

agreement that would essentially expand the existing Canada-U.S. Free Trade Agreement to include Mexico, compared to a "hub and spoke" trading arrangement. The latter would be characterized by the existing Canada-U.S. Free Trade Agreement and a new Mexico-U.S. agreement.

Compared with Canada's total output, exports and imports, trade with Mexico is limited. Amounting to some \$543 million, exports to Mexico were responsible for 0.1 per cent of Canada's GDP in 1991. During the same year, Canada's imports from Mexico amounted to \$2.6 million (1.9 per cent of total imports).

Mexican tariff and non-tariff barriers against Canadian products are significant. The gradual removal of these barriers during the next 15 years would be likely to result in important gains for some Canadian exporters.

Over 70 per cent of Canadian imports from Mexico already enter this country duty-free. Removing Canadian tariff and non-tariff barriers on the remaining imports from Mexico should have only a marginal effect on total Canadian imports. In turn, this would have only a limited environmental effect.

By altering the terms of trade among the member countries, the NAFTA could affect the volume and location of goods and services produced and traded in North America. Given the anticipated level of trade between Canada and Mexico, the NAFTA would not be expected to have a measurable impact on Canada's environment. This conclusion is equally applicable to Canada's air, water and land media, to its renewable and non-renewable natural resources, and to its generation of toxic substances and wastes.

Nevertheless, Canada shares a continent with the U.S. and Mexico and there are certain transboundary and global issues that will continue to exist, irrespective of whether or not there is a NAFTA. These include the arrival in Canada of common pollutants from the northern portion of the U.S., and the deposition in Canada of certain persistent pollutants from as far away as the southern U.S., Mexico and the Caribbean. Although it is not anticipated that the NAFTA would give rise to a significant increase in the volume of either common or persistent pollutants that are deposited in Canada, co-operative environmental monitoring and research on the generation of such pollutants and their pathways should be maintained.

D. INDUSTRY MIGRATION

A number of authors have theorized about the possible relationship between environmental standards and their enforcement and industry migration. As discussed above, several provisions of the NAFTA would mitigate the likelihood of such a migration. Furthermore, empirical studies have been virtually unanimous in their determination that there is little evidence of industrial relocation having taken place because of differences in environmental abatement expenditures.

Four conditions would have to be fulfilled for the NAFTA to have a significant effect on pollution haven investment: a high cost of environmental compliance; a significant change in the locational incentives as a result of the NAFTA; relatively low start-up costs for relocation or new investment; and a real difference between the old and new locations in