
In the past, Canada has used import controls in support of supply management systems in certain segments of the agriculture industry. Such controls currently apply to eggs, dairy products, poultry and grains. The Agreement preserves Canada's existing GATT rights in this regard. It also permits Canada to maintain existing regimes and to introduce new regimes which may be required.

Retaining supply management, while reducing end-product tariffs, has the potential to put some food processors at a cost disadvantage. This relates to the extent that the supplies used in making their products cost more than those of their American competitors. A very large portion of the primary-product cost problem for Canadian producers stems from the two-price system for wheat. The Government has indicated that modifications in the two-price wheat policy will be introduced so that processors will be able to compete.

Manufacturers of further-processed poultry products have expressed concerns about being able to compete against their American counterparts if tariffs are eliminated for their processed products and if Canadian input costs remain higher than those in the United States. While most poultry products are protected by import controls, small amounts of chicken (estimated at around two per cent of Canadian production) and turkey are used in products not included under import controls. Consultations are ongoing to find a solution to the needs of these processors.

The agricultural sector in Canada and the United States are very similar although each country has developed distinctive agricultural marketing mechanisms. Canada protected its marketing system in the negotiations and obtained a sufficiently long phase-in period for tariff changes to mitigate any adverse affects that may occur during the transition period. The Government and the Advisory Council on Adjustment will be monitoring developments in this sector. Agriculture issues are discussed in the paper *The Canada-U.S. Free Trade Agreement and Agriculture: An Assessment*.

Alcoholic Beverages

Within the alcoholic beverage sector, spirits and wine will be granted national treatment with regard to listing and distribution, with certain exceptions for B.C. wineries, private wine outlets in British Columbia and Ontario, and grocery stores in Quebec.

For spirits, Canada will immediately eliminate all discriminatory price mark-ups, except for those which represent a reasonable cost-of-service. The differential price mark-ups on wine will be eliminated over seven years.

There will be an immediate elimination of measures which required that domestic distilled spirits be blended with bulk imported U.S. spirits prior to bottling.