

new market opportunities in the United States and allow those Canadian companies that are not yet fully internationally competitive to modernize and expand productive capacity to world scale or to develop "niche" markets.

These two groups are highly capital-intensive. The more secure investment climate provided under the Agreement is important for securing the major capital investment required for modernization, productivity improvement, industrial restructuring and new capacity over the next decade.

The third group includes producers of converted products such as converted paper and paperboard, packaging, tissues, windows, doors, kitchen cabinets and mouldings that use primary products as their raw material inputs. Canada-U.S. bilateral trade in these products has been relatively low. Canadian producers serve primarily the domestic market and tend to be much smaller both in corporation size and plant scale than their U.S. counterparts. Some companies in this category will face adjustments to the new competitive environment. At the same time, new market opportunities will be created in some of these product lines in the U.S. and Canadian companies will have either a five- or ten-year transition period to make the necessary adjustments to take advantage of these opportunities.

MINERALS AND METALS

The largest proportion of Canada's mineral trade is with the United States. In 1986, the United States accounted for almost 60 percent of Canada's mineral and metal exports and over 70 percent of imports. The Canadian minerals and metals sector is heavily export-oriented and already enjoys a high degree of bilateral free trade.

Canada's minerals and metals sector stands to gain from the Canada-U.S. Free Trade Agreement. Some benefits will be immediate whereas others will be realized in the 1990s as the effects of the Agreement permeate the economy. The principal impacts of the Agreement for the sector are:

- more secure access to U.S. markets as a result of the dispute settlement mechanism;
- additional further processing prior to export of minerals and metals as tariff escalation is eliminated;
- greater plant and product specialization with minor adjustments in the Canadian industry as bilateral tariffs are eliminated;
- new market opportunities for many products as medium to higher level U.S. tariffs are eliminated and for specialized services related to mineral exploration and production; and
- creation of a more internationally competitive industry in Canada as the elimination of tariffs on certain inputs will lead to a decrease in investment costs and production costs.

The benefits from bilateral free trade in minerals and metals will accrue to most regions of Canada, especially those with abundant electrical energy needed to process certain minerals, as well as those with specialized mineral products and processing facilities. These benefits will take the form of increased income, profits, investment and output.