, imports will still be subject to direct federal taxes such as the current Federal Manufacturers' Sales Tax. These conditions will apply to imports by individual travellers as well as commercial importers.

Trade Remedies

The Canada-U.S. Free Trade Agreement contains several provisions to address trade remedies and dispute settlement in bilateral antidumping and countervail duty cases. Accordingly, under the Agreement, Canadian consumer access to fairly priced U.S. products is less likely to be compromised by antidumping and countervail provisions than was previously the case.

In addition, under the Agreement, Canada will be able to take emergency safeguard actions in order to protect a Canadian industry against a surge in imports from the United States. Canada retains its Article XIX rights under the General Agreement on Tariffs and Trade (GATT) which address cases where domestic industries are seriously injured by an influx of imports. Bilateral emergency measures provisions in the Agreement enable Canada to deal specifically with serious injury from U.S. imports which might result from the elimination or reduction of duties under the Agreement. During the tariff reduction period, Canada may suspend the reduction of any duty, increase the duty to the lower of the current Most Favoured Nation (MFN) rate or pre-Agreement levels, or to corresponding pre-Agreement seasonal rates if U.S. imports are seriously affecting a Canadian industry. If these emergency safeguard actions are taken, consumers may not receive the full benefits of tariff reductions. However, since the application of these new bilateral safeguard measures are limited and will only be in effect during the tariff phase-out period, Canadian consumers will still benefit more than under the current GATT arrangements.