

Impact of the Canada-U.S. Free Trade Agreement on the Minerals and Metals Sector

5

More Secure Market Access

Most industry executives view trade remedy procedures and a dispute settlement mechanism as the key to more secure access to important U.S. markets. These benefits are hard to quantify. Nevertheless, recent history records that companies within the industry have spent long hours and large sums of money over the past 20 years defending their interests against U.S. trade actions. The minerals and metals business is cyclical and industry observers can usually predict an inverse relationship between world market conditions and U.S. trade actions. The past five years have been no exception.

Canadian mineral producers who have complained that political pressures in the United States have disposed U.S. officials to side with complainants will now be able to appeal to a bilateral panel. As well as bringing greater discipline to the application of U.S. trade remedy laws, it also promises a more expeditious review procedure than that provided by the U.S. court system.

Further Processing

Because the level of tariff protection tends to increase with the degree of value added, the impacts of the Agreement on Canada's minerals and metals industry will be felt more at the primary processing stages than in mining. The impacts will be clearly positive, resulting in a higher degree of processing in Canada before mineral and metal products are exported. For example, the prospects for establishing a larger zinc alloy industry in Canada will be enhanced as the U.S. tariff on this product is phased out.

Moreover, to the extent that further processing opportunities expand, one can expect increased research and development on mineral processing in Canada. While some of these benefits will flow immediately, most will be realized over the medium to longer term.

Specialization and Rationalization

The phasing out by *both countries* of medium- to high-level tariffs on many minerals and metals will create a favourable and competitive environment during the 1990s for new processing and trade opportunities, some industry expansion and adjustment, improved productivity and some product specialization as processors take advantage of economies of scale in their plants. Specific examples where the mutual phase-out of tariffs will be important and where Canada-based firms are expected to fare well are: ammonium paratungstate (which is the key intermediate product between tungsten concentrates and most tungsten products), various ferroalloys, silicon metal, zinc alloys, certain molybdenum compounds, titanium dioxides, gypsum products, and rock and mineral wools for insulation.