

A similar set of issues arises in the application of controls on the export of energy and resource commodities to nonmember countries. The potential exists for nonmember countries to evade export controls in one member country by exporting through the other member country. It is an open question whether a bilateral trade agreement would eliminate export controls on sensitive resource products; if it did, each country could retain "emergency" powers, at least, for the application of export controls or there could be common controls on exports to nonmember third countries -- say, on logs to Japan.

#### Tax and Subsidy Policies

Forces diminishing harmonization pressures on tax and subsidy policies could follow from negotiations in two ways. First, if a comprehensive trade agreement reduces the risk of the United States' imposing additional import barriers and raises the return to investment in Canada, it could ameliorate economic pressures for harmonization of corporate tax policies. Second, if limitations could be placed upon the application of U.S. countervail laws and procedures, an FTA could significantly reduce harmonization pressures on Canadian subsidies. Application of the level playing field principle -- of eliminating the trade-distorting effects of subsidies -- should allow Canada to diminish these pressures.

To reduce these pressures, the negotiations might address the following specific points:

- o basing countervailing duties on the net differential subsidy to a specific industry in Canada and the United States;