QUESTIONS AND ANSWERS
ON THE NORTH AMERICAN FREE TRADE AGREEMENT

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AGRICULTURAL SECTOR

AGRICULTURAL SECTOR : QUESTION #1

A) What general gains will there be for Canadian producers of agricultural goods under a NAFTA?

Background:

Mexico is Canada's 15th largest market for the export of agricultural products, averaging $143 million per year between 1988-1990. This was mainly concentrated in skim milk power, canola, wheat, and more recently, pork. The export of cattle, swine and poultry breeding stock are also important exports.

At present, Mexico is a modest market for Canadian exports. It is projected, however, that if the current trend of economic and population growth continues to outstrip agricultural expansion, significant supply problems may develop in the medium to long term. Under such a scenario, Mexico could potentially become a more important market for Canadian agricultural products, especially in canola, pork and prepared foods.

RESPONSE:

- MEXICO REPRESENTS AN IMPORTANT MARKET FOR CERTAIN CANADIAN AGRICULTURAL PRODUCERS. WITH THE GENERAL INCREASE IN ACCESS TO THE MEXICAN MARKETS, SECURED UNDER A NAFTA, ADDITIONAL EXPORT OPPORTUNITIES WILL DEVELOP IN THE FUTURE.

B) How will Mexican goods compete with Canadian exports to the U.S. market?

RESPONSE:

- MEXICO IS IN FACT AN IMPORTANT IMPORTER OF SUCH CANADIAN EXPORTS AS GAINS AND OILSEEDS. IN THE CASE OF FRUITS AND VEGETABLES, CANADIAN PRODUCERS WILL RETAIN THEIR PRESENT ADVANTAGE OF CLOSER PROXIMITY TO THE NORTHERN UNITED STATES. CANADIAN PROCESSORS ALSO BENEFIT FROM GOOD SOURCES OF WATER, ENERGY, AND PROCESSING INFRASTRUCTURE.

AGRICULTURAL SECTOR : QUESTION #2

What aspects of Mexican and Canadian trade are especially sensitive to NAFTA?

Background:

Protective Measures-

The removal of seasonal tariffs is a major concern for Canadian fruit and vegetable producers, as the tariffs provide price protection for Canadian produce during harvest and marketing periods.

The major concerns of the fruit and vegetable sector of a NAFTA are the following: the length of the period during the phase out of tariffs will take place, the feared removal of the emergency import safeguard mechanism, and whether the prohibition will continue on consignment selling and on the import of bulk packs.

Mexican Agricultural Environment-

On a product by product basis, Canadian producers fear extended Mexican competition based on weak enforcement of Mexican pesticide regulations and due to the relative lower wage rates vis à vis Canadian rates. This concern is expressed by Canadian and American producers of greenhouse tomatoes and cucumbers, frozen strawberries, broccoli and cauliflower.

RESPONSE:

- THE EVENTUAL REMOVAL OF RESTRICTIONS ON MEXICAN IMPORTS INTO CANADA IS BEING CLOSELY EXAMINED AT THE PRESENT TIME, HOWEVER, IT IS TOO EARLY TO PROVIDE ANY DEFINITIVE ANSWERS AS TO THE DETAILS OF THE TRANSITION PERIOD WHICH WILL BE NEGOTIATED.

AGRICULTURAL SECTOR : QUESTION #3

Considering the alleged lower health and sanitary regulations in place in Mexico, will a NAFTA not result in pressure to reduce Canadian standards?

Background:

Mexican interest-

Mexico believes that some sanitary and phytosanitary requirements are essentially disguised protective measures (NTBs) levied against Mexican agricultural imports, especially of fruits and vegetables.

Canadian and American interests-

For Canada and the United States, this is a sensitive issue politically as evidenced by the present pork inspection processes employed under the FTA. This will remain an important issue under the NAFTA as well. The primary purpose of health and sanitation regulations is the maintenance of standards to ensure protection of human, animal and plant health in a scientifically justifiable manner. There is also interest in establishing reciprocal auditing programmes for contesting measures which appear to be unjustifiably applied.

GATT related issues-

NAFTA discussions on health and sanitary issues will be linked closely to the GATT negotiations and will build upon the new framework of rules and disciplines on health and sanitary measures expected to be achieved in the MTN on agriculture. The primary objective in both the Multilateral Trade Negotiations and the NAFTA is to ensure that health and sanitary regulations are not used as disguised barriers to trade. Analogous to the Canadian approach in the MTN, Canada will continue to ensure the integrity of food standards.

RESPONSE:

- STANDARDS FOR HEALTH AND SANITARY PURPOSES ARE OF GREAT IMPORTANCE UNDER THE NAFTA. IT IS AT THIS TIME TOO EARLY TO DETERMINE WHAT THE OUTCOME OF NEGOTIATIONS OF HEALTH AND SANITARY MEASURES WILL BE. WE WILL ENSURE, HOWEVER, THAT THE HEALTH OF CANADIANS OR THAT OF PLANT AND ANIMAL LIFE WILL, IN NO WAY, BE AT RISK.

- HEALTH AND SANITARY REGULATIONS IN THE NAFTA WILL BE BASED UPON DECISIONS TAKEN IN THE MTN.

AGRICULTURAL SECTOR : QUESTION #4

Given that Mexico has very different wage rates for agricultural workers, there is a tendency to higher volatility in prices due to other variables. How does the Canadian government plan to deal with such volatility in prices?

Background:

Canada-

Under the FTA, there existS a snap back mechanism (Article 702) which provides that for a 20 year period, either country may impose the MFN tariff on a temporary basis when certain price and acreage circumstances are met. Canada will need to ensure that the measures adopted will be balanced between our export interests and import sensitivities. An option might be to include as safeguard mechanisms both price and quantity measures, which would expire once the price or volume returns to within preset parameters.

Mexico-

Mexican officials are concerned that snap-back provisions, such as those as present in the FTA, if present in NAFTA, would be implemented frequently given the volatility of Mexican prices.

United States-

The United States may seek an even stronger safeguard provision than the FTA snapback which is limited to fresh fruits and vegetables. Of particular interest to the U.S. is the inclusion of orange juice under such a provision.

RESPONSE:

- THE SENSITIVITIES OF THE AGRICULTURAL COMMUNITIES ARE OF THE UTMOST IMPORTANCE TO OF THE GOVERNMENT. AT THE PRESENT TIME IT IS TOO EARLY TO DETERMINE THE FINAL OUTCOME OF THE NEGOTIATIONS. OUR GOAL IS ENSURE THAT CANADIAN PRODUCERS HAVE BOTH UNRESTRICTED EXPORT MARKETS AND PROTECTION FROM UNFAIR IMPORT PRACTICES.

AGRICULTURAL SECTOR : QUESTION #5

How would a NAFTA mesh with an agreement on subsidies in agriculture through the GATT?

Background:

If there is a MTN conclusion on agricultural subsidies, then the NAFTA would simply build on the GATT rules. However, if their is no MTN conclusion, the NAFTA will, with respect to practices among our three countries, have to address all of the issues of both internal and export subsidies.

RESPONSE:

- THE NAFTA NEGOTIATIONS ARE CLOSELY LINKED TO THE MULTILATERAL TRADE NEGOTIATIONS IN THE GATT, AND THERE IS NO CONFLICT AMONG THE CANADIAN OBJECTIVES THAT ARE BEING PURSUED IN THESE TWO SETS OF NEGOTIATIONS. IT IS ANTICIPATED THAT MANY AREAS OF THE NAFTA NEGOTIATIONS WILL BE BASED OF DECISIONS MADE AT THE GATT.

AGRICULTURAL SECTOR : QUESTION #6

Will Mexican products not compete directly with Canadian products, especially during the Canadian marketing seasons?

Background:

The majority of Mexican exports to Canada are complementary in nature or do not compete with Canadian agricultural products. Fresh fruits and vegetables tend to be marketed at times when Canadian (and to a lesser extend American) produce is in low supply or non-existent. Other produce is not grown domestically, such as coffee, cocoa, and tropical fruits. Overlap does, nevertheless, exist with certain Mexican products.marketing practices. Affected mostly are greenhouse tomatoes and cucumbers which compete directly with both American and Mexican produce. Export of frozen vegetables, especially of broccoli, and cauliflower has increased recently from Mexico to both Canada and the U.S.

The volume of trade must considered as well. While both Canada and Mexico have relatively large agri-food trade with the United States ($7.9 billion and $5.9 billion respectively), the trade between Mexico and Canada is relatively modest at 0.3 billion.

RESPONSE:

- THE LIBERALIZATION WILL NOT SIGNIFICANTLY CHANGE THE AGRICULTURAL ENVIRONMENT WITH RESPECT TO COMPETITION ON CANADIAN MARKETS DUE TO THE LARGELY COMPLEMENTARY NATURE OF THE MEXICAN FRESH FOOD PRODUCE EXPORTS TO CANADA. MOREOVER, MANY IMPORTS, SUCH AS BANANAS, PINEAPPLES, AND GRAPEFRUIT, CANNOT BE PRODUCED IN CANADA OR ARE PRODUCED IN VERY LIMITED QUANTITIES.

- MEXICAN AGRICULTURAL IMPORTS INTO CANADA ARE SMALL, LESS THAN TWO PERCENT OF TOTAL FOOD IMPORTS. MOST OF THE FRUITS AND VEGETABLES ARE IMPORTED DURING THE MONTHS WHEN DOMESTIC PRODUCE IS NOT AVAILABLE.

AGRICULTURAL SECTOR : QUESTION #7

A) Under the FTA, certain Canadian fruit and vegetable provisions were maintained such as restrictions imports in bulk packs and the prohibition of consignment sales. What affect will a NAFTA have on non-tariff barriers?

Background:

The United States may wish to eliminate Canadian restrictions on imports of bulk pack fresh fruit and vegetables and on the prohibition of consignment sales on imports.

RESPONSE:

- THE NAFTA NEGOTIATIONS WILL RESPECT BUILD UPON WHAT WAS ACHIEVED UNDER THE FTA FOR CERTAIN AGRICULTURAL PRODUCTS. WE WILL RESIST ANY ATTEMPTS TO CHANGE SUBSTANTIALLY THE PROVISIONS SET OUT IN THE FTA FOR THE IMPORT OF AGRICULTURAL GOODS INTO CANADA FROM THE UNITED STATES.

B) What international interests does Canada have with respect to non-tariff barriers?

Background:

Mexico-

Import licensing in Mexico will likely be phased out on most of the 50 or so goods still subject to licensing. Mexico may resist the complete removal of licenses for products which are considered to be staples, such as dairy goods, dried kidney beans, corn and, perhaps, beef.

United States-

Under the FTA, both Canada and the United States are entitled to maintain import quotas. In the case of Canada, those operate according to Article XI of the GATT. In the case of the U.S., they function under a derogation to the GATT.

RESPONSE:

- IT IS TOO EARLY AT THIS POINT IN TIME TO PREDICT THE FULL OUTCOME OF THE NAFTA NEGOTIATIONS WITH RESPECT TO NON-TARIFF BARRIERS. THE GOVERNMENT WILL SEEK, OF COURSE, THE GREATEST POSSIBLE ACCESS TO THE MEXICAN MARKET.

- THE FTA AND GATT PROVISIONS ON THE IMPORT QUOTAS BETWEEN CANADA AND THE UNITED STATES WILL NOT BE ALTERED BY THE NAFTA.

AGRICULTURAL SECTOR : QUESTION #8

A) What stance will Canada adopt with respect to the NAFTA negotiations for the reduction of subsidies?

Background:

The NAFTA negotiations WILL examine the removal of internal and export subsidies and also trade remedy actions such a countervailing duties. As previously indicated at the MTN, Canada favours, in light of the MTN agreement programmes such as generally available subsidies and those below a **de minimus** level.

Within generally available subsidies, are those falling within a "green category" of internal support programmes which would not be subject to reduction commitments or to countervailing duties. These would include programmes such as income safety nets, crop insurance, disaster relief, farm credit, environmental and conservation measures and regional development. Transportation subsidies under the Western Grains Transportation Act are also a prime concern of the U.S..

RESPONSE:

- THE GOVERNMENT RECOGNIZES THE INTERESTS OF THE FARMING COMMUNITY AND THE CYCLICAL DIFFICULTIES TO WHICH IT IS SUBJECTED. A NAFTA WILL PROVIDE AN OPPORTUNITY FOR THE FURTHER SECURING OF MEASURES TO ENSURE THAT THE CANADIAN AGRICULTURAL COMMUNITY FACES FAIR AND EQUAL COMPETITION FROM THE UNITED STATES AND MEXICO. CANADIAN SAFETY NET PROGRAMS WILL BE SUPPORTED.

B) What will happen to agricultural marketing boards under NAFTA?

Background:

During the NAFTA discussions, there will mostly likely be pressure from the U.S. regarding export pricing mechanisms. It is an issue which remains outstanding from the FTA. This is particularly true with respect to the pricing practices of the Canadian Wheat Board.
RESPONSE:

- THE GOVERNMENT WILL SEEK TO STRENGTHEN AND CLARIFY EXISTING GATT RULES REGARDING THE SUPPLY MANAGEMENT. THOSE EXEMPTIONS PRESENT UNDER THE FTA WILL BE RETAINED.

AGRICULTURAL SECTOR : QUESTION #9

Given the liberalization of markets under a NAFTA, what affect will there be on the dairy industry?

Background:

Canada-

Canadian exports to Mexico include skim milk powder (SMP), pure-bred dairy cattle, and bovine semen. Mexico is the largest importer of Canadian SMP products, accounting for $45 million or 60 percent of skim milk product exports in 1989. Imports are made under license of the CONASUPO.

Future declines in the volume of surplus SMP in Canada will, over the medium term limit Canadian imports to this market. While Mexico is also increasing self-sufficiency in fluid milk production, the Canadian breeding stock and semen exports should remain strong in the future, an area where Canada is competitive with the United States.

RESPONSE:

- MEXICO IS CANADA'S LARGEST MARKET FOR SKIM MILK POWDER. THE LIBERALIZATION OF MARKETS WILL SECURE ACCESS FOR THIS EXPORT PRODUCT. OPPORTUNITIES FOR EXPANSION OF BREEDING STOCK AND RELATED PRODUCTS WILL ALSO BE SIGNIFICANT IN THE FUTURE.

AGRICULTURAL SECTOR : QUESTION #10

A) Under a NAFTA agreement, given the U.S. exports of grains to Mexico, what opportunities will develop for Canadian grain producers?

Background:

The three major cereal crops grown in Mexico are corn, sorghum and wheat. In wheat, there is near self-sufficiency with only occasional imports from the U.S., Canada and Australia. The United States and Argentina dominate the Mexican wheat imports sharing 99 percent of the Mexican import market in 1987-1988.

RESPONSE:

- IT IS CLEARLY IN CANADIAN INTERESTS TO SECURE ACCESS TO THE GROWING MEXICAN MARKET UNDER A NAFTA. THE OPPORTUNITY FOR EXPANSION OF CANADIAN EXPORTS OF GRAINS TO MEXICO EXISTS, HOWEVER, THE EXPANSION WILL ONLY BE FULLY ACHIEVED IF THE NORTH AMERICAN AGRICULTURAL MARKETS ARE FREE OF EXPORT SUBSIDIES AND TRADE RESTRICTIONS.

B) For pulse crops?

Background:

Among Mexico, Canada and the United States, there exists a large pulse trade. Mexican imports of all pulse crops average about $40 million per year, with the Canadian market share of only 12.5%. The export potential is particularly notable for beans, canary seed and lentils.

RESPONSE:

- THERE EXISTS A LARGE POTENTIAL FOR THE EXPORT OF PULSE CROPS TO MEXICO GIVEN THE RECENT INCREASES IN POPULATION SIZE AND LIMITED ARABLE LAND. PREDICTABLE, SECURE ACCESS UNDER A NAFTA WILL HELP CANADIAN PULSE GROWERS TO MAINTAIN AND EXPAND SALES TO MEXICO.

AGRICULTURAL SECTOR : QUESTION #11

Given the liberalization of Mexican markets that will occur under the NAFTA, how will the Canadian cattle and pork industries fare?

Background:

Canadian exports to Mexico include beef cattle for breeding purposes, beef (particularly offal), live swine, fresh and frozen pork and pork offal. Despite exporting live cattle and beef to the U.S., Mexico will likely remain a net importer of beef and pork. Beef consumption is currently low (21 kilograms per person per year, compared to the U.S. average of 40 kilograms per person per year), but may rise as disposable income rises.

Pork production in Mexico is in decline due to high feed costs and animal disease outbreaks. Mexican imports of pork from Canada and the United States have been rising rapidly over the last few years.

RESPONSE:

- THE CANADIAN CATTLE INDUSTRY WILL DO WELL IN MEXICO. CANADA HAS A REPUTATION FOR HIGH QUALITY, DISEASE-FREE BREEDING STOCK. CANADIAN EXPORTS WILL LIKELY CONTINUE TO GROW AT LEAST AS FAVOURABLY AS AT PRESENT AS THE NAFTA WILL ENSURE SECURE ACCESS TO A GROWING MEXICAN MARKET.

- PORK PRODUCERS MAY POST SIGNIFICANT EXPORTS ADVANCES TO MEXICO, ALBEIT IN COMPETITION WITH THE UNITED STATES.

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AUTOMOTIVE SECTOR

AUTOMOTIVE SECTOR: LIST OF QUESTIONS

1) What will happen to Canada's automotive industry if a NAFTA is signed?

2) What will happen to the Auto Pact?

3) The United States are saying that they will use these negotiations to get Canada to agree in increasing the North American content from 50 % to 60 % or even 70 %?

4) Will the NAFTA force changes to vehicle standards in Canada?

5) The Mexican Auto industry seems presently quite protective with its 1989 Automobile Decree, is it not incompatible with a NAFTA?

6) Considering the low cost of Mexican labour, will Canada remain attractive for investment in the automotive sector? Will Canadian companies not be more attracted to move south and to Maquiladora facilities?

7) What will be the effect of NAFTA on the trade of used automobiles?

8) What effect will the Corporate Average Fuel Economy (CAFE) regulations of the us environmental protection agency has upon Canada with Mexico considered as "domestic"?

9) What opportunities exists in the heavy truck market for export?

AUTOMOTIVE SECTOR

AUTOMOTIVE SECTOR : QUESTION #1

What will happen to Canada's automotive industry if a NAFTA is signed?

RESPONSE:

- FIRST, IT IS IMPORTANT TO REMEMBER THAT, BECAUSE OF MARKET FORCES AND PRIVATE SECTOR DECISIONS, WHETHER OR NOT A NAFTA IS SUCCESSFULLY NEGOTIATED, A CONTINENTAL RESTRUCTURING OF THE NORTH AMERICAN AUTOMOBILE ASSEMBLY AND AUTOPARTS PRODUCTION MARKETS IS ALREADY OCCURRING. THEREFORE, THE NAFTA IS A GOOD OPPORTUNITY FOR CANADA TO TAKE ADVANTAGE OF THESE ADJUSTMENTS TO SECURE ITS FAIR SHARE OF THE NORTH AMERICAN AUTOMOTIVE INDUSTRY.

- FOR EXAMPLE, UNDER THE TERMS OF THE AUTOPACT, 98% OF MEXICAN AUTO PARTS ALREADY ENTER DUTY FREE, WITH THE REMAINDER IMPORTED AT THE GPT RATE OF 6 PERCENT. ON THE OTHER SIDE, CANADIAN AUTO PARTS EXPORTS TO MEXICO FACE A VERY PROTECTIVE MEXICAN AUTO INDUSTRY DUE TO STRICT IMPORT QUOTAS AND HIGH TARIFFS. A NAFTA WILL ENSURE THAT RESTRUCTURING IN THE REMOVAL OF MEXICAN BARRIERS THAT DISTORT TRADE IN THE AUTO SECTOR, CREATING A LEVEL PLAYING FIELD IN TERMS OF THE FACTORS THAT DETERMINE WHERE AN AUTO MANUFACTURER WILL LOCATE. MOREOVER, A NAFTA WILL GRANT BETTER ACCESS FOR THE CANADIAN AUTO PARTS INDUSTRY TO THE MEXICAN MARKET.

- MEXICAN AUTO PARTS IMPORTS FROM CANADA ARE GROWING AT A HEALTHY RATE, 58% FROM 1988 TO 1989, AND WE EXPECT IMPORTS TO CONTINUE TO PLAY A MAJOR ROLE IN THE MEXICAN INDUSTRY. SIGNIFICANT GROWTH IS ALSO ANTICIPATED IN THE AUTO MAINTENANCE EQUIPMENT.

AUTOMOTIVE SECTOR : QUESTION # 2

What will happen to the Auto Pact?

RESPONSE:

- THE SPIRIT OF THE AUTO PACT IS NOT ON THE TABLE. IF IMPROVEMENTS ARE SUGGESTED, THEN WE WOULD OF COURSE CONSIDER THESE, BUT ONLY IF THEY INCREASE THE BENEFITS OF THE AUTO PACT. WE PROPOSED THE CREATION OF A NEW CLEARER TRILATERAL RULES OF ORIGIN COUPLED COUNTRY SPECIFIC SAFEGUARDS

AUTOMOTIVE SECTOR : QUESTION #3

The United States are saying that they will use these negotiations to get Canada to agree in increasing the North American content from 50 % to 60 % or even 70 %?

Background:

Canada-

Most vehicles and auto parts imported into Canada enter under the terms of the Auto Pact enter duty free. To qualify, at least 50% of the cost of production of the goods must originate in Canada. For goods not under the Auto Pact they generally qualify for MFN rates of duty at least 50% of the cost of production has been incurred in an MFN country. For the GPT tariff preference, at least 60% of the factory price of the good must originate in a country eligible for the GPT or Canada.

Ford, Chrysler, the APMA (Automotive Parts Manufacturers' Association) and the CAW (Canadian Auto Workers) favour a higher FTA automotive content rule and continue to press us on the issue, it remains Canada's view that there is no proven net gain for Canada from going to 60%: the potential significant losses in the assembly sector are not likely to be offset by the small gains expected in parts sector. A higher content rule could also discourage future Asian assembly and parts investment in Canada.

Mexico-

The rules governing domestic content for cars, light trucks, and heavy trucks and tractor trailers are laid out in the 1989 Automotive Decree. For cars, the 36% Mexican valued added requirement effectively affords a higher level of protection than do the Auto Pact Rule of Origin requirements as labour and in-house products are not admissible as domestic content requirements.

RESPONSE:

- THE AUTOMOTIVE RULES OF ORIGIN ISSUE IS NOT A NEW ONE. IT IS PRIMARILY THE U.S. AUTOMOTIVE INDUSTRY WHO WOULD LIKE TO SEE THE NORTH AMERICAN RULES OF ORIGIN RAISED FROM 50% UP TO 75 PERCENT. ON ITS SIDE, THE U.S. ADMINISTRATION HAS SAID IT WILL PUT THE ISSUE OF THE AUTOMOTIVE RULES OF ORIGIN ON THE TABLE DURING THE NEGOTIATIONS.

- AT THIS POINT, THERE IS NO OBVIOUS ADVANTAGE TO CANADA IN IMPLEMENTING A HIGHER CONTENT RULE. CANADA WILL NOT MOVE ON THIS ISSUE UNLESS IT IS PROVEN IT CLEARLY BENEFITTED THE CANADIAN INDUSTRY AND IMPROVED ITS COMPETITIVENESS.

- AS ON ALL ISSUES, WE ARE BE CONSULTING CLOSELY WITH ALL INDUSTRY MEMBERS: THE BIG THREE, TRANSPLANTS, PARTS PRODUCERS, UNIONS AND WORKERS.

AUTOMOTIVE SECTOR : QUESTION #4

Will the NAFTA force changes to vehicle standards in Canada?

Background:

The Motor Vehicle Safety Act (MVSA) and the Motor Vehicle Tire Safety Act (MVTSA) empower the Governor in Council to make regulations regarding new motor vehicles and tires sold in Canada for the purpose of protecting the Canadian public against death, personal injury or impairment of health.

The regulations are, for the most part, technical standards to which all vehicles must comply. The remainder of the regulations are administrative in nature to ensure uniform labelling and identification of vehicles. The regulations on tires are similar in spirit to the MVSA, requiring certification by the manufacturer or the importer complies with the federal standards in force on the date of manufacture.

The regulations govern the following areas of vehicle design: 1) lighting and signalling, 2) braking, 3) occupant protection, 4) fuel system integrity, 4) exhaust and other evaporative emissions control. Tires are also subject to similar safety requirements specifying durability and strength.

The vehicle and tire safety standards are very similar to those of the United States, however, there exist minor differences, such as the requiring of day-time running lights, bumper standards, and locations specifications on automatic seat belts.

The government inspects the compliance of the regulations of vehicle and tires through a spot check procedure on vehicles at the retail level. Non-compliance requires the faults to be corrected.

RESPONSE:

- THE REGULATIONS REGARDING THE STANDARDS OF VEHICLES IN TERMS OF SAFETY FROM DEATH OR PERSONAL INJURY ARE SET OUT BY THE MOTOR VEHICLE SAFETY ACT AND THE MOTOR VEHICLE TIRE SAFETY ACT. THE NAFTA NEGOTIATIONS WILL EXAMINE BARRIERS TO TRADE IN THE RESPECTIVE, HOWEVER CANADA RETAINS THE RIGHT TO DECIDE UPON THE QUALITY AND SAFETY OF THE VEHICLES WHICH ARE PERMITTED FOR SALE IN CANADA. NON-COMPLIANCE TO THE ABOVE MENTIONED ACTS NECESSITATES ACTION TO CORRECT OFFENDING DISCREPANCIES.

- A NAFTA WILL IN NO WAY DIMINISH THE FEDERAL GOVERNMENT'S ABILITY TO IMPLEMENT LEGISLATION WHICH SETS HIGH STANDARDS DESIGNED REGARDING VEHICLE EXHAUST AND OTHER EMISSIONS TO PROTECT THE INTEGRITY OF CANADA'S ENVIRONMENT.

AUTOMOTIVE SECTOR : QUESTION #5

The Mexican Auto industry seems presently quite protective with its 1989 Automobile Decree, is it not incompatible with a NAFTA?

Background:

The 1989 Automotive Decree.

Three fundamental provisions:

1) The total number of imported vehicles into Mexico may not exceed 15% of the total number of vehicles sold in the domestic Mexican Market during the 1991 and 1992 model years. This figure is to increase to 20% for the model years 1993 and 1994. It will enable companies to expand range of offerings to consumers and allow for sourcing where it is most competitive, resulting in price savings for consumers which should increase demand.

2) Each manufacturer must maintain a positive trade balance to be eligible for imports. The rate that must be maintained will decrease over time from 2.5 pesos per dollar value in 1991 model year to 1.75 pesos per dollar in the 1994 model year. This will ensure the Mexican growth will keep pace with overall growth in markets. It is designed to help in the rationalization of markets and to increase output per model in Mexico. Since now Mexico demand can be met outside of Mexico, the Mexican production need not be devote to domestic sales. The result is to increase production runs, which makes Mexico therefore more attractive to invest in.

3) At least of 36% value added in vehicles must be comprised of components or parts produced by the Mexican autoparts industry. In addition, 36% of cars or parts manufactured in Mexico must be of Mexican origin. Mexican labour will not be included in the qualification for Mexican value added. In addition, the assembler's in plant material will not be considered towards content requirements. This means effectively that one half (1/2) of sourcing must take place in Mexico as parts and components make up 70% of input costs.

Mexico-

Mexico will want to protect major features of the 1989 Automotive Decree which promotes foreign investment and to preserve the size of the Mexican parts industry.

Canada-

The Automotive decree has a negative impact upon investment in Canada. In addition, it represents a limit on possible exports of parts and components to Mexico.

United States-

The United States' regard of the decree is not unlike that of the with Canada under the FTA.

Industry interests-

The Big Three will most likely continue to support the accord so long as the agreements limits the entry in some form the Japanese and European entrants.

RESPONSE:

- WE VIEW THE 1989 DECREE AS A POSITIVE STEP TOWARDS THE LIBERALIZATION OF THE MEXICAN AUTOMOBILE INDUSTRY WHICH WAS A LOT MORE RESTRICTIVE PRIOR TO THIS DECREE. HOWEVER, IT IS NOW TIME TO MOVE BEYOND THE STATUS QUO. A NAFTA SHOULD PURSUE THE OPENING OF MEXICO'S AUTOMOTIVE MARKET. AT THE PRESENT STAGE OF NEGOTIATIONS, IT IS TOO EARLY TO DETERMINE THE FINAL OUTCOME OF THE NEGOTIATIONS CONCERNING THE AUTO SECTOR, HOWEVER, UNDER THE NAFTA, WE PROPOSE THAT THE ELEMENTS OF THE MEXICAN AUTO DECREE BE REPLACED BY A CLEARER TRILATERAL RULES OF ORIGIN, COUPLED WITH COUNTRY SPECIFIC SAFEGUARDS.

AUTOMOTIVE SECTOR : QUESTION #6

Considering the low cost of Mexican labour, will Canada remain attractive for investment in the automotive sector? Will Canadian companies not be more attracted to move south and to Maquiladora facilities?

Background:

The term "maquiladora" is generally associated with the plant used by the subsidiary of a foreign firm which employs imported inputs and production machinery to produce manufactured goods for export using inexpensive Mexican labour.

Maquiladoras are exempt from the provisions of Mexico's Foreign Investment Law requiring minority foreign ownership, and virtually all of the Maquiladora firms are 100 % owned by the foreign parent firm.

The United States is the world's largest importer of "Offshore" assembled products and components, and the Maquiladora program has attracted combined domestic and foreign investment greater than $4 billion dollars (1987-1988 estimates) - representing the number two U.S. dollar generating industry in Mexico, second only to oil.

RESPONSE:

- LABOUR COST IS ONLY ONE OF MANY FACTORS TO BE CONSIDERED BEFORE CHOOSING AN INVESTMENT LOCATION. ONE MAY LIST AMONG THESE FACTORS PRODUCTIVITY, LABOUR QUALIFICATION, AVAILABILITY OF RAW MATERIAL AND PARTS, DISTRIBUTION, AND INVESTMENT REGULATION. ALL ARE IMPORTANT FACTORS WHICH MAKE CANADA COMPETITIVE. IN A NAFTA, WE WILL SEEK TO CREATE A LEVEL PLAYING FOR ALL INVESTORS IN THE CONTINENTAL MARKET.

AUTOMOTIVE SECTOR : QUESTION #7

Will be the effect of NAFTA on the trade of used automobiles?

Background:

Trade between Canada and the United States-
Before the FTA, Canada had a ban on all used cars. Since January 1, 1989, trade between Canada and the United States in used cars is governed by the FTA. Article 1003 provides the schedule for the phasing out of import restrictions based on age of vehicle. By 1994, there will be no more import restrictions on used automobiles.

U.S. Interests-

Although the majority of trade will occur from the Mexico to the U.S., the U.S. will most likely impose the same import regulations on Mexico as upon Canada. The U.S. estimates at 50 to 60 thousands of used vehicles which are exported illegally from the U.S. to Mexico each year.

Mexican Interests-

Except for some specialty vehicles (trolley buses, off-highway dump trucks, etc. permits are required for the import of all vehicles into Mexico. As a general practice, requests for permits to import used vehicles, particularly passenger cars, are refused. Exemptions can be made and import permits can be granted in special cases like for the import of vehicles that serve the national interest such as those which have been reconditioned and refitted to start a new business or for vehicles considered collector's items. Special registration will permit the import of certain types of vehicles for use in the frontier zones. When duty is levied against the rate on most vehicles is 20%. In the case of used vehicles the value for duty is determined by a method that may result in a higher duty than the actual cost of the vehicle.

RESPONSE:

- TRADE BETWEEN CANADA AND THE UNITED STATES IN USED AUTOMOBILES IS GOVERNED BY THE FTA. SO THAT BY 1994, THERE WILL BE NO IMPORT RESTRICTIONS ON VEHICLES TRADED FROM EITHER SIDE.

- THE MEXICAN MARKET AT PRESENT IS RESTRICTIVE TO MOST OF USED VEHICLES AND PARTICULARLY TO USED PASSENGER CARS. AT THE PRESENT STAGE OF NEGOTIATIONS, IT IS TOO EARLY TO DETERMINE THE FINAL OUTCOME OF THE NEGOTIATIONS CONCERNING USED VEHICLE MARKET.

AUTOMOTIVE SECTOR : QUESTION #8

What effect will the Corporate Average Fuel Economy (CAFE) regulations of the us environmental protection agency has upon Canada with Mexico considered as "domestic"?

Background:

General-

The CAFE refers to the requirements established by the US Environmental Protection Agency (EPA) whereby vehicle manufacturers and importers are required to meet specific miles-per-gallon levels on sales as a weighted average on a fleet wide basis. There are two divisions 1) domestic (75% North American Value Added - NAVA) and 2) non-domestic. Average whole sale prices are used to determine total cost of the vehicles on a model line basis. Mexican content is currently used to bring the fleet domestic content below 75% and therefore to be lumped with imported high mileage vehicles instead of lower mileage domestic vehicles. The advantages is that this permits NAVA on a basis for Autopact to be met while avoiding the high penalty cost associated with failure to meet minimum mileage standards. The result is a change in sourcing ratios within a specific range of the 25% between present Autopact regulations and CAFE rules.

US Interests-

From the US government perspective it is important to patch up the loop hole. EPA would include Mexico as domestic with respect to value added. Ford is exploiting the loop hole by sourcing extensively in Mexico to reduce domestic value. The nomenclature of Mexico as domestic will not necessarily plug the loop hole as the same result can be achieved by sourcing from different areas.

Mexican Interests-

To be considered domestic will expand the possibility of providing parts for the U.S. manufactures on an extended basis and not just for lowering domestic rates. It is felt that both Mexican parts and vehicle producers would gain from the domestic designation.

Canadian Interests-

Canadian parts manufacturers could benefit from a domestic designation for Mexico, as this would lead to an equalization for the provision of sourcing opportunities with Mexico. The threat of sourcing further off shore remains a distinct possibility to continue production of fuel inefficient vehicles.

Industry Interests-

Domestic manufacturers are split on the inclusion of Mexico under NAFTA as it would increase sourcing costs but could also in force sourcing from new off shore areas to continue poor mileage lines. If the new off shore sources do not develop rapidly, a drastic change in companies model-lines could result.

RESPONSE:

- THE INCLUSION OF MEXICO UNDER CAFE REGULATIONS AS DOMESTIC SOURCE MIGHT REPRESENT A SIGNIFICANT OPPORTUNITY WITH THE ELIMINATION OF THE ATTRACTIVENESS OF THE MEXICAN AUTOPARTS SECTOR TO THE U.S. ASSEMBLERS FOR REDUCING THEIR DOMESTIC VALUE. THE ADVANTAGE OF SUCH A CHANGE IS INDETERMINATE AT THIS TIME, HOWEVER, IT WILL BE CONTINGENT UPON THE SCOPE AND IMPACT OF THE NAFTA NEGOTIATIONS WITH RESPECT TO MARKET ACCESS, PARTICULARLY THE RELATIONSHIP WITH THE AUTOPACT.

AUTOMOTIVE SECTOR : QUESTION #9

What opportunities exists in the heavy truck market for export?

Background:

According to the Mexican 1989 Automotive Decree, heavy truck and bus manufacturers are only required to balance trade 1 peso/ dollar on exports for 1 peso per dollar imported. and must incorporate 40% of their value added in domestic content, to qualify for imports. With a phase out schedule as follows for domestic content, 1) 1990 for buses, 2) 1990-1992 for tractor trailers, and 1990-1993 for heavy trucks. After 1993, there is no domestic content requirement. This creates a number of opportunities in the domestic market for foreigners.

RESPONSE:

- THE MEXICAN 1989 AUTOMOTIVE DECREE CREATED TREMENDOUS OPPORTUNITIES FOR CANADIAN TRUCK AND BUS PARTS PRODUCERS TO ENTER AGGRESSIVELY INTO THE MEXICAN MARKET. THE REMOVAL OF A DOMESTIC SOURCING REQUIREMENTS REPRESENTS A STEP TOWARDS FULL RATIONALIZATION OF PARTS SUPPLY ON A NORTH AMERICAN BASIS. THE SECURING OF ACCESS UNDER THE NAFTA WILL EXPAND OPPORTUNITIES FOR CANADIAN HEAVY TRUCK PARTS IN MEXICO.

ENERGY SECTOR

ENERGY SECTOR: LIST OF QUESTIONS

1) In which areas will there be gains Canadian companies in the liberalization of energy on a continental basis?

2) What investment opportunities are likely to develop?

3) What limits exist in the liberalization of the Mexican energy industry?

4) Considering the pressure the United States is exerting upon Canada to reopen the FTA during the NAFTA negotiations, what will happen to the guarantees previously secured?

5) Will a NAFTA increase competition for Canadian exports of natural gas to U.S. markets?

6) Considering the barriers in the petrochemical industry in Mexico, what areas will be affected under a NAFTA?

7) How will the Canadian petrochemical industry fare under NAFTA? What changes are expected in the continental markets?

8) Considering the Mexican subsidies given to energy and chemical feedstocks, what changes will the government be seeking in the negotiations?

9) Under a NAFTA, what will be done about the Mexican two tiered pricing system for the promotion of the processing of energy products domestically?

10) Considering the lax environmental regulations in Mexico, will the Canadian petrochemical industry not suffer as a result?

11) How might public electric utilities become involved in Mexico?

ENERGY SECTOR

ENERGY SECTOR : QUESTION #1

In which areas will there be gains Canadian companies in the liberalization of energy on a continental basis?

Background:

The main issues for Canada in terms of energy exports on a continental basis were secured under the FTA. Canadian exporters of oil and gas have little worry of competition from Mexico, due the Mexican policy of encouraging domestic consumption, the absence of infrastructure for transportation of oil and gas to a continental export market, and the relatively low rate of new capital investment.

There exists very little trade in energy between Canada and Mexico. Until 1985, there existed a state to state agreement with Mexico under which Petro-Canada imported 30 000 to 50 000 barrels per day of Mexican crude oil. Despite expiry of this agreement, Quebec refineries still import small volumes of oil from Mexico. In 1990, this volume amounted to 9000 barrels per day or 2% of Canadian crude imports, representing less than 1% of Mexican total oil exports.

Specific geographic export divisions exist for Canada and Mexico in the United States. This is primarily due to the infrastructure for transport of petroleum and petroleum products. Canada focuses on export to the Northeast, the Mid-west and Californian markets, while Mexico services the southern United States.

The integration on a continental basis will provide a more structured opportunity for Canadian exporters to service U.S. demand. The U.S. supply demand imbalances are expected to be large in the 1990's, sourcing of which may come from Canada.

RESPONSE:

- TRADE LIBERALIZATION UNDER A NAFTA WILL OFFER GAINS TO THE CANADIAN ENERGY INDUSTRY. INTEGRATION ON A CONTINENTAL BASIS WILL PROVIDE A MORE STRUCTURED OPPORTUNITY FOR CANADIAN EXPORTERS TO SERVICE THE U.S. DEMAND. IN THE LONG TERM, SIGNIFICANT IMPLICATIONS WILL DEVELOP FOR CANADA DEPENDING UPON THE NATURE OF INVESTMENT AND SUBSEQUENT PRODUCTIVITY IMPROVEMENTS.

ENERGY SECTOR : QUESTION #2

What investment opportunities are likely to develop?

Background:

In order to meet its own domestic requirements, Mexico will have to undertake substantial reinvestment. Lacking sufficient domestic capital, one alternative for development may be the result will be to solicit investment from abroad, structured to respect Mexico's constitutional provisions.

One possible means to invest in Mexico would be through joint ventures with PEMEX (the national petroleum company), operating facilities, and participating in refinery and pipeline development.

Under the May 1989 Foreign Investment Regulations, the extraction of petroleum and natural gas, the refining of petroleum and the manufacture of basic petrochemicals are activities reserved exclusively for the state. The decree represents a significant non-tariff barrier to access of the Mexican petrochemical markets.

RESPONSE:

- FOREIGN OWNERSHIP RULES HAVE BEEN RELAXED IN MEXICO AND WE WOULD ENCOURAGE CONTINUED LIBERALIZATION OF THE MEXICAN ENERGY SECTOR, ESPECIALLY IN PETROCHEMICALS AND FEEDSTOCKS. WHILE WE RECOGNIZE THE SENSITIVITY OF THIS SECTOR FOR MEXICO, THE PRINCIPLE OF NATIONAL TREATMENT SHOULD BE EXTENDED TO CANADA AND THE U.S.

- DUE TO CONCENTRATION OF MEXICO'S ENERGY PRODUCTION FOR THE DOMESTIC MARKET AND THE LIMITATIONS ON FOREIGN INVOLVEMENT IN THE PRIMARY AND SOME SECONDARY PROCESSING LEVELS, THERE EXIST A NEED FOR RENEWED INVESTMENT IN THE MEXICAN ENERGY SECTOR. THE OPPORTUNITIES THAT WILL DEVELOP WILL MOST LIKELY BE IN THE FORM Of FINANCING OF JOINT VENTURES, ADMINISTERED BY THE MEXICAN NATIONAL PETROLEUM COMPANY, PEMEX.

- IT IS TOO EARLY TO DETERMINE THE EXTENT OF INVESTMENT THAT WILL BE PERMITTED IN AREAS THAT ARE PRESENTLY RESTRICTED, HOWEVER, ANY DECISION REGARDING INVESTMENT WILL BE COGNIZANT OF THE NEEDS AND INTERESTS OF THE CANADIAN ENERGY COMMUNITY.

ENERGY SECTOR : QUESTION #3

What limits exist in the liberalization of the Mexican energy industry?

RESPONSE:

- ANY NEGOTIATIONS CONCERNING THE LIBERALIZATION OF ENERGY IN TERMS OF OWNERSHIP AND MARKET ACCESS MUST RESPECT THE FRAMEWORK OF THE MEXICAN CONSTITUTION. THIS DOES NOT MEAN THAT IMPROVED TO MARKET ACCESS WILL NOT BE SOUGHT. THE NEGOTIATIONS ARE OF THE UTMOST IMPORTANCE TO SECURE FAIR AND EQUAL MARKET ACCESS ON A CONTINENTAL BASIS.

- WE RECOGNIZE THE SENSITIVITY PLACED BY MEXICO UPON THIS SECTOR AND THE LIMITATION PLACED BY THE CONSTITUTIONAL. WE BELIEVE IT IS IMPORTANT, HOWEVER, THAT THE NAFTA NEGOTIATIONS DIFFERENTIATE BETWEEN POLICY LIMITATIONS AND THOSE IMBEDDED IN THE CONSTITUTION.

ENERGY SECTOR : QUESTION # 4

Considering the pressure the United States is exerting upon Canada to reopen some sectors of the FTA during the NAFTA negotiations, what will happen to the guarantees previously secured?

RESPONSE:

- AT PRESENT, THERE ARE NO EXISTING TARIFFS ON ENERGY BETWEEN CANADA AND THE UNITED STATES AND THEREFORE THE NAFTA NEGOTIATIONS SHOULD NOT RAISE PROBLEMS IN THIS REGARD. THE PROVISION CONCERNING ENERGY UNDER THE FTA, AS IN OTHER SECTORS, ARE NOT OPEN TO GENERALIZED RENEGOTIATION UNDER A NAFTA. NEW ELEMENTS OF TRADE LIBERALIZATION THAT WOULD RESULT IN CHANGES TO THE FTA, IF THEY ARE BENEFICIAL TO THE CANADIAN ENERGY INDUSTRY, WILL BE CONSIDERED AND DISCUSSED WITH THE INDUSTRY.

ENERGY SECTOR : QUESTION #5

Will a NAFTA increase competition faced by Canadian exporters of natural gas in U.S. markets?

Background:

Mexican Energy:

Natural gas has become increasingly important component of the total energy consumption base of Mexico. To reduce the domestic dependence on the oil, natural gas and electricity has become increasingly exploited sources of energy. Since 1984, Mexico has followed a "no export policy" for natural gas, which resulted in the deterioration of export infrastructure, thereby precluding any major export initiatives to the U.S. without major reinvestment.

The potential for large gas exports does exist, however export potential will be limited to 200 to 250 billion of cubic feet for the 1990's. It is unlikely that Mexican exports will directly challenge Canadian exports to the United States over the long run, however, the demand for gas in the short run at peak periods cannot be met by Canadian producers without a significant increase in prices, and may thus be filled by Mexican exports. Market share, however, should not be significantly damaged.

RESPONSE:

- UNDER A NAFTA, THE CANADIAN EXPORTERS OF NATURAL GAS TO THE UNITED STATES WILL NOT BE HARMED BY THE LIBERALIZATION OF THE MARKETS. BARRING A DRASTIC CHANGE IN MEXICAN ENERGY POLICY, THERE WILL BE NO INCREASE IN COMPETITION FOR THE CANADIAN EXPORTERS AS THE MEXICAN GAS EXPORT INFRASTRUCTURE CANNOT SUPPORT IN THE SHORT SUCH A CHANGE.

- IN THE LONG TERM, WITH DIMINISHING OIL PRODUCTION AND RISING DOMESTIC ENERGY REQUIREMENTS, ANY LARGE SCALE EXPORTS MAY BE LIMITED, EXCEPT TO MEET THE EXCESS U.S. DEMAND NOT SERVICEABLE BY CANADIAN COMPANIES.

ENERGY SECTOR : QUESTION #6

Considering the barriers in the petrochemical industry in Mexico, what areas will be affected under a NAFTA?

Background:

Issue-

Considerable barriers still remain in the Mexican petrochemical sector as in oil and gas extraction and also in the production of 20 basic petrochemicals, despite recent reforms in the liberalization of investment practices and regulatory regime. In addition, the Mexican two tiered pricing system remains a significant barrier to trade.

Canada-

There would appear to be little short term interest of Canadian trade in this sector. The areas of greatest interest will most likely be in the sale of technology and related services for maintenance and modernization of Mexican production.

RESPONSE:

- THE LIBERALIZATION OF MEXICAN INVESTMENT AND IMPORT OF PRIMARY PETROLEUM PRODUCT REGULATIONS CONTINUE TO POSE A BARRIER TO FULL INTEGRATION OF THE MEXICAN MARKET ON A CONTINENTAL BASIS. OUR EFFORTS AT FURTHER LIBERALIZATION WILL TAKE INTO ACCOUNT THE LEGITIMATE POLITICAL, SOVEREIGNTY INTERESTS OF MEXICO.

- IN THE SHORT TERM, CANADIAN INTERESTS IN TERMS OF EXPORTS OF PRIMARY AND SECONDARY PRODUCTS ARE LIMITED. THE MAIN INTEREST WILL BE IN THE SALE OF PETROLEUM EXTRACTION EQUIPMENT TO THE STATE PETROLEUM COMPANY OF MEXICO, PEMEX. SIGNIFICANT EXPORT OPPORTUNITIES WILL DEVELOP FOR THE IMPLEMENTATION OF CANADIAN TECHNOLOGY IN THE MODERNIZATION OF THE MEXICAN EXTRACTION AND TREATMENT INDUSTRIES.

- MOREOVER, CANADA IS ALSO INTERESTED IN THE REDUCTION OF MEXICAN PROTECTIVE MEASURES ON THE PRODUCTION OF PETROCHEMICALS AND THE REMOVAL OF FEEDSTOCK SUBSIDIZATION.

ENERGY SECTOR : QUESTION #7

How will the Canadian petrochemical industry fare under NAFTA? What changes are expected in the continental markets?

Background:

The petrochemical industries in Canada and Mexico are approximately the same size, however, the Mexican industry concentrates mainly on production for the domestic market, whereas approximately one half of the Canada production is exported.

PEMEX holds exclusive rights for the production of 20 basic petrochemicals. The liberalization of the petrochemical reserved lists has reclassified 14 basic petrochemicals from exclusive state production to the secondary in the production of which only minority foreign participation is permitted. In addition, 539 previously classified "secondary" petrochemicals have been reclassified as "tertiary", open to 100% foreign participation.

At present Mexico operates a two-tiered pricing system for petrochemical feedstocks through which product used for domestic consumption is priced at set a lower rate than product for export.

There exists the possibility of investment opportunities developing under NAFTA. Under the 1989 Investment Decree, the manufacture of secondary petrochemicals is an activity in which foreign investment of up to 40% of the capital stock is permitted. Such investment, over the long term could conceivably hinder exports by Canadian producers as Mexican companies become increasingly competitive on a continental basis.

RESPONSE:

- THE LIBERALIZATION OF THE PETROCHEMICAL INDUSTRY COULD PROVIDE SIGNIFICANT EXPORT OPPORTUNITIES FOR CANADIAN PRODUCERS IN MEXICO.

ENERGY SECTOR : QUESTION #8

Considering the Mexican subsidies given to energy and chemical feedstocks, what changes will the government be seeking in the negotiations?

RESPONSE:

- IT IS THE GOVERNMENT'S BELIEF THAT THE PRICING OF FEEDSTOCKS AND ENERGY PRODUCTS SHOULD BE MARKET DRIVEN AND NOT SUPPORTED THROUGH SUBSIDIES OR OTHER BARRIERS TO TRADE. WHILE WE BELIEVE THE MEXICAN GOVERNMENT WILL WISH TO RETAIN THE OPTION OF USING SPECIFIC INCENTIVES TO ASSIST IN THE RESEARCH AND DEVELOPMENT, THE MARKET SHOULD NOT BE AFFECTED BY SUCH MEASURES AND THE ADVANTAGES GRANTED TO NATIONAL COMPANIES SUCH BE GENERALIZED TO INCLUDE CANADIAN AND THE U.S. COMPANIES.

ENERGY SECTOR : QUESTION #9

Under a NAFTA, what will be done about the Mexican two tier pricing system for the promotion of the processing of energy products domestically?

RESPONSE:

- WHILE THE FINAL OUTCOME OF THE NEGOTIATIONS REGARDING PRICING TIERS FOR PETROCHEMICALS IS, AS OF YET, UNKNOWN, THE NAFTA NEGOTIATIONS ARE DEALING WITH JUST SUCH ISSUES. THE PURPOSE OF THE NEGOTIATIONS IS TO OPEN THE RESPECTIVE ECONOMIES OF CANADA, THE UNITED STATES AND MEXICO TO THE MARKET PRICING, WHILE RECOGNIZING THE NATIONAL SECURITY INTERESTS AND INDUSTRY SENSITIVITIES OF THE RESPECTIVE COUNTRIES. IT IS OUR HOPE THAT THE SPIRIT OF THE NEGOTIATIONS WILL BE CARRIED OVER INTO THE DISCUSSIONS ON ENERGY.

ENERGY SECTOR : QUESTION #10

Considering the lax environmental regulations in Mexico, will the Canadian petrochemical industry not suffer as a result?

RESPONSE:

- THE ISSUE OF ENVIRONMENTAL STANDARDS AND REGULATIONS, AND HOW THEY AFFECT TRADE AND COMPETITIVENESS WILL BE EXAMINED IN PARALLEL NEGOTIATIONS TO THE NAFTA NEGOTIATIONS, BECAUSE A PARALLEL FORUM IS MOST EFFECTIVE MEANS OF DEALING WITH THE PROBLEMS OF THE ENVIRONMENT.

- WE RECOGNIZE THE INTERESTS OF THE PETROLEUM INDUSTRY. IN THIS REGARD, WE ARE PURSUING NEGOTIATIONS TO ENSURE THAT FAIR AND EQUAL TREATMENT OF COMPANIES IN CANADA, THE UNITED STATES AND MEXICO EXISTS, AND THAT DOMESTIC REGULATIONS DO NOT HINDER INTERNATIONAL COMPETITIVENESS OF CANADIAN COMPANIES.

- PRESIDENT SALINAS HAS RECOGNIZED MEXICO'S ENVIRONMENTAL RECORD AND, IN RESPONSE, HAS SIGNED INTERNATIONAL ENVIRONMENTAL COOPERATION AGREEMENTS WITH BOTH CANADA AND THE UNITED STATES. THE ENVIRONMENTAL PROBLEMS OF MEXICO AND THEIR RESOLUTION WILL PROVIDE OPPORTUNITIES FOR COMPANIES EXPORTING PETROLEUM POLLUTION PREVENTION AND ABATEMENT EQUIPMENT AND SERVICES.

ENERGY SECTOR : QUESTION #11

How might public electric utilities become involved in Mexico?

RESPONSE:

- WHILE THE GENERATION AND SUPPLY OF ELECTRICITY IS RESERVED EXCLUSIVELY FOR THE STATE, FOREIGN PARTICIPATION IN THE CONSTRUCTION AND THE MAINTENANCE OF ELECTRICITY GENERATING STATIONS, ELECTRICITY LINES AND NETWORKS IS PERMITTED. IN THESE AREAS, CANADIAN IS COMPETITIVE.

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FISHERIES SECTOR

FISHERIES SECTOR: LIST OF QUESTIONS

1) How will Canadian markets change under NAFTA?

2) Will a NAFTA not increase the competition faced by the Canadian fisheries industry, especially for the inshore fishery?

3) Considering the spirit of trade liberalization, will a NAFTA not force Canada to permit lower standards of fish and aquaculture products into Canada?

4) Will the liberalization of protective measures under a NAFTA force changes to Canadian restriction on labelling of tuna?

FISHERIES SECTOR

FISHERIES SECTOR : QUESTION #1

Would Canadian exporters of fish face the similar export market as to other nations?

Background:

The Mexican export market is not significantly different than that in Canada, though infrastructure, as in other sectors requires development. This is especially true of transportation and storage infrastructure as the refrigerated and frozen distribution still acts as a constraint to increased exports under the present trade regime. Under a NAFTA investment in these areas should be a priority for development.

RESPONSE:

- MEXICAN DOMESTIC INFRASTRUCTURE WILL REQUIRE SOME DEVELOPMENT FOR ITS FULL POTENTIAL AS AN EXPORT MARKET TO BE ATTAINED. THIS IS ESPECIALLY TRUE OF THE DISTRIBUTION SYSTEM OF REFRIGERATED AND FROZEN PRODUCTS.

FISHERIES SECTOR : QUESTION #2

Will a NAFTA not increase the competition faced by the Canadian fisheries industry, especially for the inshore fishery?

RESPONSE:

- A NAFTA WILL LIBERALIZE THE MARKET FOR THE EXPORT OF FISH AND SHELL FISH THROUGH THE REMOVAL OF EXISTING TARIFFS AND NON-TARIFF BARRIERS WHICH LIMIT CANADIAN EXPORTS. THE MEXICAN FISHERIES, APART FOR THE EXPORT OF TUNA AND SHRIMP, IS PRIMARILY ORIENTED TOWARDS THE SUPPLY OF THE DOMESTIC MARKET. THUS, APART FOR THE AFOREMENTIONED PRODUCTS, THE MEXICAN FISHING INDUSTRY DOES NOT POSE A CHALLENGE TO THE CANADIAN FISHERY.

- THERE EXISTS SIGNIFICANT EXPORT POTENTIAL IN MEXICO FOR HIGHER VALUE SPECIALTY CANADIAN FISH AND SHELLFISH PRODUCTS. THIS IS A MARKET WHICH SHALL CONTINUE TO EXPAND AS THE STRENGTH OF MEXICAN ECONOMY INCREASES UNDER NAFTA.

FISHERIES SECTOR : QUESTION #3

Considering the spirit of trade liberalization, will a NAFTA not force Canada to permit lower standards of fish and aquaculture products into Canada?

RESPONSE:

- WE WILL NOT ENTER INTO ANY AGREEMENT WHICH WILL DIMINISH OUR ABILITY TO CONTROL T0 THE QUALITY OF IMPORTS. THE NAFTA WILL ENSURE THAT PROTECTION STANDARDS ESTABLISHED BY THIS GOVERNMENT AND BY THOSE OF THE UNITED STATES AND MEXICO ARE SCIENTIFICALLY JUSTIFIABLE, THUS CREATING A LEVEL PLAYING FIELD FOR ALL THREE SIGNATORIES.

FISHERIES SECTOR : QUESTION #4

Will the liberalization of protective measures under a NAFTA force changes to Canadian restriction on labelling of tuna?

RESPONSE:

- THE PROTECTION OF MARINE MAMMALS, SUCH AS DOLPHINS FROM INCIDENTAL INJURY OR DEATH IS A CONCERN OF THIS GOVERNMENT. THE MONITORING OF MARINE MAMMALS KILLS IN THE FISHING OF COMMERCIALLY VALUABLE SPECIES WILL CONTINUE. THE LABELLING OF PACKAGING OF CANNED AND FRESH PRODUCE WILL CONTINUE. WE ENCOURAGE MEXICO TO VIGILENT IN THE PROTECTION OF NON-COMMERCIALLY VIABLER SPECIES.

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FORESTRY SECTOR

FORESTRY SECTOR: LIST OF QUESTIONS

1) A) What will NAFTA do for Canadian forestry exports to Mexico?
   B) To the United States?

2) Which sectors are likely to benefit the most from NAFTA? Which sectors are likely be most challenged?

3) Under a NAFTA, will there be increased opportunities for investment in Mexico for Canadian companies?

4) A) What advantages does the Canadian sector have over the United States forestry industry for exporting to Mexico?
   B) How do Canadian products compare to counterparts in terms of quality?

5) Will Canada be able to compete with the United States under a NAFTA regime?

6) A) Considering the increased competition that would emerge under NAFTA, will the Canadian forestry industry be able to compete effectively? Short Term?

   B) Long Term?

7) What effects will tariff reduction have upon the Canadian forest industry?

8) What effect will the Memorandum of Understanding on Softwood Lumber between the United States and Mexico have under NAFTA?

FORESTRY SECTOR

FORESTRY SECTOR : QUESTION #1

A) What will NAFTA do for forestry exports to Mexico?

Background:

Mexico: Demand changes

Canadian exporters can expect gains from NAFTA as the removal of Mexican tariffs will lower prices of forest products in Mexico. Moreover, there will be a general increase economic activity associated with free trade, resulting in increased demand for wood and paper products.

Demand for newsprint should increase with the simple removal of the tariffs under a FTA by 4% in the short term and 10% in the long term, even if there is no real increase in Mexican income. The latent demand in Mexico for forest product is such that for each 10% increase in real income there will be an increase in demand of 12,%, 14% and 13% respectively.

In Mexico, there exists an estimated housing deficit of 2 million units. The increase in housing construction will, if the market is approach properly result in an increase in solid wood demand. The Maquiladora area in Northern Mexico will most likely be the best area for solid wood exports. The main competition in this market is the traditional brick and masonry construction.

RESPONSE:

- THE MEXICAN MARKET AT PRESENT REPRESENTS ONLY A SMALL FRACTION OF TOTAL WORLD WIDE FOREST PRODUCT EXPORTS FOR CANADA. IN THE MEDIUM TERM TO LONG TERM, MEXICO REPRESENTS A POTENTIALLY LARGE MARKET FOR EXPORT OF SOFTWOOD LUMBER FOR HOUSING CONSTRUCTION.

- THE PULP AND PAPER SECTOR ALSO PRESENT EXCITING EXPORT OPPORTUNITIES DUE TO THE NEED FOR VIRGIN WOOD FIBRES TO SUPPLEMENT RECYCLING PROGRAMS.

B) To the United States?

United States: Demand Changes

A displacement effect in the American market may be created by the United States forestry industry concentrating on exports to Mexico. This effect would be fully realized if the American producers have long term difficulty in management and production of forestry resources, particularly in softwood lumber. The magnitude of such as shift, however, is projected to be limited.

The newsprint producers seeking export opportunities in the United States will likely be disadvantaged. Recently introduced legislation governing newsprint production requires a percentage of the recycled fibres be of domestic origin, for the production of most newsprint.

RESPONSE:

- UNDER A NAFTA, SOME EXPORT OPPORTUNITIES WILL DEVELOP FOR THE CANADIAN PRODUCERS IN THE UNITED STATES. THE MAGNITUDE OF THE GAINS, HOWEVER, WILL DEPEND UPON THE INTERNAL DYNAMICS OF AMERICAN MARKETS AND THE MANAGEMENT OF ANNUAL ALLOWABLE CUTS OF SOFTWOOD LUMBER.

FORESTRY SECTOR : QUESTION #2

Which sectors are likely to benefit the most from NAFTA? Which sectors are likely be most challenged?

Background:

Benefit-

The increase in real income will result in a significant shift in market demand in terms of quality of product in Mexico. This is where the significant gains may be achieved by Canadian exporters. The shift to higher quality is the result of rising real incomes, and the removal of price controls on printed matter. The reasoning is that price controls on printed matter prevented the publisher from being able to pass on the cost of more expensive paper to the consumers, thus opting for lower quality paper products.

The primary advantages that the Canadian forestry industry possesses in the context of NAFTA are the following: i) a large supply of lumber due to differential in annual cut allowance and actual harvest particularly in the hardwood sector, ii) a high quality pulp fibres due to natural endowment of slower growth rates, iii) the relatively low cost of energy relative to the United States.

The primary areas of market exploitation in Mexico for Canadian producers will be in areas formerly services by countries other than the United States, which now will be subject to tariffs from which NAFTA members are exempt.

Challenges-

The declining Canadian share in Mexican forest product markets does not bode well for the future of Canadian exports. On a cost basis, the softwood lumber industry is in a better position than the pulp and paper industry, even with projected demand increases as real income in Mexico.

The greater transportation cost realized due to geographic location is an implicit barrier to trade. The relative closeness to the Mexican market, especially the Maquiladora industries, provides the American producers with a distinct cost advantage over Canadian exporters.

The United States market niche in Mexico is also a disadvantage for Canadian exporters. The long standing relationship that the US has had with Mexico and also the consumer preferences that has been established in Mexico, will make market penetration more difficult.

Costs for Canadian producers are also exaggerated by the higher cost Canadian dollar, at $0.86 on average. Exchange rate policy is, however, but a small fraction of the problems that face the relatively uncompetitive pulp and paper industry.

RESPONSE:

- THE LIBERALIZATION OF THE MEXICAN ECONOMY WILL PROVIDE EXCELLENT OPPORTUNITIES FOR ALL SECTORS OF THE CANADIAN FOREST INDUSTRY TO FORGE AHEAD INTO THE MEXICAN ECONOMY. THE CANADIAN FOREST INDUSTRY WILL BENEFIT FROM INCREASED ACCESS TO MEXICAN MARKETS THOUGH THERE WILL BE STRICT COMPETITION FROM THE UNITED STATES. CANADIAN INDUSTRY WILL FIND EXCELLENT OPPORTUNITIES IN AREAS WHERE NON-NORTH AMERICAN COUNTRIES EXCLUDED FROM THE TRILATERAL NEGOTIATIONS PRESENTLY COMPETE WITH CANADIAN INDUSTRY.

FORESTRY SECTOR : QUESTION #3

Under a NAFTA, will there be increased opportunities for investment in Mexico for Canadian companies?

Background:

In May, 1989, Mexican government relaxed its 1973 Foreign Investment Law. It is now possible to have 100% ownership in "unclassified" activities, which as a total generate approximately two-thirds of Mexican gross domestic product. Activities which continue to be reserved exclusively for Mexican citizens and Mexican companies include forestry and the exploitation of forest nurseries. The collection of forest products and the felling of trees are activities which at present require prior approval of the Mexican Foreign Investment Commission, if foreign investors are to hold a majority stake.

Approval of foreign ownership of "unclassified" forest industries up to 100% is automatic upon registration with the National Commission on Foreign Investment under the following conditions:

-investment is made in an unclassified activity.
-investment does not exceed $100 million.
-financing is accomplished with foreign funds. At the end of the pre-operating stage, shareholders' equity must be at least 20 % of investment in fixed assets. Foreign investors already in Mexico may use funds already generated there.
-investment is limited in certain areas of Mexico.
-the company over the first three years of operation a favourable balance of payments position.
-investment creates permanent employment for Mexican workers and provides continuing training to upgrade employee skills.
-investment incorporates technology that satisfies existing environmental requirements.

RESPONSE:

- IT IS TOO EARLY AT THIS STAGE OF THE NEGOTIATIONS TO PREDICT THE OUTCOME ITS EFFECT UPON THE INVESTMENT. THE INVESTMENT LAW INTRODUCED IN 1989 REPRESENT A SIGNIFICANT LIBERALIZATION OF INVESTMENT OPPORTUNITIES AND WE BELIEVE THAT THE FUTURE WILL PRESENT FURTHER LIBERALIZATION OPPORTUNITIES.

FORESTRY SECTOR : QUESTION #4

A) What advantages does the Canadian sector have over the US forestry industry for exporting to Mexico?

Background:

Supply of Wood:

Canada-

Canada has a relatively large supply of wood compared to either the United States or Mexico. While the annual harvest is approaching the Allowable Annual Cut limits, with improved economic conditions, many marginal areas would become accessible through reduced real cost of logging in remote areas, or with an improvement in technology.

There is considerable possibility for increased harvests of hardwoods. The harvest cut was less than the Allowable Annual Cut by 40 million cubic metres.

United States-

The United States Pacific Northwest will be perhaps limited in terms of total timber harvestable as a federal inter-agency committee has recommended that 3.4 million hectares be withdrawn from the commercial fibre base. This is expected to result in the decrease in annual harvests by 43% of 1985-1989 average.

The US harvests will come increasing from private lands and not public lands, this is particularly true for hardwoods. By 2010, the softwood plantations of southwestern United States will become harvestable. This could result in a decline of the total harvests of the United States in the interim.

Mexico-

Mexico's forestry sector suffers primarily from the structure of land tenure, Ejidos,- farms the size of small commercial plots and due to the Mexican lore of business having no right to this land, it will be very difficult to get full productive use out of these lands. In addition, this land holding system precludes long term contracts and thus creates significant uncertainty in the value of output. No significant changes in Ejidos system is expected soon. The yields of wood is very low, as low as 1.24 cubic metres per hectare per year. Deforestation is as a significant problem for the sector.

RESPONSE:

- IN TERMS OF SUPPLY OF WOOD CANADA IS IN EXCELLENT POSITION TO PROVIDE FOR THE MEXICAN ECONOMY. AS NET EXPORTERS, WITH A LARGE IMMEDIATE POTENTIAL SUPPLY OF SOFTWOOD AND HARDWOOD LUMBER, THE CANADIAN FORESTRY SECTOR IS POSITIONED WELL TO EXPLOIT ANY INCREASED DEMAND IN MEXICO.

B) How do Canadian products compare to counterparts in terms of quality?

Background:

Canadian wood fibres, due to slow rate of growth, are longer and are considered better for the production of pulp and paper products. By comparison, US wood products are lower in quality. This is a significant problem for mills in the South West United States in the sawing of wood. Mexican paper products used non-cellulose sources for pulp production which are also generally inferior in quality. Their suitability for the production of high quality paper products is severely limited. Mexico also uses a large proportion of recycled fibres in the production of paper. There is a need for the introduction of virgin wood into the recycled process to ensure that quality is maintained.

RESPONSE:

- CANADIAN WOOD QUALITY RANKS HIGHLY WORLD WIDE. THE QUALITY OF CANADIAN PRODUCTS IS AN IMPORTANT FACTOR IN PENETRATION OF NEW MARKETS THAT WILL DEVELOP WITH THE LIBERALIZATION OF TRADE.

FORESTRY SECTOR : QUESTION #5

Will Canada be able to compete with the United States under a NAFTA regime?

Background:

1) Newsprint and pulp

The pulp and paper sector while producing the highest quality pulp for use in paper production, is high cost in the actual transformation of the product into paper. This is primarily due to older technology from the 1970's in newsprint making particularly in comparison to the United States. Only Sweden produces bleached pulp and newsprint at a higher cost than Canada. The Canadian industry is not in a worse position due to the limits imposed against Chilean production levels, and the imperfect nature of Brazilian hardwood pulp. The appreciated Canadian dollar adds to the uncompetitive nature of Canadian producers of pulp and newsprint producers.

2) Transportation:

Inherent disadvantage exists for Canadian producers in Canada because of the distance the US must travel to service the Mexican market. Some compensation for this disadvantage may be realized by moving export products through the Panama Canal from the British Columbian Interior to Europe. Mexican ports may be served with minimal additional cost.

3) Market Access

The absence of market niches as those established by the United States in Mexico represents a significant hinderance to the improvement of service and sale in Mexico. Brand loyalty has also been established by many companies already operating in Mexico.

RESPONSE:

- THE CANADIAN FOREST INDUSTRY WILL BE ABLE TO COMPETE EFFECTIVELY AGAINST OUR U.S. COUNTERPART. THE INDUSTRY THOUGH A NAFTA WILL PRESENT EXCELLENT OPPORTUNITIES THROUGH INCREASED DEMAND AND A STRESS ON COMPETITIVENESS FOR CANADIAN FOREST COMPANIES TO EXPORT INTO NICHES IN THE MEXICAN AND AMERICAN MARKETS.

FORESTRY SECTOR : QUESTION 6:

A) Considering the increased competition that would emerge under NAFTA, will the Canadian forestry industry be able to compete effectively? Short Term?

Background:

In the short term there will be little threat except in the change in Mexican imports of pulp and paper that will shift to higher value products and also the likely of increased exports of soft and hard wood lumber.

In terms of the cost of transportation due to the geographic location of harvestable acreage and distance to market, the earlier market presence and the established market niches, the United States will possess a slight advantage in the exploitation of the markets that will open up under a NAFTA.

Due to the generally higher quality Canadian product on average with some notable exceptions, canadian products will remain competitive as the activity of the Mexican economy increases.

RESPONSE:

- NICHE MARKETS WILL DEVELOP FOR CANADIAN EXPORTER IN MEXICO WITH THE INCREASED DEMAND THAT WILL RESULT FROM THE GENERAL RISE IN ECONOMIC ACTIVITY.

B) Long Term?

Background:

The main challenges to Canada will come over the long term if the free trade area are expanded to include a hemispheric zone. The principle competitors under such a program will be Chile and Brazil, especially in the production of pulp and paper products. Barring the creation of such a free trade zone, the Canadian forestry industry will not be under significant pressure from the United States or Mexico.

RESPONSE:

- IN THE LONG TERM, THE NAFTA DOES NOT POSE A THREAT TO THE CANADIAN FOREST PRODUCT EXPORTER.

FORESTRY SECTOR : QUESTION 7

What effects will tariff reduction have upon the forest industry?

Background:

For wood products (lumber, panels, shingles), the Canadian trade with this area is very modest with less than 1% of Canadian lumber exported to Mexico. While the total amount of trade to Mexico is quite limited, the Mexican tariff rates on wood products are in the 10% to 20% range and participation will ensure access to these markets as they open up on the same basis as the United States.

The agreement would provide easier access for converted wood products and paper products entering Mexico. The nature of development in Mexico will result in the enhancement of Mexico's ability to export to the United States which would be a challenge to Canadian exports of converted wood products.

Canadian exports are hindered by the appreciated Canadian dollar, higher wage rates, taxes and benefits in Canada. In addition, persistently high interest rates over time could encourage manufacturers of finished wood products to relocate in Mexico, resulting in the transfer of technology and capital.

For pulp and paper products, due to the Mexican policy of using waste paper as much as possible in the production of most grades of paper exports of higher value Canadian products has fallen. The chief competition is from Scandinavia and the United States, which continue to out export Canadian products by a ratio of 12:1.

The result of free trade might enable Canada to replace Scandinavia on a cost/tariff basis, however, the major benefits will be accrued by the United States which is located within easy rail and road distance to the major Mexican markets.

RESPONSE:

- THE LIBERALIZATION OF TRADE WILL PROVIDE SIGNIFICANT EXPORT OPPORTUNITIES FOR CANADIAN FORESTRY COMPANIES. COMPETITION WITH THE UNITED STATES WILL REMAIN STIFF, HOWEVER, THE COMPETITIVENESS OF THE U.S. FOREST INDUSTRY WILL NOT HINDER THE TRADE OF FOREST PRODUCTS BETWEEN CANADA AND MEXICO.

FORESTRY SECTOR : QUESTION #8

Background:

The Softwood lumber dispute between the United States and Canada settled through the Memorandum of Understanding set forth provisions for the voluntary imposition of an export tax of Canadian softwood lumber until the producing provinces had adjusted certain stumpage practices. This Memorandum was grandfathered over to the Free Trade Agreement of 1987, under Article 2009. There have been parallel to examine the necessity of the M.O.U., however, the outcome of these discussions are not contingent upon the success of the NAFTA negotiations.

RESPONSE:

- WITH RESPECT TO POSSIBLY CHANGING THE MEMORANDUM OF UNDERSTANDING OF SOFT WOOD LUMBER, IT IS CONSIDERED TO BE A "STAND ALONE" BILATERAL ISSUE THAT WILL NOT BE NEGOTIATED UNDER NAFTA.

GOVERNMENT PROCUREMENT

GOVERNMENT PROCUREMENT: LIST OF QUESTIONS

1) What will Canada seek in NAFTA for government procurement?

2) What would a NAFTA mean to the government procurement provisions of the Canada-U.S. FTA?

3) How will a NAFTA decision on government procurement stand in relation to the MTN?

4) Will a liberalization of government procurement regulations not lead to increased competition in Canada for Canadian firms?

GOVERNMENT PROCUREMENT

GOVERNMENT PROCUREMENT : QUESTION #1

What will Canada seek in NAFTA for government procurement?

Background:

FTA-

Under the FTA, substantial gains were made in liberalizing the existing level of government procurement liberalization between Canada and the United States; through lowering of minimum contract value to $U.S. 25,000 of all goods covered under the GATT Code. The FTA expands upon the gains achieved in the GATT Code. The FTA also improved upon GATT Code transparency procedures with respect to bid-challenge procedures to ensure equal treatment of suppliers.

General-

Canada would seek a harmonization of Mexican practices for government procurement on the level of the GATT Code and also including the FTA practices established between Canada and the United States.

RESPONSE:

- THE NAFTA AGREEMENT PROVIDES AN EXCELLENT OPPORTUNITY FOR THE SIGNATORIES TO IMPROVE ACCESS TO THEIR RESPECTIVE MARKETS AND TO CREATE A LEVEL PLAYING FIELD IN GOVERNMENT PROCUREMENT. CANADA'S OBJECTIVES IS TO SECURE THE MAXIMUM POSSIBLE LIBERALIZATION ON THE BASIS OF NON-DISCRIMINATORY NATIONAL TREATMENT.

- THE FTA BETWEEN CANADA AND THE UNITED STATES MAY SERVE AS A MODEL TO LIBERALIZE MEXICO'S GOVERNMENT PROCUREMENT PRACTICES WITH THOSE OF CANADA AND THE UNITED STATES. DEPENDING UPON THE MEASURES INTRODUCED, THE PROVISIONS REGARDING GOVERNMENT PROCUREMENT IN THE FTA MAY BE FURTHER LIBERALIZED IF THEY ARE IN THE BEST INTERESTS OF CANADA.

GOVERNMENT PROCUREMENT : QUESTION #2

What would a NAFTA mean to the government procurement provisions of the Canada-U.S. FTA?

Background:

Canadian interests-

Under the FTA and the GATT Code, Canada has gained only limited access to the U.S. government procurement market, as less the 5% of the public market is disciplined internationally. Given the relatively large size of the government procurement market in the United States estimated at $749 billion in 1987, there is intense interest in securing further a expansion of access over the level secured under the FTA. Any decisions made a the Uruguay Round may reduce the priority of a change in conditions under NAFTA.

FTA-

FTA Article 1307 makes provisions for future negotiations:"The Parties shall undertake bilateral negotiations with a view to improving and expanding the provisions of this Chapter, not later than one year after the conclusion of the existing multilateral renegotiations pursuant to Article IX:(b) of the Code, taking into account the results of these negotiations.

RESPONSE:

- ALTHOUGH THE ACCESS TO THE US. AND CANADIAN MARKETS HAS BEEN NEGOTIATED UNDER THE FTA, ARTICLE 1307 OF THE FTA MAKES PROVISION FOR FURTHER NEGOTIATIONS TO IMPROVE AND EXPAND THE GOVERNMENT PROCUREMENT PROVISIONS. IF NAFTA MEASURES ARE CONDUCIVE TO A MORE LIBERALIZED AND OPEN ACCESS TO THE U.S. PUBLIC MARKETS, CHANGES TO THE FTA, WHICH ARE BENEFICIAL TO CANADA, MAY BE CONSIDERED.

GOVERNMENT PROCUREMENT : QUESTION #3

How will a NAFTA decision on government procurement stand in relation to the MTN?

Background:

Mexico-

Mexico has a restrictive procurement policy and is not a signatory of the GATT Government Procurement Code. Therefore, Mexico would not be tied up with the improvements made to the Code.

RESPONSE:

- THE NEGOTIATIONS ON THE GATT CODE CARRIED ON UNDER THE MTN ARE CONSIDERED TO BE PARALLEL DISCUSSIONS TO THE NAFTA NEGOTIATIONS. ALTHOUGH AT THE PRESENT STAGE, IT IS TOO EARLY TO DETERMINE THE DECISIONS OF THE TWO NEGOTIATIONS PROCESSES COULD DEPEND UPON THE TIMING OF THE MTN AS WELL AS THE NATURE OF THE NAFTA. THE NAFTA NEGOTIATIONS MAY EXTEND MTN SCOPE.

GOVERNMENT PROCUREMENT : QUESTION #4

Will a liberalization of government procurement regulations not lead to increased competition in Canada for Canadian firms?

RESPONSE:

- CANADA HAS ALREADY NEGOTIATED A LIBERALIZED GOVERNMENT PROCUREMENT SYSTEM WITH THE UNITED STATES. THE FTA HAS OPENED A COMPLETELY NEW MARKET FOR CANADIAN COMPANIES. OVER THE YEARS, CANADA HAS PROVEN ITS COMPETITIVENESS IN BEING THE UNITED STATES' NUMBER ONE TRADING PARTNER; CANADIAN COMPANIES SHOULD NOT BE AFRAID TO COMPETE AS THEY ARE PROVING DAILY THAT THEY CAN BE COMPETITIVE, IN THE DEVELOPMENT AND PRODUCTION OF PUBLIC SECTOR GOODS AND SERVICES IN IMPORTANT SECTORS SUCH AS TELECOMMUNICATIONS AND POWER GENERATION AND TRANSMISSION EQUIPMENT. CANADA'S PRIMARY CONCERN IS TO ACHIEVE NATIONAL TREATMENT FOR CANADIAN SUPPLIERS ON THE BASIS OF AMERICAN SUPPLIERS IN THE UNITED.

- WHILE SIZE OF MEXICO'S GOVERNMENT PROCUREMENT IS AT PRESENT SMALL RELATIVE TO EITHER THE UNITED STATES OR CANADA, THE POTENTIAL FOR GROWTH IN MEXICO OVER THE MEDIUM TERM FUTURE IS GREAT. THE SECURING OF ACCESS TO THE MEXICAN PUBLIC MARKET ON AN EQUAL FOOTING WITH THE UNITED STATES IS OF GREAT INTEREST TO THE CANADIAN GOVERNMENT.

- A MAJOR PRIORITY OF THE CANADIAN GOVERNMENT IS TO SECURE THE REMOVAL OF THE U.S. "BUY AMERICAN PROVISIONS" FOR CANADIAN SUPPLIERS.

7

INVESTMENT INTERESTS

INVESTMENT INTERESTS: LIST OF QUESTIONS

1) Under which principles will the NAFTA negotiations on Investment function?

2) How will Canada's investment concerns differ under NAFTA as oppose to the FTA?

3) What protective measures against foreign investment will be sought by Canada under a NAFTA agreement?

4) Given that the U.S. did not receive all the investment principles it wanted under the FTA, will the NAFTA not simply become a new forum to achieve these measures?

5) How would a decision at the MTN negotiations affect the NAFTA negotiations on investment?

6) Is Mexico not today still essentially a public run economy with little chance for foreign investment?

7) Considering the vastly different industrial climate in Mexico, in terms of taxation, labour rates environmental protection, how can Canada remain attractive to foreign capital?

INVESTMENT INTERESTS

INVESTMENT : QUESTION #1

Under which principles will the NAFTA negotiations on Investment function?

RESPONSE:

- WE WILL BE SEEKING SIMILAR INVESTMENT TREATMENT AS SECURED UNDER THE FTA; NON-DISCRIMINATORY NATIONAL TREATMENT OF INVESTORS AND INVESTING COMPANIES, EXPANDED RIGHTS OF ESTABLISHMENT IN MEXICO, NATIONAL TREATMENT AFTER THE ESTABLISHMENT OF NEW FIRMS AND WITH REMOVAL OF ALL EXISTING PERFORMANCE REQUIREMENTS AND PROTECTION FORM EXPROPRIATION WITHOUT PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION. ONCE FIRMS ARE ESTABLISHED, THE CANADIAN FIRM OPERATING IN MEXICO MUST BE FREE TO TRANSFER FUNDS RELATED TO INVESTMENT AND ABLE TO PROTECT INTELLECTUAL PROPERTY.

- WE ARE ALSO SEEKING TO ESTABLISH BINDING INTERNATIONAL ARBITRATION TO ENSURE AN IMPARTIAL, FAIR THIRD PARTY HEARINGS OVER TRADE DISPUTES.

INVESTMENT : QUESTION #2

How will Canada's investment concerns differ under NAFTA as oppose to the FTA?

RESPONSE:

- THE FTA REPRESENTED A CONSOLIDATION OF LONG-ESTABLISHED TRADE AND INVESTMENT PRACTICES CARRIED ON BETWEEN CANADA AND THE UNITED STATES. A NAFTA, ON THE OTHER HAND, WILL EXPAND CANADIAN MARKETS FOR INVESTMENT AND LIBERALIZE OPPORTUNITIES ABROAD. THE APPROPRIATE NETWORKS FOR INTEGRATION INTO THESE MARKETS ARE DEVELOPING AT PRESENT. A NAFTA AGREEMENT WILL ENSURE SECURE ACCESS FOR ALL CANADIAN COMPANIES.

INVESTMENT : QUESTION # 3

What protective measures against foreign investment will be sought by Canada under a NAFTA agreement?

RESPONSE:

- IT IS FIRST OF ALL IMPORTANT TO REMEMBER THE PROTECTION ALREADY GRANTED FOR CANADA FROM AMERICAN INVESTMENT PRESENT UNDER THE FTA. THE PRINCIPLES OUTLINED IN THIS AGREEMENT MAY SERVE FOR THE NAFTA TO PROTECT ESSENTIAL CANADIAN INTERESTS OF NATIONAL SECURITY.

- MOREOVER, THE PRINCIPLE OF REVIEW OF FOREIGN INVESTMENT IN CASES WHERE NATIONAL SECURITY, WHICH IS YET TO BE FULLY DEFINED, IS IMPORTANT TO SECURING FAIR AND EQUAL ACCESS FOR CANADIAN DOMESTICALLY AND THOSE INTERESTED IN INVESTMENT IN EITHER THE UNITED STATES OR MEXICO.

INVESTMENT : QUESTION # 4

Given that the U.S. did not receive all the investment principles it wanted under the FTA, will the NAFTA not simply become a new forum to achieve these measures?

Background:

Under the FTA, certain guidelines and exemptions were decided upon to govern Canadian-American investment. The United States would like Canada to make the following concessions:

-give up restrictions on foreign investment and ownership except in a few limited circumstances,
-end the review process presently conducted by Investment Canada,
-eliminate all performance requirements,
-submit disputes to an international arbitration mechanism between the Canadian government and U.S investors.

RESPONSE:

- AS WE HAVE REITERATED ON NUMEROUS OCCASIONS, THE FTA IS NOT OPEN FOR RENEGOTIATION. THE NAFTA NEGOTIATIONS DO, HOWEVER, PROVIDE OPPORTUNITIES TO EXPAND UPON THE FTA AND ADDITIONS WILL BE CONSIDERED IF THEY ARE CONSIDERED TO BE IN THE BEST INTEREST OF CANADIAN FIRMS.

INVESTMENT : QUESTION # 5

How would a decision at the MTN negotiations affect the NAFTA negotiations on investment?

Background:

The ability for Mexico to accommodate U.S. demands will be contingent upon the position of investment in the Uruguay Round. A GATT Accord on Trade Related Investment Measures (TRIMS) will most likely be on the outer limit of what is negotiable under the NAFTA. If no decision emerges from the Uruguay Round, the TRIMS will be of increased importance to all three countries.

RESPONSE:

- A DECISION AT THE MULTILATERAL TRADE NEGOTIATIONS ON TRADE RELATED INVESTMENT MEASURES WILL BE INTEGRATED INTO THE NAFTA ONLY IF IT IS CONGRUENT WITH THE NAFTA OBJECTIVES UNDER DISCUSSION IN THE INVESTMENT AND FINANCIAL GROUPS.

INVESTMENT : QUESTION # 6

Is Mexico not today still essentially a public run economy with little chance for foreign investment?

RESPONSE:

- THE MEXICO THAT IS DESCRIBED IN THE ABOVE QUESTION WILL BE THE MEXICO OF THE PAST FOLLOWING THESE NEGOTIATIONS. UNDER PRESIDENT SALINAS IMPORTANT FOREIGN INVESTMENT CHANGES HAVE BEEN INTRODUCED IN MEXICO. THEY HAVE SUCCESSFULLY OPENED THE ECONOMY TO A SIGNIFICANT EXTENT TO INVESTMENT IN MEXICO. ALREADY IN CERTAIN SECTORS 100% FOREIGN OWNERSHIP IS PERMITTED UP TO U.S. $100 MILLION WITH ONLY MINOR GOVERNMENT REGULATION.

- IN SENSITIVE AREAS SUCH AS BANKING AND TELECOMMUNICATIONS, PREVIOUSLY RESTRICTED TO FOREIGN INVESTORS PERMIT INVESTMENT OF 30% AND 49% RESPECTIVELY FOR BANKING AND TELECOMMUNICATIONS. THE NAFTA NEGOTIATIONS WILL SERVE AS A VEHICLE TO FURTHER THE ACCESS ALREADY ACHIEVED.

- WHILE WE RECOGNIZE THE MEXICAN GOVERNMENT'S CONCERNS REGARDING THE PROTECTION OF INDUSTRY AND INDUSTRIAL PROCESSES, IT SHOULD BE REITERATED THAT THE GOAL OF THESE NEGOTIATIONS IS TO FURTHER LIBERALIZE THE ECONOMIES OF CANADA, THE UNITED STATES AND MEXICO ON A CONTINENTAL BASIS.

INVESTMENT : QUESTION # 7

Considering the vastly different industrial climate in Mexico, in terms of taxation, labour rates environmental protection, how can Canada remain attractive to foreign capital?

Background:

Based on aggregate data on Canada-U.S. trade during the first 22 months of the FTA in force, Canada has made gains in high-tech and capital intensive industries rather than selling off its resources. Moreover, there has also been a significant turn around in direct investment flows, suggesting that overseas investors see Canada as an increasingly attractive base for their North American operations. In 1988, just prior to the implementation of the FTA, the net direct investment outflow from Canada was $2.5 billion. By 1990, Canada had a net direct investment inflow of $4.3 billion from all countries.

The attractiveness of Canada for foreign investment may change with the inclusion of Mexico in a continental free trade zone. The issue of new investment is especially crucial for Canada as the emerging investment in Mexico will be areas of the U.S. market that were to become accessible to Canada under the FTA. The negotiations will have significant consequences, in particular, with respect to job creation, and trade flows.

RESPONSE:

- CANADA WILL REMAIN ATTRACTIVE TO FOREIGN INVESTMENT IN WITH THE COMPETITION OF MEXICO FOR CAPITAL FUNDS IS DRAWN DUE TO THE OVERALL PRODUCTION INFRASTRUCTURE,AND SUPPLY OF ENERGY, AREAS IN WHICH CANADA HAS SIGNIFICANT ADVANTAGES, PARTICULARLY FOR HIGH SKILLED, CAPITAL INTENSIVE DEVELOPMENT.

SERVICES SECTOR

SERVICES SECTOR: LIST OF QUESTIONS

1) Considering the liberalization of American investment policy under FTA, will there be future gains under NAFTA for Canada in the United States?

2) Considering the liberalizing action of a NAFTA, will the Canadian industries be able to adjust to the new trading climate?

3) What relationship will any agreement on financial and insurance services have to the MTN or to the FTA?

4) What is Canada seeking from the NAFTA negotiations with respect to the liberalization of financial services?

5) Given the constitutional limitations on bank ownership and the 1989 Foreign Investment Decree, what opportunities will emerge for Canadian financial investors in Mexico under NAFTA?

6) Does the Mexican 1989 Foreign Investment Regulations not limit automatically Canadian investment potential?

7) Given that foreign Mexican debt is still among the largest in the developing world, will the NAFTA negotiations be able to increase the attractiveness to foreign capital?

8) Considering the broad range of sub-sectors being discussed regarding financial and insurance services, how will auto insurance be treated under NAFTA?

9) Considering the temporary access rules established under the FTA, what will the position of the government under a NAFTA?

10) In which areas of business and professional serviceS does Canada stand to gain under a NAFTA?

SERVICES SECTOR

SERVICE SECTOR : QUESTION 1

Considering the liberalization of American investment policy under FTA, will there be future gains under NAFTA for Canada in the United States?

Background:

United States-

At present, for those sectors where there is no regulation on investment, there are no federal laws governing the levels of investment. The Exon-Florio Amendment, passed as part of the Defense Production Act was brought to ensure the domestic (American) control over strategic areas of industry. Any investment that would threaten or impair national security national security require review and approval. This review process is dependent upon the interpretation of what is determine to be a risk to national security by the Committee on Foreign Investment in the U.S. (CFIUS).

RESPONSE:

- THE FTA AGREEMENT WILL NOT BE REOPENED FOR NEGOTIATION. THE MEASURES SECURED BY CANADA IN THE LIBERALIZATION OF SERVICES UNDER THE FTA WILL NOT BE JEOPARDIZE BY A NEW AGREEMENT. AREAS UNDER DISCUSSION DURING THE NAFTA NEGOTIATIONS WHICH INCREASE ACCESS TO THE AMERICAN MARKET AND THAT ARE BENEFICIAL THE CANADIAN SERVICE INDUSTRY MAY BE INTEGRATED IN THE FTA, THOUGH THIS IS CONDITIONAL UPON THE NATURE OF THE AGREEMENT.

SERVICES SECTOR : QUESTION #2

Considering the liberalizing action of a NAFTA, will the Canadian industries be able to adjust to the new trading climate?

RESPONSE:

- THE LIBERALIZATION OF TRADE UNDER A NAFTA WILL REQUIRE THE ADJUSTMENT, HOWEVER, THE SCOPE OF SUCH CHANGE WILL BE MARGINAL IN COMPARISON TO THE ON-GOING ADJUSTMENT PRESSURES GENERATED BY GLOBALIZATION, TECHNOLOGICAL ADVANCEMENT AND CHANGING CONSUMER DEMANDS.

- THERE ARE IN PLACE ALREADY GOVERNMENT ADJUSTMENT PROGRAMS AT BOTH THE FEDERAL AND PROVINCIAL LEVELS. THESE PROGRAMS, ALONG WITH APPROPRIATE NEGOTIATING OBJECTIVES SUCH AS PHASED TARIFF ELIMINATION, RULES OF ORIGIN AND OTHER SAFEGUARD MEASURES WILL SMOOTH THE IMPLEMENTATION OF THE TRILATERAL AGREEMENT IN CANADA.

SERVICES SECTOR : QUESTION #3

What relationship will any agreement on financial and insurance services have to the MTN or to the FTA?

RESPONSE:

- ALL COUNTRIES CONCUR THAT AN AGREEMENT WILL ACT AS A DEROGATION TO FORMER MFN SYSTEM. THE MANNER IN WHICH SUCH DISCUSSIONS ARE INTEGRATED INTO THE MTN WILL DEPEND UPON THE OUTCOME OF THE FINAL NEGOTIATIONS ON SERVICES UNDER NAFTA. WE VIEW THE TWO NEGOTIATIONS AS PARALLEL TO ONE ANOTHER. AT PRESENT, IT WOULD BE PREMATURE TO COMMIT TO EITHER SIDE.

- THE FTA, AS IN MANY OTHER SECTORS MAY SERVE AS A BASE FROM WHICH DISCUSSIONS COULD COMMENCE. THE NEGOTIATIONS WILL NOT DETRACT FROM GAINS ALREADY MADE IN THE LIBERALIZATION OF SERVICES UNDER THE FTA, BUT THE PRESENT NEGOTIATIONS MAY EXPAND ACCESS FOR CANADIANS IN AREAS NOT COVERED UNDER THE CANADA-UNITED STATES FREE TRADE AGREEMENT.

SERVICES SECTOR : QUESTION #4

Considering the broad range of sub-sectors being discussed regarding financial and insurance services, how will auto insurance be treated under NAFTA?

Background:

This is one of the only contentious issues under the discussion with regard to insurance services due the relationship of the provincial monopolies on auto insurance and the NAFTA negotiations occurring at the federal level. This issue concerns mostly the U.S. which is concerned particularly with the position of the Ontario government.

There is also a broader concern of the relationship between insurance and general financial services in the federal and sub-national governmental level as the Canadian and American distribution differs from the Mexico federal regulation system.

RESPONSE:

- THE ISSUE OF THE PROVINCIAL AUTO INSURANCE HAS BEEN RAISED. IT IS OUR POSITION THAT AT THIS TIME THE RELATIONSHIP BETWEEN OF AUTO INSURANCE AND THE PROVINCIAL MONOPOLIES BELONGS IN THE MORE GENERIC DISCUSSION OF THE ESTABLISHMENT OF NEW MONOPOLIES.

SERVICES SECTOR : QUESTION #5

What is Canada seeking from the NAFTA negotiations with respect to the liberalization of financial services?

RESPONSE:

- WE ARE WORKING TOWARD AN AGREEMENT BASED ON THE TRADE PRINCIPLES OF NATIONAL TREATMENT AND MARKET ACCESS. EFFORTS WILL BE MADE TO SECURE FOR THE CANADIAN FINANCIAL AND INSURANCE SECTORS OPEN ACCESS BASED ON THE SAME RULES AS DOMESTIC ACTORS IN MEXICO AND IN THE UNITED STATES.

- IN SO FAR AS THE PRINCIPLES OF TRADE IN SERVICES ARE CONCERNED, IT IS POSSIBLE THAT TIMING AND DEFINITION MAY BE TAILORED SO AS TO MEET THE NEEDS OF THE INDIVIDUAL COUNTRIES.

SERVICES : QUESTION # 6

Does the Mexican 1989 Foreign Investment Regulations not limit automatically Canadian investment potential?

RESPONSE:

- THIS IS EXACTLY WHAT THE NAFTA NEGOTIATIONS ARE ATTEMPTING TO REDUCE. THROUGH THE TRILATERAL NEGOTIATIONS, THE GOVERNMENT WILL STRIVE TO THE LARGEST POSSIBLE EXTENT TO REMOVE FOREIGN INVESTMENT BARRIERS IN MEXICO, WHILE REMAINING COGNIZANT OF MEXICAN SOVEREIGNTY ISSUES. IT WOULD BE PREMATURE AT THIS TIME TO SPECULATE UPON WHAT THESE GAINS MIGHT BE.

SERVICES SECTOR : QUESTION #7

Given the constitutional limitations on bank ownership and the 1989 Foreign Investment Decree, what opportunities will emerge for Canadian financial investors in Mexico under NAFTA?

RESPONSE:

- THE RECENT PRIVATIZATION OF SOME MEXICAN BANKS INDICATES A RELAXING OF THE MEXICAN GOVERNMENT COMPLETE CONTROL OF THE BANKING SYSTEM. WHILE SIGNIFICANT LIMITATIONS DUE EXIST STILL, THE NEGOTIATIONS MAY HOLD SOME PROMISE FOR EXPANSION OF SERVICES OR JOINT COOPERATION IN THE FINANCIAL SECTOR.

SERVICES SECTOR : QUESTION #8

Given that foreign Mexican debt is still among the largest in the developing world, will the NAFTA negotiations be able to increase the attractiveness to foreign capital?

RESPONSE:

- THE NEGOTIATIONS WILL BRING AN INCREASE IN ECONOMIC ACTIVITY AND WILL ENHANCE THE DIVERSITY OF THE ECONOMY. NO LONGER WILL THE MEXICAN ECONOMY BE DEPEND AS EXCLUSIVELY AS BEFORE ON A FEW MAJOR EXPORT PRODUCTS AS WHEN THE DEBTS WERE INCURRED. THE CREDIT WORTHINESS OF THE ENTIRE ECONOMY WILL INCREASE AS A RESULT.

SERVICES : QUESTION #9

Considering the temporary access rules established under the FTA, what will the position of the government under a NAFTA?

Background:

Chapter 15 of the Canada-United States Free Trade Agreement (FTA) eased the restrictions on business travel between Canada and the U.S. Four categories of business travellers are identified in the FTA: Business Visitors, Intra-Company Transferees, Traders and Investors, and Professionals in certain fields. Eligibility depends upon the following: citizenship, minimum education requirements as stipulated in the FTA, obtain a job offer from employer in an occupation identified in the FTA.

RESPONSE:

- IT WOULD BE PREMATURE TO STATE THE OUTCOME OF THE DISCUSSIONS BEFORE THEIR FINALIZATION. IT IS ANTICIPATED, HOWEVER, THAT ANY AGREEMENT WILL BE SIMILAR IN NATURE TO THE CANADA-UNITED STATES FTA WITH RESPECT TO THE TRAVEL OF BUSINESS PEOPLE AND OTHER PROFESSIONALS.

SERVICES SECTOR : QUESTION #10

In which areas of business and professional serviceS does Canada stand to gain under a NAFTA?

Background:

Canada-

Canada has a high reputation for the export of consulting engineering services in the resource sector (energy, mining and forestry), the transportation sector (urban and marine) and in the telecommunications sector. Success has been achieved in Mexico despite the impediments and barriers to trade such as the 21% withholding tax on revenue from service export earnings for non-resident service providers.

Mexico-

Mexico has also been successful as an exporter of services, ranking only second to Singapore among developing nations. For Mexico, the major markets are in Latin American and the United States where Mexican services come into competition with Canadian services. This is true in the areas of computer software, construction services, some health services, advertising, accounting and business consulting services. A significant advantage lies in the trade of services in the United States, especially among companies which have, as part of the work force, a significant proportion of Spanish-speakers.

RESPONSE:

- SIGNIFICANT SERVICE EXPORT OPPORTUNITIES EXIST FOR CANADIAN SERVICE PROVIDERS IN MEXICO. WHILE AT THE PRESENT TIME THERE ARE CERTAIN BARRIERS AN UNEQUAL TREATMENT OF NON-RESIDENT SERVICE PROVIDERS, NEGOTIATIONS ARE UNDER WAY AT THE PRESENT TIME TO CREATE AN EQUAL PLAYING FILED IN MEXICO FOR RESIDENTS AND NON-RESIDENT SERVICE PROVIDERS ALIKE.

TEXTILE SECTOR

TEXTILE SECTOR: LIST OF QUESTIONS

1) How will Canadian textile producers benefit under a NAFTA?

2) In which areas is competition expected to be especially stifffor Canadian manufacturers?

3) Will the removal of tariffs not lead to a rapid increase in Mexican exports to Canada?

4) Considering the comparative advantage Mexico possesses in labour cost, how will Canadian exports of textiles fair in the U.S. market under a NAFTA?

5) In which sectors will the Canadian textile industry be competitive under a NAFTA?

6) Which sub-sectors are expected to fare well under NAFTA?

TEXTILE SECTOR

TEXTILE SECTOR : QUESTION #1

How will Canadian textile producers benefit under a NAFTA?

Background:

Canadian manufacturers of commodity type apparel will be in a particularly difficult position under NAFTA. The main advantage will come in that a free trade deal will encourage manufacturers to concentrate in areas of relative strength, achieving greater efficiency as they expand existing production lines in market niches.

RESPONSE:

- THE MAIN ADVANTAGES THAT WILL BE GAIN BY THE TEXTILE INDUSTRY WILL BE IN THE AREAS WHERE THEY ALREADY ENJOY A COMPETITIVE ADVANTAGE. THE NICHE MARKETS ALREADY DEVELOPED WILL BE FURTHER CONCENTRATED UPON IN THE FUTURE UNDER A NAFTA.

- A NAFTA WILL PERMIT CANADIAN FIRMS TO ACHIEVE THE ECONOMIES OF SCALE NECESSARY TO COMPETE INTERNATIONALLY AGAINST THE LOW WAGE, HIGH LABOUR INPUT COUNTRIES, ON THE SAME BASIS AS OUR ASIAN COMPETITORS WHICH TAKE ADVANTAGE OF DIFFERING WAGE RATES AND SKILLS MARKETS TO IMPROVE THEIR PROSPERITY. BY UTILIZING THE DIFFERING WAGE RATES BETWEEN CANADA AND MEXICO ON THE COMPONENTS OF SHOE PRODUCTION, CANADIAN TEXTILE AND APPAREL INDUSTRIES MAY BECOME MORE COMPETITIVE INTERNATIONALLY.

TEXTILE SECTOR: QUESTION #2

Where will competition for the Canadian manufacturers come from under a NAFTA?

Background:

United States-

The Maquiladora programs present a significant challenge for Canadian producer as many US firms have established operations under this program to exploit the benefits offered the US outward processing duty relief regime. This has lead to US apparel firms to develop cost advantage strategies involving the integration of domestic and Mexican production. This phenomenon has encouraged a high level investment in the Mexican sector by American firms. As a result of the extensive integration, the US firm prices are extremely competitive.

The globalization of the textile and apparel industries in recent years with the division of production among countries has resulted in a new decentralized production system. The result for Canadian companies without clearly defined niche markets will be diversification and redistribution of production overseas.

RESPONSE:

- THE US INTEGRATION SCHEMES HAVE RESULTED IN SIGNIFICANT GAINS IN CERTAIN LOW COST APPAREL AREAS THAT SUITABLY FIT THE MAQUILADORA PROGRAMS. THE CANADIAN CHALLENGE IS TO EXPLOIT THOSE AREAS NOT SUITED TO MAQUILADORA, THAT IS, LOW LABOUR/HIGH CAPITAL, HIGH SKILLED JOBS IN CANADA.

TEXTILE SECTOR: QUESTION #3

Will not the removal of tariffs lead to a rapid increase in Mexican exports to Canada?

Background:

It is unlikely that Canada would be swamped by goods due to a gradual elimination of Mexican tariffs. With the low levels of tariffs already applied a further general reduction should not result in any other major changes. The low wages of Mexico present in Mexico will result in the transfer of low skilled jobs from Canada to Mexico, however, the niche markets will develop for high skilled, high capital factors of input. There will be displacement of low cost producers as Mexican production expands, but the concentration will most likely occur with low quality goods rather than those at the high end.

The surges in exports to canada of low quality goods be monitored to prevent dumping as a method to gain market share. The use of transitional safeguards will assist in industry transformation from low to higher quality products in the short term.

RESPONSE:

- LIBERALIZATION IN THIS SECTOR IS ALREADY A FACT OF LIFE THAT CANNOT BE ESCAPED. IN A NAFTA CONTEXT, CANADA WILL SEEK TO NEGOTIATE SAFEGUARDS APPROPRIATE TO THE NEEDS FOR ADJUSTMENT THAT WILL ALLOW THE CANADIAN INDUSTRY TO REMAIN COMPETITIVE DURING TARIFF AND NON-TARIFF BARRIER PHASE OUT PERIODS AS A METHOD TO CONTROL MARKET SHARE.

- IT IS EXPECTED THAT THE LIBERALIZATION OF TRADE AND THE ELIMINATION THE MULTI-FIBRE ARRANGEMENTS AND THE RULES OF ORIGIN UNDER FTA WILL INCREASE MEXICAN EXPORTS TO CANADA. THE FUTURE OF THE CANADIAN TEXTILE INDUSTRY WILL BE LOCATED IN THE HIGH SKILLED, CAPITAL INTENSIVE INDUSTRIES SUPPLYING NICHE MARKETS.

TEXTILE SECTOR : QUESTION #4

Considering the comparative advantage Mexico possesses in labour cost, how will Canadian exports of textiles fair in the U.S. market under a NAFTA?

Background:

The Mexican utilization of its guaranteed access to the U.S. market has been high, it has not been a severe hindrance to Canadian exports to the United States due to the different quality of product exported, with Mexico exporting low end of the quality scale.

RESPONSE:

- MEXICO AND CANADA DO NOT COMPETE HEAD TO HEAD AT PRESENT AND IN THE MEDIUM TERM, THIS TREND THAT SHALL CONTINUE. THE MEXICAN EXPORTS DO NOT AT PRESENT POSE A THREAT TO THE CANADIAN MARKETS OR TO CANADIAN EXPORTS IN THE U.S. MARKET, THOUGH THIS MAY SLOWLY CHANGE WITH THE EXPANSION AND MODERNIZATION OF INDUSTRY.

- THE IMMEDIATE CONCENTRATION ON LOW END OF THE QUALITY PRODUCTS BY MEXICAN COMPANIES WILL CONTINUE TO PERMIT THE CANADIAN INDUSTRY TO ESTABLISH STRONG FOOTHOLDS IN THE HIGHER QUALITY TEXTILE AND APPAREL SECTORS.

TEXTILE SECTOR: QUESTION #5

In which sectors will the Canadian textile industry be competitive under a NAFTA?

Background:

While far and away the most important input consideration for the advantage realized by Mexican industry is the average Mexican wage rate which is approximately 10% of the Canadian industrial average.
In the case of textile production, the Mexican oil industry has given it a competitive advantage in the production of synthetic/man-made fibres. In this regard, Canada has negotiated a voluntary price maintenance arrangements with Mexico on polyester textured yarn and worsted spun yarn.

RESPONSE:

- BEING COGNIZANT OF THE COMPETITIVE ADVANTAGES POSSESSED BY MEXICO IS AN IMPORTANT FACTOR TO LEARNING HOW TO CREATE A LEVEL PLAYING FIELD. BY CONCENTRATING ON SECTORS WHERE CANADIAN COMPANIES HAVE A COMPETITIVE ADVANTAGE, BENEFITS WILL RESULT FOR CANADIAN MANUFACTURERS.

- IT IS TOO EARLY AT THIS TIME TO PREDICT THE OUTCOME OF THE NEGOTIATIONS UNDER A NAFTA WITH REGARD TO THE PROTECTIVE ARRANGEMENTS FOR SYNTHETIC YARNS. WE ARE SEEKING THE BEST OVERALL DEAL FOR THE INDUSTRY IN THE NEGOTIATIONS.

TEXTILE SECTOR : QUESTION #6

Which sub-sectors are expected to fare well under NAFTA?

Background:

Acrylic yarns and textured polyester yarn are expected to do poorly. The availability of low price petrochemicals and a fully integrated man-made fibres industry have permitted Mexico to make significant inroads in the Canadian markets.

The double pricing system will most likely not survive under NAFTA, however in it too early to determine the particulars of the dismantling of the system at this time.

The FTA provisions of duty on fabrics manufactured offshore and use in apparel produced domestically would qualify for duty free treatment up to a certain level only. Over the given level, the fabric will be treated as foreign in duty terms.

RESPONSE:

- THE NAFTA NEGOTIATIONS WILL PROMOTE SIGNIFICANT NICHE MARKET OPPORTUNITIES IN MEXICO FOR CANADIAN PRODUCERS OF HIGH QUALITY TEXTILE AND APPAREL. THE LIBERALIZATION OF TRADE WILL EXPAND THE AVAILABLE AREA OF OPPORTUNITY FOR SUCH MARKET DEVELOPMENT.

- AS PART OF THE NEGOTIATIONS ON TRADE RULES, THE MEXICAN TWO TIERED PRICING SYSTEM FOR PETROCHEMICALS AND ITS DISCRIMINATORY EFFECTS ARE BEING ANALYZED. IT IS THE GOAL OF THIS GOVERNMENT TO ENSURE THAT A TRADE REGIME IS DEVELOPED CONTINENTALLY WHICH OFFERS EQUAL AND NATIONAL ACCESS TO THE MARKETS OF CANADA, MEXICO AND THE UNITED STATES.