
CANADA-U.S. FREE TRADE AGREEMENT

After more than two years of operation, the Canada-U.S. Free Trade Agreement (FTA) is working well and is contributing to the \$203.4 billion in two-way merchandise trade between Canada and the United States. Responding to industry requests, a first round of accelerated tariff reductions were negotiated and became effective June 1, 1990, reducing tariffs on \$6 billion in two-way trade. A second round of accelerated tariff reductions on 250 items, constituting \$2 billion in two-way trade, became effective in July 1991.

To maintain and improve market access, the provisions on temporary entry for business persons were expanded and redefined, and the FTA rules of origin were discussed at bilateral forums. Nine technical working groups are continuing to strive to eliminate technical barriers to trade in agriculture and food products. A Services Working Group was established to identify opportunities to increase liberalization of trade in services. The Automotive Select Panel has been working on a report on global competitiveness in the auto industry. The report is scheduled to be completed in early 1992.

Canada has exercised its rights under the dispute settlement mechanisms of the FTA involving binational panel interpretations of FTA obligations under Chapter 18 of the Agreement, and binational panel review of trade remedy actions under Chapter 19. One new case, on U.S. lobster size regulations, was brought to Chapter 18 binational panel by Canada. The panel ruled that the U.S. measure constituted an internal measure, not a restriction on imports as Canada had argued. The issue subsided as U.S. size regulations were altered.

EXPORT CONTROLS

In March 1991, the Department released its first annual report covering exports of military goods from Canada for 1990. The report flowed from the commitment made at the United Nations by the Secretary of State for External Affairs, the Right Honourable Joe Clark, to make arms transfers as transparent as possible. Regional security, confidence building, proliferation and arms transfers, as well as concerns regarding the spread of weapons of mass destruction, continued to take on added importance. Mr. Clark's efforts to promote non-proliferation have led to Canada's active participation within the Missile Technology Control Regime (MTCR) and the Australia Group to

convince countries with missile and chemical weapons precursor technology to join these non-proliferation bodies.

Four new Chapter 19 cases were filed by Canadian industry and five cases were completed. Most important of these were two countervailing duty cases on pork in which binational panels modified a U.S. decision on the level of subsidy and overturned the U.S. decision on the question of injury. The United States subsequently requested an Extraordinary Challenge Committee to review the injury case. This was unsuccessful.

The FTA was also instrumental in assuring Canadian market access against U.S. protectionist measures. During 1990, Canada was exempted from U.S. bills restricting imports of textiles and footwear, prohibiting the transport of lottery tickets, and applying anti-trust law to foreign participation in joint ventures. The Agreement was also instrumental in allowing Canadian-owned companies in the United States to maintain their eligibility for the U.S. government procurement programs of the Small Business Administration.

The Canada-United States Trade Commission, comprised of the Canadian Minister for International Trade, John C. Crosbie, and the U.S. Trade Representative, Ambassador Carla Hills, met on May 18 and October 11, 1990, to review the functioning of the FTA. These meetings helped to ensure the effective implementation of the Agreement.

FTA consultations with the provinces and territories were managed through the Committee on the Free Trade Agreement. Nine meetings were convened to review various issues. In addition, at three federal-provincial trade ministers meetings during the period, the overall management of the FTA was discussed.

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Iraq's invasion of Kuwait in August 1990 resulted in the Canadian government taking immediate steps to prohibit all trade, economic and financial dealings with both countries through the United Nations Iraq Regulations.

For a second year, Canada was actively involved in revising the list of controlled products put out by the Coordinating Committee for Multilateral Export Controls (COCOM). A new Export Control List was released in August 1990. Further major reductions in the control lists are expected.