

INSTITUTIONAL ELEMENTS OF A POSSIBLE CANADA-UNITED STATES TRADE AGREEMENT

Introduction

The governments of Canada and the United States have made clear their intention to begin a process of negotiations aimed at the conclusion of a bilateral trade agreement to reduce or remove remaining barriers to cross-border trade and establish additional rules to govern this trade. Such a bilateral agreement would thus go beyond and supplement the existing trade agreement relationships which now exist, including those under the General Agreement on Tariffs and Trade (GATT). At their meeting in Quebec City in March 1985, Prime Minister Mulroney and President Reagan in a "Declaration Regarding Trade in Goods and Services", launched the initiative for such a bilateral agreement, in terms of "a joint effort to establish a climate of greater predictability and confidence for Canadians and Americans alike to plan, invest, grow and compete more effectively with one another and in the global market."

The potential benefits to both countries from the liberalization of bilateral trade and special rules to govern bilateral trade could be substantial. Prime Minister Mulroney, in announcing in the House of Commons on September 26, 1985, the government's formal proposal to the U.S. government for the initiation of bilateral negotiations, stated that Canada would be "made more confident and prosperous from a secure and dynamic trading relationship with our biggest customer, our close friend, and with all the world." The U.S. Trade Representative, Clayton Yeutter, in a presentation to the U.S. Senate Finance Committee on November 14 stated that a bilateral trade agreement with Canada "would dramatically enhance the growth opportunities of both countries as they enter the next century".¹ The expected economic benefits in each country include lower prices for consumer goods and for producers purchasing imported inputs, more secure access of producers in both countries to larger export markets which would result in lower costs and more efficient production and, in general, an improved allocation of resources in both countries. Moreover, the creation of a more open Canada-U.S. trade regime, with improved rules governing cross-border trade, would demonstrate to other countries the viability of trade liberalization on a broader basis, thereby contributing momentum toward the success of a new round of multilateral negotiations under GATT.

Despite the expected benefits to Canada from a bilateral trade agreement with the United States, there can be legitimate grounds for concern about how it would operate, in practice, in view of the disparities in the economic strength of the two countries. The agreement will therefore need to carry assurances of future observance by the U.S. of its obligations under the agreement at the level of both federal and state governments; that new trade rules established under it are applied impartially and effectively; and that disputes arising from its operation can be resolved fairly, equitably and without delay. For these reasons, there should be a special interest on the part of Canada in the creation of some form of joint institutional arrangements to assist in the operation of the trade agreement.