The Agreement and the Manufacturing Sector

4

A summary of the main elements of the Agreement, most of which have important implications for Canada's manufacturing industries, is set out in Appendix A. This chapter assesses the broader implications of the Agreement for Canada's manufacturing industries.

Improved Access

For many manufacturing industries, removal of bilateral tariffs between Canada and the United States will be the most significant change in bilateral trade conditions affecting individual firms. Present tariff levels for manufactured goods average about three per cent on imports into the United States from Canada and about five per cent on imports into Canada from the United States (Table 3.10). Under the Agreement, all tariffs are to be progressively removed within a maximum of 10 years. Items accounting for about half of dutiable trade will be phased out in equal annual steps by 1998, some of the balance by 1993, and some fully on January 1, 1989 (Table 4.1). The tariff phasing schedule provides a predictable framework within which Canadian producers can plan their activities to achieve maximum advantage from the Agreement.

The phase-in period of up to 10 years for the complete removal of tariffs and the appropriate timing of changes in other trade measures provide the principal mechanism to allow Canadian producers to reposition themselves in the new trading environment. Canadian industries will benefit from these changes through the opportunity to specialize, through economies of scale, and through lower input costs and increased domestic demand resulting from higher disposable income. As tariffs and other trade barriers diminish in importance with respect to bilateral trade, new opportunities for exchanges of information on technology, innovation, marketing techniques and labour and management skills will be enhanced for firms in both countries. These benefits should accrue to all regions of Canada and to all major sectors of the economy. While tariffs will be removed, Canadian federal sales and excise taxes and provincial sales taxes will continue to apply on imports from the United States as they will to Canadian-made goods but, as is currently the case, they will not apply on exports.

Goods Qualifying for Free Trade Agreement Treatment

Another aspect of the Agreement of particular interest to the manufacturing sector are the rules of origin and their application to goods moving across the Canada-U.S. border. This will be a critical element for many firms both in terms of safeguarding the gains achieved in the Agreement vis-à-vis third countries and protecting against the creation of excessive paperwork relating to the verification of origin of goods or their components. Clearly, any product that is wholly produced in either country, or partially in both, using materials and components wholly produced in either country will qualify. However, many products moving in North American trade contain some materials or components imported from third countries. Rules are necessary to ensure that only qualified products receive duty-free treatment.