

CANADA – U.S. TRADE: A TRADITION OF PREFERENTIAL ACCESS

“This company’s manufacturing has been integrated since 1972. We are now moving towards our vision of North American manufacturing mandates. The free trade agreement has facilitated this process.”

Tony Marranta
Executive Director, Logistics
3M Canada Inc.

There is a long history of economic cooperation between Canada and the U.S. One example is the Canada–U.S. Auto Pact, signed in 1965. Under the terms of this agreement, U.S. automobile manufacturers have used cost-effective Canadian plants to produce for the North American market. As a result, Canada has been a net exporter of automobiles. Canadian automobile plants manufacture 18 per cent of all vehicles produced in North America.

THE CANADA–U.S. FREE TRADE AGREEMENT

A more recent example of cooperation is the Canada–U.S. Free Trade Agreement (FTA), which came into effect on January 1, 1989. All goods made in Canada are covered by the FTA if they meet North American content requirements. Most Canadian exports now enter the U.S. duty-free. Tariffs on the remaining exports are being progressively phased out, and will be eliminated completely by December 31, 1998. In fact, many tariffs are being phased out sooner than called for by the FTA due to requests from Canadian and U.S. business leaders.

The FTA has had a dramatic impact on Canada-U.S trade. Canada’s exports to the United States have risen almost 38 per cent – from \$105.5 billion in 1989 to \$145.3 billion in 1993. And these gains were registered in the face of a relatively high exchange rate on the Canadian dollar and an economic recession in North America. Imports from the United States have risen in the same period from \$93.5 billion to \$123.5 billion.

During this period increases in specific sectors included a 71 per cent increase in exports of office, telecommunications and precision equipment; a 49 per cent increase in chemical products; and 163 per cent in textile materials.

Free trade creates a range of business options for international investors in Canada. The absence of tariffs makes it attractive to supply the entire North American market from a Canadian plant.

Many multinationals are giving their Canadian subsidiaries North American or global mandates to take advantage of economies of scale in their manufacturing processes. Companies adopting this strategy include 3M, Dow, DEC,