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• January 1994 •

NAFTA: THE NEW TRADE DEAL

The North American Free Trade Agreement (NAFTA) came into force on January 1, 1994. While business would appear to have proceeded as usual these first weeks, implementation of NAFTA changes many aspects of Canadian business dealings with its partners in the agreement, the United States and Mexico. In addition, there are some improvements to the Canada-U.S. Free Trade Agreement (FTA) built into the new trilateral agreement.

Some of the elements negotiated in the NAFTA take effect immediately, others over time; some are technical and relatively straightforward (e.g. elimination of a tariff), others represent new opportunities. Access will examine some of these themes in detail in subsequent issues; here, some highlights of the many ways in which the NAFTA will have impact on Canadian business.

Tariff Reductions: There are thousands of tariffs affected by the NAFTA, and exporters are advised to consult the Tariff Schedules for specific guidance. Among the Mexican tariffs eliminated as of January 1, 1994: aircraft, parts, radar and navigational equipment; most fresh and frozen fish, and most dried and smoked fish and many shellfish, including crabs; sulphur, aluminum oxide and hydroxide, carboxylic acids, nitrogen function compounds, sulphates. Tariffs on passenger cars and light trucks are reduced by 50 per cent immediately.

Government Procurement: For the first time, government procured services in the U.S. and Mexico will be open to Canadian suppliers. In the U.S. alone, the services market is approximately U.S.$30 billion per year. Among new opportunities created by this provision is access to construction contracts procured by the U.S. Army Corps of Engineers. In Mexico, NAFTA opens access to, among other things, contracts procured by PEMEX, the state-owned oil company, and CFE, the state-owned electricity company.

Investment: All investors from the NAFTA countries are to be treated equally; investment restrictions in Mexico will be reduced in numerous sectors, including autos, mining, agriculture, fishing, financial services, transportation and most manufacturing.

Transportation Services: Opening up the trucking of cargo between the United States and Mexico (over a six-year period) will ease shipment of goods by land across borders throughout North America. Canadian truckers will be able to pick up loads in the U.S., ship them into Mexico, and return bearing goods for both U.S. and Canadian destinations.

Telecommunications: Mexican trade barriers to the provision of enhanced services (e.g. advanced data processing) are eliminated. NAFTA guarantees access to contracts offered by government-operated telecommunications services in Mexico, in a market expected to grow by 42 per cent before the end of the decade.

Financial Services: Access to Mexico's financial markets, previously closed, will be opened over time to Canadian and U.S. financial institutions. Firms will be able to open wholly-owned subsidiaries in Mexico; while these will initially be subject to market-share limitations, these will disappear by the year 2000.

Temporary Entry: Business people will find it easier to gain temporary entry to any NAFTA country.

NAFTA and the FTA

While all elements of the FTA remain intact, the NAFTA preserves, expands and strengthens the gains Canada made in that agreement. Key improvements include:

- clearer and more precise rules of origin, which will narrow the scope in disputes.
- expanded access to the U.S.

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