

The elimination of tariffs through creation of a Canada-U.S. Free Trade Agreement would likely further accentuate the shift in investment, as Canadian industries would become more vulnerable to competition from U.S. exports. This shift of investment from Canada to the United States may seriously limit Canada's ability to compete in the international market.

Because of the above factors, we understand that in discussions of a possible Canada-U.S. FTA, the Canadian Government would pursue measures that would increase the predictability of the effects of the U.S. import relief laws. You have asked us to evaluate the likelihood of U.S. acceptance of various proposals to limit application of the import relief laws to Canadian exports.

I. GENERAL DESCRIPTION OF U.S. POLITICAL SETTING
IN WHICH THE NEGOTIATIONS WILL TAKE PLACE

As you know, the United States is currently experiencing much difficulty with its international trade relations. Most U.S. policymakers acknowledge that the poor trade performance of the United States can, at least in part, be attributed to the unusually