

institutions and trade policies. The other might be to harmonize commercial policies for trade and economic relations with third countries.

On bilateral trade, the key objectives of an FTA agreement are to harmonize bilateral tariffs at a rate of zero and to reduce or eliminate nontariff barriers to trade. As a result of the common GATT obligations of both countries, the import regulation regimes of Canada and the United States are already remarkably similar. An important Canadian objective in the negotiations is to limit the application of U.S. trade laws to Canadian exports. Any obligations regarding import procedures would apply to both partners and thus imply some further harmonization of bilateral institutions and procedures for import regulation.

Central to the concept of a free trade area is the principle that each member country is allowed to maintain its own commercial policies toward nonmember countries. This means that there will be no formal pressures arising from the nature of the contemplated arrangement to harmonize any Canadian economic policies with respect to third countries.

Problems could arise, however, if there were substantial discrepancies between the levels of protection provided by Canada and the United States against imports of particular products from third countries. Such discrepancies would provide an incentive to nonmember countries to export to the FTA through the member levying the lower tariff on the commodity in question.

To prevent this "pass-through" trade, virtually all FTAs impose "rules-of-origin" criteria before products are allowed to pass from one member country to the other duty free. These criteria set minimum levels of value added by member countries according to the type of product involved. For example, certain primary products such as fresh fruit might simply have to be produced in one of the member countries, while in the case of manufactured end