

TRADE BACKGROUND

- Canada and the U.S. are the world's two largest trading partners.
- U.S. exports to Canada have grown 57 percent since 1982, while its exports overall were growing by only 19 percent.
- In 1987 the U.S. sold (US) \$59.8 billion in goods to Canada. (It sold \$28.2 billion to Japan, the next largest customer.)

Efforts to remove trade barriers between the two countries, which began in 1854, have greatly accelerated since the end of World War II. The present enormous scale of the cross-border trade in goods and services reflects a steady reduction. When the recent negotiations began, approximately 70 percent of U.S. exports entering Canada and 85 percent of Canadian exports to the U.S. were already duty-free.

THE AUTO PACT

American auto manufacturers have been building and selling cars in Canada for most of the century.

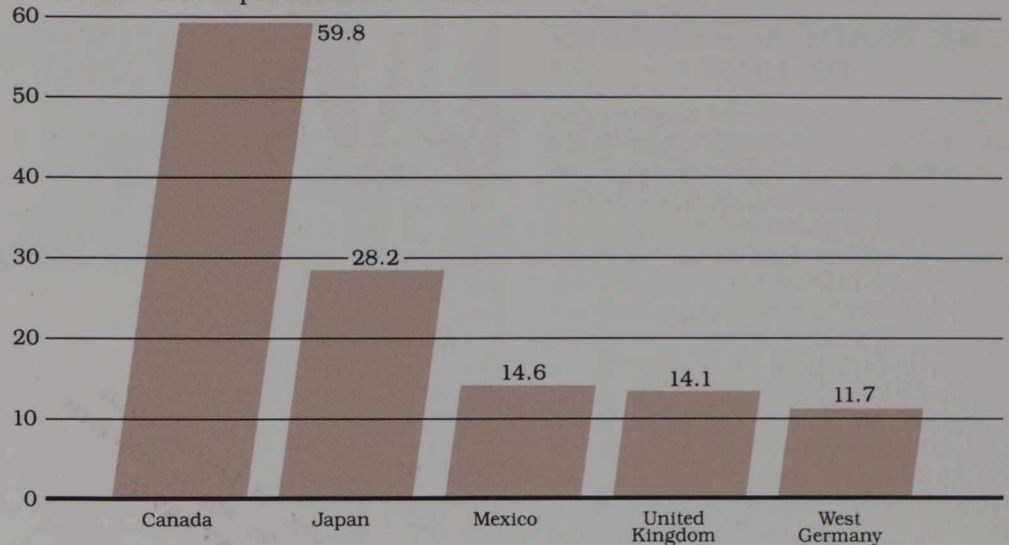
The trade had become unbalanced, however, by the early 1960s. Canadian plants were smaller than the ones in the U.S. and, consequently, less efficient, and each of the Canadian plants made a range of products, instead of concentrating on the high-volume production of a few models.

A car built in Canada cost more than

U.S. MERCHANDISE EXPORTS

1987, In Billions of U.S. Dollars

Source: U.S. Department of Commerce



one built in the U.S., and Canadians were buying a great many more autos than they were producing. Canadian auto workers' wages were 30 percent below those of American workers.

Canada protected its industry with tariffs, which increased the cost of American-built cars and parts.

To resolve the imbalance, the two governments worked out the Automotive Products Trade Agreement, signed in 1965, which provided for the restructuring of the Canadian industry and for free trade in all original equipment, parts and

vehicles. The pact has functioned well for over two decades and its worth was recognized in the new trade agreement. It will remain basically intact but expanded. Parts manufacturers will benefit from a new, tighter rule-of-origin which provides that parts and tires will be duty-free if 50 percent of their direct production costs are incurred in North America. Trade in used cars, which was not covered by the Auto Pact, will also be duty-free by 1993.

This bridge over the St. Lawrence River connects Ogdensburg, N.Y., and Johnstown, Ontario.

