

Part Two: Trade in Goods

Part Two contains chapters three through twelve dealing with trade in goods. It builds on the GATT, its ancillary agreements as well as other existing arrangements involving the two governments such as the Harmonized Commodity Description and Coding System (the so-called Harmonized System by which imports are classified for purposes of assessing customs duties), the Canada-United States Automotive Products Trade Agreement and the Agreement on an International Energy Program. Where both governments were satisfied with existing arrangements, they are incorporated by reference into the agreement. For example, the GATT Code on Technical Barriers to Trade is the basis of Chapter Six and the provisions of GATT Article XX (General Exceptions) form the basis of Chapter Twelve. In most instances, however, such as Chapter Three dealing with rules of origin, Canada and the United States have entered into new obligations unique to the Free-Trade Agreement.

Chapters Three through Six and Eleven and Twelve contain provisions applicable to all trade in goods. The four sectoral chapters, Seven for Agriculture, Eight for Wine and Distilled Spirits, Nine for Energy and Ten for Automotive Products, address issues of particular concern to those sectors.

Chapter Three: Rules of Origin for Goods

The Agreement will eliminate all tariffs on trade between Canada and the United States over a ten-year period. However, both countries will continue to apply their existing tariffs to imports from other countries. Rules of origin are, therefore, needed to define those goods which are entitled to duty-free, or "free-trade area" treatment when exported from one country to the other.

Since the Agreement is intended to benefit the producers of both countries and generate employment and income for Canadians and Americans, origin rules require that goods traded under the Agreement be produced in either country or both. The origin rules establish the general principle that goods that are wholly produced or obtained in either Canada or the United States or both will qualify for area treatment. Goods incorporating offshore raw materials or components will also qualify for area treatment if they have been