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## **I. FREE TRADE AGREEMENT**

The first stage of the Free Trade Agreement (FTA) with the United States came into effect on January 2, 1988. It calls for the eventual elimination of all bilateral tariffs and most other border restrictions between the two countries.

Important achievements during the first year of operation included:

- putting in place the required FTA legislation, processes and institutions;
- enactment of tariff cuts on schedule;
- expansion of temporary entry provisions for business persons;
- consultation on and resolution of various trade irritants;
- acceleration of tariff elimination on 400 items covering \$6 billion in Canada-U.S. trade; and
- establishment of bi-national working groups to further eliminate trade barriers in the areas of agricultural and fishery products, customs matters, tourism and services.

There was also significant progress in a second round of consultations aimed at accelerating tariff elimination, and in resolving irritants in the matter of U.S. border meat inspections.

Both Canada and the United States made effective use of the dispute settlement mechanisms. The settlement

process begins with official consultation; proceeds to discussion at the Canada-U.S. Trade Commission; then, if the issue is still not resolved, leads to deployment of a bi-national panel that will make recommendations to the Commission. Most disputes continue to be resolved in the consultation phase, and close to 99 per cent of Canada-U.S. trade is dispute-free.

Procedures under Chapter 18 of the Act allow either government to challenge practices that they think are inconsistent with the FTA or to consult on anything affecting its operation. In October, a panel established under Chapter 18 resulted in agreement between the two countries on an appropriate regime to meet Canada's landing requirements on West Coast salmon and herring. Six other issues were in the Chapter 18 process although only Canada's challenge of U.S. sizing requirements for lobster had reached the panel stage.

The FTA calls for the development over a five- to seven-year period of new rules governing subsidization and anti-competitive practices such as dumping (selling goods in a foreign country for sometimes less than the cost of production). In addition, the dispute settlement