

lobbying, and similar defensive measures. But future success is uncertain, since protectionist pressures are strong and the current approach cannot guarantee secure access.

*A bilateral framework agreement* on trade relations would establish objectives for improving the trade relationship. Such an agreement could also establish bilateral working groups to examine trade issues and make recommendations to governments. A framework agreement could provide political momentum and be a useful tool but, in itself, would not guarantee access.

The two countries could also examine *special trade arrangements in selected sectors*, as now exist in defence goods and automotive products. There may also be scope for negotiating *specific functional arrangements* which would clarify our respective policies on such issues as subsidization and government procurement. While attractive in some areas, these approaches are hampered by the difficulty of establishing balance and symmetry in the trade interests of the two sides and by the need to square them with our respective GATT obligations.

Finally, the two countries could negotiate *a comprehensive trade agreement* to eliminate most tariff and non-tariff barriers. Such an agreement would have to be consistent with our GATT obligations but could go beyond to cover issues now outside the GATT, such as trade in services. This approach for securing and enhancing market access would be broader in scope than the other options.

A decision on a new type of trade arrangement with the U.S. would not be a marginal one. By 1987, 80% of Canadian goods will enter the U.S. duty-free and 65% of U.S. goods are expected to enter Canada duty-free. Nonetheless, considerable tariff (and non-tariff) protection will remain in each country after 1987. A new agreement to expand access beyond our current GATT commitments could involve giving up a substantial amount of protection.

Policy makers will need to be satisfied that, if Canada-U.S. trade were liberalized further, the benefits would outweigh the costs. For example, would the competitiveness of Canadian companies be advanced or reduced? Policy makers will also need to take account of the potential consequences of a more liberalized trade environment for such areas as taxation, occupational safety, regional development, industrial incentives and environmental regulation. Also, if trade barriers were significantly lowered, would potential investors, Canadian or foreign, set up production in Canada or in the United States?

The negotiation of an international agreement is itself an exercise of sovereignty, even though the outcome may constrain a state's ability to act in certain ways. This is the case for hundreds of international agreements we have concluded. In negotiating an agreement to liberalize trade, those areas of Canadian political, cultural and economic life central to our sense of ourselves as a nation could be excluded from negotiations. It is possible that, if there were a well-defined, mutually-obligating, beneficial treaty governing trade, cultural policy and foreign policy would be less affected by bilateral trade disputes than they are now. Our bilateral trade interests could be shielded from the unintended consequences of U.S. action against the unfairly traded exports of third countries. In effect, with a treaty it may be possible to immunize critical Canadian interests from the effects of unrelated trade disputes.

*The negotiation of an international agreement is itself an exercise of sovereignty.*