

"International Canada" is a paid supplement to **International Perspectives** sponsored by External Affairs Canada. Each supplement covers two months and provides a comprehensive summary of Canadian government statements and of political discussion on Canada's position in international affairs. It also records Canadian adherence to international agreements and participation in international programs. The text is prepared by **International Perspectives**.

Bilateral Relations

USA

Free Trade Agreement Signed

In what has been described as "cliff-hanger" politics, Canadian and American trade negotiators raced to meet the October 3 Congressional deadline after a last hour US proposal on the trade tribunal broke the deadlock (See "International Canada" for August/September). Talks had been broken off in the last week of September when Canada had considered no progress was being made on the dispute settlement mechanism and a difference of opinion had emerged on Canada's subsidies to resource industries and its support for culture, which were beyond the reach of US trade law. In addition, disagreement arose over Canada's resistance to reopening the Auto Pact and its insistence on retaining regional development subsidies (*Globe and Mail*, October 2).

Negotiations resumed on October 2 following a call by US Treasury Secretary James Baker, with a series of new American proposals centering on the nature and rules of the dispute settlement mechanism. External Affairs Minister Joe Clark had said to reporters a few hours before Mr. Baker's proposals: "In our judgment a tribunal without rules would not provide Canada with the kind of guarantees and security that we require" (*Hansard*, October 1). According to a *Globe and Mail* article on October 3, the Baker proposal included the following provisions: 1) that the omnibus trade bill, if passed, would not retroactively undermine any terms of a free trade agreement with Canada; 2) the United States agreed that a new binational tribunal would decide trade disputes between the two countries; 3) the new rules under which the tribunal would operate would be drafted and phased in over five years; and 4) in the interim, the tribunal would base its decisions on the provisions of current trade laws of the country where the complaint was filed. This proposal triggered

a series of political and technical negotiations aimed at resolving the "important differences" which Prime Minister Brian Mulroney told reporters still remained. The Prime Minister also briefed provincial premiers on these new developments and was told by the premiers to proceed "on his own." Prince Edward Island Premier Joe Ghiz commented: "At the point we're at, I think that what we are going to see is that the Prime Minister will be making the decision on his own" (*Globe and Mail*, October 3).

Some of the major differences, according to reports in the *Ottawa Citizen* and the *Globe and Mail* of October 3 were: 1) Investment: the US wanted only the largest take-overs to be reviewed by Investment Canada; 2) Services: although the two sides agreed to a general code for service industries, there was no agreement for road and rail transportation industries because of US unwillingness to meet Canada's demands on water and air transportation issues. In financial services, the US wanted to end restrictions which limited the size and activities of US bank subsidiaries in Canada; 3) Government procurement: a deal could tentatively be reached that would cover only federal government purchasing in the two countries, while leaving out the military and defence sector; 4) Auto trade: the United States would have liked to do away with Canada's duty remission programs and would have liked to alter the existing Auto Pact's Canadian production and parts purchasing safeguards. 5) Agriculture: negotiators had broadly agreed to eliminate all tariffs in this sector with only seasonal tariffs to be negotiated. Agricultural subsidies discussions would wait for the results of the GATT talks; 6) Intellectual property: copyright issues remained to be settled but patents would be given national treatment in each country; 7) Tariffs: tariffs would be phased out over a 10-year period but the two sides had not yet agreed on the mechanics and the scheduling. 8) Customs: the two sides agreed on changes that would simplify customs procedures.