
comparison understates the negative impact of contingent protection, especially on Canada, for two reasons. First, the mere initiation of an investigation imposes substantial administrative and legal costs on Canadian exporters. Second, the uncertainty caused by the threat of U.S. contingent protection measures has by itself an adverse effect on trade flows and investment that is out of proportion with the remedies actually imposed.

The Main Elements of the Canada-United States Free Trade Agreement

A significant number of barriers to trade continue to exist between Canada and the United States, restricting each country from realizing its full economic potential. The Free Trade Agreement has as its key objective the elimination of trade barriers between Canada and the United States to the mutual economic benefit of each country. On October 4, 1987, Canada and the United States agreed in principle on the elements to be included in the Free Trade Agreement. The legal text of the Agreement was tabled in the House of Commons on December 11, 1987 and signed by the Prime Minister on January 2, 1988. Its main elements are the following:

Tariffs and Rules of Origin

- All bilateral tariffs will be removed, starting on January 1, 1989 when the Agreement enters into force. Some will be eliminated immediately; some will be eliminated in five equal annual steps; some will be eliminated in 10 equal annual steps.
- Goods which originate entirely in Canada or the United States will qualify for the new tariff treatment. Goods incorporating

offshore materials or components that have been sufficiently changed to warrant a change in tariff classification will also qualify; in certain cases, such goods will need to incur 50 per cent of their manufacturing costs in either or both countries before they qualify.

Quantitative Restrictions

- GATT provisions governing quantitative restrictions on imports or exports will continue to apply. Existing quantitative restrictions will be eliminated, either immediately or according to an agreed timetable, or will be grandfathered. With respect to export measures for short supply or conservation reasons, the Agreement goes beyond the GATT to provide for a proportional continuation of supplies without price discrimination. The Agreement provides for co-operation on implementing short supply or conservation measures to prevent diversion to third parties.

Technical Standards

- The two governments agree to build on the GATT Standards Code. They will endeavour to make federal standards more compatible in order to reduce technical barriers which interfere with trade, while still protecting health and safety, environmental, natural security and consumer interests. Increased compatibility of standards at the state, provincial and private levels will be encouraged.

Agriculture

- Both governments will eliminate tariffs on agricultural trade within 10 years and agree not to use direct export subsidies on their bilateral agricultural trade.