

Assessment of the Effects on the Service Sector

General

The inclusion of services in the Canada-U.S. Free Trade Agreement is a milestone. This is the first time that a trade agreement has spelled out binding rules and procedures to govern and to liberalize trade in services. As services trade between the two countries has been relatively open, however, the main accomplishment of the Agreement has been to formalize and secure existing access to each other's markets. Combined with the new rules to facilitate border crossing by service personnel, these provisions will allow Canadian firms to plan their business expansion into the United States with confidence. Tariff-free access for goods will also be of direct benefit to those Canadian producers whose services are embodied in goods exported to the United States, and to Canadian service providers purchasing U.S. goods for use in their businesses.

The Services Chapter contains a provision for Canada and the United States to negotiate the further extension of the obligations to other service industries, either new or existing. Also, additional annexes which apply the obligations to specific sectors may be negotiated.

The implications of the provisions on services stretch beyond Canada-U.S. trade. Nearly 40 per cent of Canada's trade in services is with third countries which, along with Canada and the United States, are currently negotiating the liberalization of international trade in services in the Uruguay Round of Multilateral Trade Negotiations. The Canada-U.S. Free Trade Agreement demonstrates that an

agreement on services is possible and beneficial.

The Agreement provides that current access to the U.S. market will be retained for a broad range of commercial services. In addition, the Agreement contains rules to make border crossing by service industry personnel easier. These provisions will facilitate the planning and operations of firms currently active in the United States and will make it easier for new entrants to undertake initial market development. Provisions to remove barriers which may be identified in the future and to seek agreement through professional licensing bodies on mutually acceptable licensing standards are expected to create business opportunities for many service firms and professional groups.

The combination of the investment provisions and the service provisions of the Agreement create an environment in which service companies covered by the Agreement will over time be freer to do business in both countries, subject only to the existing regulatory requirements. They will be relatively free to choose how and where they will produce, distribute and deliver their services and to choose where they will locate their marketing and sales functions. Prior to the Agreement, in order to ensure access to the U.S. market, some Canadian service companies have felt that they had to establish in the United States. Under the Agreement, this will not be the case. Canadian service firms currently competitive in the U.S. market can continue to develop their positions of strength.