The second approach would involve sectoral accords. There are at present two sector agreements with the USA, the Canada/USA Defence Production Sharing Agreement and the Autopact. A further sectoral initiative was launched last February, with four sectors coming under review: steel, urban transit equipment, agricultural equipment and inputs, and the whole area of informatics, including computer services.

But two major constraints on the sectoral approach have been apparent from the outset. One is the general operating principle that any sector arrangements would need the support of the industries in both countries, would need to be perceived as mutually advantageous, and would not involve cross-sectoral trade-offs. The other constraint is the "most favoured nation" clause of the GATT, which would require us to extend the conditions of any bilateral agreement on lowering trade barriers to all members of the organization.

A third approach might be to seek a "functional" arrangement, designed to remove, reciprocally, a particular non-tariff barrier. Government procurement practices would be an obvious example. However, like the sectoral approach, there would be problems of negotiability and GATT compatibility.

The fourth approach would be bilateralexploration of a comprehensive "free trade area" agreement. This could provide for the phased elimination of barriers on trade specifically between Canada and the United States -- without affecting trade measures applied by either country to other trading partners.

A treaty based on this approach would be consistent with GATT so long as it encompassed the bulk of bilateral trade and provided for the elimination of tariffs and significant non-tariff barriers.

Since a large proportion of our two-way trade is already tariff free, it is important not to exaggerate the impact of such a step. Nonetheless, it would raise some very large questions, including:

-- the competitive strength of our industries;

-- the special measures of adjustment which might be needed;

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