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Government of Canada / Gouvernement du Canada

news release

Date
For release

August 14, 1992

ERRATUM

NAFTA PARTNERSHIP DOCUMENTS:
CANADA-MEXICO EXPORT/IMPORT STATISTICS

A mistake occurred in the English version of the document, The NAFTA Partnership, distributed today with other information on the North American Free Trade Agreement. The units stated at the top of the columns on Canada-Mexico Export/Import Statistics sheet should be listed in thousands of Canadian dollars.

Attached is a corrected version of the information.

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For further information, media representatives may contact:

Media Relations Office
External Affairs and International Trade Canada
(613) 995-1874

CANADA-MEXICO EXPORT/IMPORT STATISTICS

	JAN-DEC 1989 (C$ 000s)	JAN-DEC 1990 (C$ 000s)	JAN-DEC 1991 (C$ 000s)	GROWTH 91/90
EXPORTS	603,098	593,700	524,544	-12%
IMPORTS	1,698,368	1,729,848	2,573,972	49%
BALANCE	-1,095,270	-1,136,148	-2,049,428	--

MAIN CANADIAN EXPORTS TO MEXICO (C$ 000s)

	1990	1991
1. Motor Vehicle Parts	82,100	153,461
2. Iron & Steel Products	67,700	46,281
3. Newsprint	15,900	34,489
4. Wheat	8,400	25,038
5. Telecoms, Related Equipment/Parts	51,400	23,048
6. Paper Products	11,000	18,888
7. Sulphur	28,800	18,868
8. Aircraft & Parts	39,100	18,583
9. Petroleum Oils	5,100	16,109
10. Asbestos	13,400	15,989

MAIN CANADIAN IMPORTS FROM MEXICO (C$ 000s)

	1990	1991
1. Motor Vehicles and Parts	564,002	1,439,259
2. Engines and Parts	389,379	339,989
3. Radio, Telephone, Audio Parts/Equipment	146,572	143,225
4. Data Processing Machines and Parts	177,815	127,166
5. Petroleum Oils	56,804	97,606
6. Fruits, Coffee and Nuts	68,485	76,008
7. Air Conditioners, Fans Equipment & Parts	32,030	58,334
8. Vegetables	79,306	48,546
9. Carpets, Fabrics and Yarn	27,813	30,077
10. Kitchen Appliances, small	13,670	23,317

Source: Statistics Canada, Merchandise Trade Statistics

July 1992

CANADA-MEXICO MERCHANDISE TRADE EXPORTS

January to March, 1992
($C 000s)

EXPORTS TO MEXICO	ANNUAL 1990	ANNUAL 1991	JAN-MAR 1991	JAN-MAR 1992
Motor Vehicle Parts (including Engine Parts)	82,100	153,461	19,968	32,871
Iron and Steel Products	67,700	46,281	8,639	25,127
Aircraft and Parts	39,100	18,583	125	20,780
Bituminous Coal	0	----	0	11,699
Telecoms, Related Equipment/Parts	51,400	23,048	1,567	7,348
Newsprint	15,900	34,489	632	6,889
Asbestos	13,400	15,989	2,591	5,455
Milk Powder	72,500	13,429	5,403	5,240
Sulphur	28,800	18,868	0	4,585
Rape or Colza Seeds	0	0	3,649	----
Meat	14,800	6,070	1,763	3,554
Cattle, Live	7,200	12,827	3,550	3,134
Wood Pulp	27,500	15,299	4,178	2,487
Articles of Rubber	5,900	3,768	467	1,963
Paper Products	11,000	18,888	3,632	911
Office/Data Processing Equipment	2,600	10,283	330	342
Pulses	5,700	0	0	14
Potash	2,000	2,427	----	----
Petroleum Oils	5,100	16,109	9,143	0
Wheat	8,400	25,038	0	0
SUBTOTAL	461,100	434,857	61,988	136,048
Others	132,600	89,687	19,924	18,445
TOTAL EXPORTS	593,700	524,544	81,912	154,493

GROWTH IN EXPORTS BETWEEN JANUARY AND MARCH 1991/92: 76%

Source: Statistics Canada, Based on Preliminary Merchandise Trade Statistics
July 1992

Minister of Industry,
Science and Technology and
Minister for International Trade

Ministre de l'Industrie, des
Sciences et de la Technologie et
ministre du Commerce extérieur

CANADA

Statement Déclaration

92/35

CHECK AGAINST DELIVERY

NOTES FOR AN ADDRESS BY

THE HONOURABLE MICHAEL WILSON,

MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY AND

MINISTER FOR INTERNATIONAL TRADE,

AT THE CONCLUSION OF THE

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

August 12, 1992

I am pleased to report that after this final, intense week of negotiations, Canada has reached agreement with the United States and Mexico on the North American Free Trade Agreement -- or NAFTA -- which will create the world's largest free trade area.

Canadians should be confident that this agreement will eventually create more jobs, better jobs. It will put more money in the pockets of Canadians. So this isn't just a trade deal, it's a prosperity deal as well.

Our fundamental trade and economic interests were at stake in these talks. That is why we got involved. Only by being at the table could we protect Canada's interests; only by being involved could we win new access to the expanding Mexican market and position ourselves for new success throughout this hemisphere.

Our objectives were clear and uncomplicated:

- improved access for our goods and services to Mexico. We got that.

- building on the benefits of the Canada-U.S. Free Trade Agreement (FTA) and improving our access to the biggest single market anywhere. We did that as well.

- guaranteeing Canada's position as a prime location for investors seeking to serve all North America. That, too, was achieved.

The new deal will build upon and strengthen the FTA -- an agreement that is clearly working. Our exports to the United States are at an unprecedented level.

The NAFTA is a good agreement for all three countries. New Canadian access to 85 million Mexican consumers and their growing spending power will benefit Canadians and Canadian businesses across the country: our fishing industry on both coasts; forestry and related industries right across the land; our producers of manufactured goods and high-tech products; the men and women in our highly competitive services sector, like oil field services, trucking, banking and insurance; and those who work in the agriculture and food-products area.

These are just a small indication of what we can expect from the elimination of Mexico's tariffs and the lifting of other import restrictions. Improved protection for intellectual property -- things like copyright, patents and trademarks -- along with an improvement in both trading rules and the dispute settlement mechanism covering all three NAFTA partners will also contribute to additional gains under the Agreement.

I am going to deal with three specific matters in a bit more detail, simply because they have been the subject of a lot of speculation.

Throughout these negotiations, and the FTA talks before them, Canada stressed its commitment to preserve the Auto Pact and strengthen our auto industry. We have done that, and the outlook continues to brighten. You have probably heard that two of the big car companies are investing an additional $3 billion in Canada. With the NAFTA benefits, we can be confident of greater access to Mexico for these products.

For the first time, the dynamic Mexican auto and parts market will be truly open to our exporters. A new 62.5 per cent rule will define North American auto content. This figure balances the diverse interests of our auto sector -- the Big Three, Asian manufacturers and the parts industry. The new rules of origin will help our industry avoid disputes such as the Honda Civic case. The net result will keep Canada as a prime North American location for investment by auto makers, no matter where they come from.

Another sector of concern to Canadians is agriculture -- it is not just an industry, but a tradition and a way of life as well. We ensured in the FTA that the import quota system for dairy and poultry farmers and egg producers would continue. We have protected that right in the NAFTA. At the same time, we are opening the Mexican agri-food market to Canadian producers and food processors.

There has been a lot of talk, too, about textiles and apparel. Since the FTA began, the sector has made impressive gains in exports to the United States. For example, apparel exports to the United States have risen 60 per cent; yarn exports have more than doubled, and fibre exports have risen by 50 per cent.

We were determined to protect those gains, and we have done so. The rules of origin on textiles and apparel will be tighter. But for our exports that do not meet these new rules, we have negotiated quotas that give greater access to the United States. The terms negotiated in the NAFTA will ensure that we have a healthy and growing textile and apparel industry.

Similarly, Canada has benefited from the dispute settlement process established in the FTA. We have won a majority of cases. And now we have negotiated a strengthened dispute settlement system with safeguards to ensure that the system runs fairly. The rule of law, not power, will prevail in settling trade disputes.

Some of the considerations we had to keep in mind involve core Canadian interests -- cultural industries, medicare and social programs, water and the environment. The news is consistent with our commitments.

The NAFTA reaffirms the FTA by specifically exempting our cultural industries. We remain free to support our medicare and social programs, and unconstrained in protecting our water resources from large-scale exports.

This Agreement has a new and innovative ingredient for a trade deal: it talks about sustainable development, and environmental protection and enforcement, as fundamental objectives. In fact, it has more environmental provisions than any other trade agreement. The NAFTA recognizes each country's right to maintain environmental standards even higher than those recommended by international organizations. It recognizes also that the NAFTA countries should not lower health, safety or other environmental standards to attract investment.

Those of you who are interested in this new trade deal will have plenty of opportunities to learn more about it. Explanatory materials are being prepared. And the wide community consultations and public debate that have already begun through the Prosperity Initiative on trade, learning, innovation and other competitiveness issues, will continue right through parliamentary consideration of the Agreement.

The end result should be a more competitive Canada, which we are actively promoting through our market development initiatives around the world. To give you one specific example of this, External Affairs and International Trade Canada will undertake 20 trade promotion projects covering a variety of sectors in Mexico in the next six months.

Let me re-emphasize the link between trade agreements, such as the NAFTA, and Canada's future prosperity. Put simply, one in four Canadian jobs depends on trade. We are the world's eighth largest economy, with only the thirty-first largest population. We need to export. And, to export successfully, we not only need competitive goods and services, but we need access to other countries and fair rules of the road.

For those important reasons, Canada has been one of the strongest supporters of the General Agreement on Tariffs and Trade (GATT), which provides the ground rules for world trade. That is why we pushed for the Canada-U.S. Free Trade Agreement -- to cement our relationship with our biggest trading partner. And that is why we are now building on the FTA -- to establish a North American free trade area.

I am confident that most of you will judge it to be a good deal for Canada -- good for our prosperity and therefore good in helping to secure the type of society that Canadians value. I am equally confident of our ability to compete successfully in this or any other trade arrangement. All we want is the right to enter markets and compete under fair and clear rules.

It is my hope that the NAFTA will lead others to share our approach to trade. The NAFTA itself need not be a closed club. Perhaps, too, this deal will lend some impetus to the worldwide trade negotiations in the GATT, where Canada has been playing a leading role. These GATT negotiations hold so much promise for more than 100 countries if we can reach agreement.

So, for Canada, this is a good day for trade. And that means that it is a good day for prosperity too.

We have every reason to be optimistic.

Government of Canada Gouvernement du Canada

news release

Date

For release August 12, 1992 No. 165

CANADIAN OBJECTIVES MET IN NORTH AMERICAN FREE TRADE AGREEMENT

The Honourable Michael Wilson, Minister of Industry, Science and Technology and Minister for International Trade, said today that Canada's objectives "have been fully achieved" in the successful negotiation by Canada, the United States and Mexico of a North American Free Trade Agreement (NAFTA).

Mr. Wilson made the announcement in Washington, D.C., following the successful conclusion today of negotiations with his counterparts, U.S. Trade Representative Carla Hills and Mexican Trade Minister Jaime Serra Puche.

Canada's primary objectives at the NAFTA negotiations were to secure better access to the Mexican market, safeguard and improve the gains made in the Canada-U.S. Free Trade Agreement (FTA), and maintain Canada as an attractive investment location in North America.

"The NAFTA talks have been a success for Canada," Mr. Wilson said. "We have improved parts of the FTA without giving up any of the gains we already achieved under that agreement. With the preferential market access we will now have to both the United States and Mexico, Canada will be even more attractive to potential investors.

"This NAFTA deal is FTA-plus. It improves on the FTA by providing clearer, more precise rules for determining whether goods manufactured in Canada are eligible for the reduced and eventually eliminated duties into the United States and Mexico under the NAFTA. This will ensure that Canada remains a competitive location for investment in, for example, the automotive sector."

"We also keep all the gains we have made in the FTA with the United States. Our system of settling trade disputes -- which has been very successful -- will be maintained and strengthened. In addition, our cultural industries will continue to be exempt, while our supply management system for agriculture won't be touched."

The legal language of the Agreement will be worked out by experts from all three countries over the next few weeks, but the principles and main elements have been agreed on by the ministers. Following ratification of the Agreement by all three countries, it will come into force on January 1, 1994.

Mr. Wilson outlined what the Agreement means for Canada.

The reduction of Mexican barriers will provide new markets and opportunities for Canadian goods and services. Canadian firms will be able to participate in, and expand sales in, sectors that were previously highly restricted, such as autos, financial services, trucking, energy and fisheries. Mexican tariffs and import licensing requirements will be eliminated -- some immediately and others over 5 to 10 years -- providing barrier-free access to 85 million consumers.

The NAFTA contains a strong commitment to sustainable development and environmental protection and enforcement. For example, the NAFTA recognizes the right of each NAFTA country to maintain environmental standards higher than those recommended by international organizations. The Agreement also recognizes that the NAFTA countries should not lower health, safety or environmental standards to attract investment.

"The progress we have made on environmental matters in this NAFTA agreement is precedent-setting," Mr. Wilson said. "It is the first trade agreement to seriously address environmental issues."

The Minister noted that Environment Ministers of all three countries will meet on September 17, in Washington, to develop a strategic approach to continental environmental issues.

Mr. Wilson said that Mexican wage levels need not be a threat to Canadian workers and to the competitiveness of Canadian firms.

"Wages are only one, sometimes relatively small, factor in locating a business and in the cost of production. Canada has other advantages, such as good technology, quality services, access to capital, strong managerial expertise and a highly skilled work force. All of these combine to make Canada a prime location for investment in North America.

"This NAFTA deal is only one component of Canada's strategy to pursue trade opportunities and make our economy more competitive," noted Mr. Wilson. "It will help make us a key player in a new integrated North American market, one that will help keep Canadian companies competitive in the global marketplace and, in so doing, provide greater prosperity for all Canadians."

In order to help businesses take full advantage of the opportunities from the opening of the Mexican market, the government will be sponsoring 20 trade events, such as trade shows and trade missions, over the next six months.

The Minister hailed the NAFTA breakthrough as another sign that Canada's trade picture will continue to be a positive force in our economic performance.

He said that Canada's economy has been given a positive boost by the FTA during the last three years. He referred to evidence that the FTA has contributed to economic growth and restrained unemployment and inflation. "The benefits of the FTA are starting to become more obvious," said Mr. Wilson. "Canada has experienced net inflows of direct investment since the FTA went into force, and our exports to the United States and the rest of the world have hit record levels in recent months."

With the NAFTA negotiations successfully concluded, Mr. Wilson said that Canada and all its trading partners must redouble their efforts to reach a successful conclusion soon to the Uruguay Round of multilateral talks, which are intended to promote freer trade on a global basis.

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NORTH AMERICAN FREE TRADE AGREEMENT

THE NAFTA PARTNERSHIP

August 1992

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NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

-- CHRONOLOGY --

1990

January 22-23	Ottawa -- Seventh meeting of Canada-Mexico Joint Ministerial Committee.
March 16-19	During an official visit to Mexico by Prime Minister Brian Mulroney, 10 joint co-operation agreements with Mexico are signed: • Memorandum of Understanding regarding the framework for trade and investment consultations; • Memorandum of Understanding on co-operation in combating narcotics trafficking and drug dependency; • Treaty on mutual legal assistance in criminal matters; • Treaty on extradition; • Agreement regarding mutual assistance and co-operation between customs administrations; • Memorandum of Understanding on forestry co-operation; • Agreement on tourism; • Agreement on environmental co-operation; • Arrangement on agricultural and livestock co-operation; and • Convention for the exchange of information/taxes.
Summer	Canadian government conducts preliminary studies and consultations with the provinces and representatives of business and labour groups. House of Commons Standing Committee on External Affairs and International Trade conducts public hearings on the proposed NAFTA.
September 24	Prime Minister Brian Mulroney formally advises President Carlos Salinas de Gortari and President George Bush of Canada's interest in participating in negotiations with Mexico and the United States on NAFTA.

September 1990 to January 1991

During the consultative period prior to the start of negotiations, nine working groups are established to deal with the following topics:

- Rules of origin
- Tariffs
- Automobiles
- Petrochemicals
- Technical barriers to trade
- Insurance
- Financial services
- Transportation
- Agriculture

December 14-18

Washington, D.C. -- Ministerial meeting with International Trade Minister John Crosbie, United States Trade Representative Carla Hills and Mexican Secretary of Commerce Jaime Serra Puche.

1991

January 21

Acapulco, Mexico -- Ministerial meeting (same participants as December Ministerial meeting).

February 5

Prime Minister Brian Mulroney, President Carlos Salinas de Gortari and President George Bush announce their decision to pursue NAFTA. It is envisaged that this agreement will:

- progressively eliminate obstacles to the flow of goods, services and investment;
- provide intellectual property rights protection; and
- establish a fair and expeditious dispute settlement mechanism.

April 7-10

During a state visit to Canada by Mexican President Carlos Salinas de Gortari, four joint co-operation agreements are signed:

- Canada-Mexico Double Taxation Agreement -- the first such agreement that Mexico has signed with another country;
- Film and Television Co-production Agreement -- to

broaden financing and production opportunities for the film and television industries of both countries;

- Export Development Corporation/Petroleos Mexicanos Memorandum of Understanding -- for a US$500 million line of credit to promote the sale of Canadian goods and services to PEMEX; and
- Export Development Corporation/Secretariat of Finance Memorandum of Understanding.

May 23	Washington, D.C. -- The House of Representatives endorses (231 votes to 192) the extension of the fast-track for submission by the President of the United States of trade agreements to Congress. The House also approves (329 votes to 85) a "sense of the House" resolution, which calls on the U.S. Administration to comply with several recommendations, including wide consultations with Congress and the private sector and the development of a joint border environmental program.
May 24	Washington, D.C. -- The Senate votes (59 to 36) to give the U.S. Administration the authority to extend fast-track implementing legislation for a two-year period beginning June 1, 1991.
June 12	Toronto, Ontario -- Ministerial meeting to launch the NAFTA negotiations: Industry and International Trade Minister Michael Wilson (Canada), Trade Representative Carla Hills (United States) and Secretary of Commerce Jaime Serra Puche (Mexico).
July 8-9	Washington, D.C. -- First meeting of Chief Negotiators -- John Weekes (Canada), Julius Katz (United States) and Herminio Blanco (Mexico).
August 6-7	Cocoyoc, Mexico -- Second meeting of Chief Negotiators.
August 18-20	Seattle, Washington -- Second trilateral Ministerial meeting.
October 9-10	Ottawa, Ontario -- Third meeting of Chief Negotiators.

October 25-28	Zacatecas, Mexico -- Third trilateral Ministerial meeting.
November 25-26	Mexico City, Mexico -- Meeting of eighth Canada-Mexico Joint Ministerial Committee and Mexico-Canada Forum on Technological Co-operation.
November 25	Mexico City, Mexico -- Two Canada-Mexico documents are signed: . Memorandum of Understanding on cultural relations, . Agreement on museums and archaeological co-operation.
December	The exchange of drafting proposals on most NAFTA issues.

1992

January 6-10	Washington, D.C. -- First version of consolidated draft text prepared (meeting of most negotiating groups at Georgetown University).
January 16-17	Washington, D.C. -- Fourth meeting of Chief Negotiators.
January 27-31	Monterrey, Mexico -- "Canada Expo '92" trade fair, the largest Canadian trade promotion event ever organized in Latin America. Expo'92 was designed to expand Canadian sales and investment opportunities in Mexico. Over 200 Canadian companies participated.
February 4-5	Aylmer, Quebec -- Fifth meeting of Chief Negotiators.
February 9-10	Chantilly, Virginia -- Fourth trilateral Ministerial meeting.
February 16-22	Dallas, Texas -- Sixth meeting of Chief Negotiators.
March 4-5	Washington, D.C. -- Seventh meeting of Chief Negotiators.
March 18	Canada provides Mexico with $1 Million worth of Environmental Assistance.
March 23-27	Washington, D.C. -- Eighth meeting of Chief Negotiators.

April 4	Mexico City, Mexico -- Canada and Mexico sign Memorandum of Understanding on Co-operation in Telecommunications.
April 6-8	Montreal, Quebec -- Fifth trilateral Ministerial meeting.
April 27	Mexico City, Mexico -- Ninth meeting of Chief Negotiators.
April 29-30	Mexican Secretary for External Relations, the Honourable Fernando Solana visits Montreal, Quebec City and Toronto.
May 4	Mexico City, Mexico -- Canada and Mexico sign Memorandum of Understanding on Co-operative Labour Activities.
May 8	Visit to Canada by Mexican private sector delegation, sponsored by the Canada-Mexico Chamber of Commerce.
May 13-14	Toronto, Ontario -- Tenth meeting of Chief Negotiators.
May 18-22	Washington, D.C. -- Eleventh meeting of Chief Negotiators.
May 24-June 3	Delegation of 17 Canadian environmental technology companies visit the northern states of Mexico.
May 30-June 5	Arlington, Virginia -- Twelfth meeting of Chief Negotiators.
June 15-19	Washington, D.C. -- Thirteenth meeting of Chief Negotiators.
July 6-10	Washington, D.C. -- Fourteenth meeting of Chief Negotiators.
July 20-24	Washington, D.C. -- Fifteenth meeting of Chief Negotiators.

July 25	Mexico City, Mexico -- Sixth trilateral Ministerial meeting.
July 29-August 1	Washington, D.C. -- Sixteenth meeting of Chief Negotiators.
August 2	Washington, D.C. -- Seventh trilateral Ministerial meeting.
August 12	An agreement in principle is reached on a North American Free Trade Agreement.

August 1992

CANADA-MEXICO TRADE RELATIONS

Mexico is Canada's largest trading partner in Latin America. Canada-Mexico trade has increased significantly since the mid-1980s. Merchandise trade reached $3 billion in 1991, and exports during the first five months of 1992 were up by over 100 per cent over the same period last year. Canadian exports to Mexico were valued at $231.8 million between January and April of this year, up $100 million.

Although exports fell to $524.5 million in 1991 from $600 million in 1990, the decline was due to reduced purchases by Mexican clients of agricultural and industrial commodities. However, sales of value-added manufactured products increased during that same period, particularly in sectors such as newsprint and paper products.

The prospect of enhanced economic relations with Mexico has increased since 1988 when the Mexican government initiated several radical measures to overcome a serious financial crisis. As a result of these measures, annual inflation in Mexico has dropped from 160 per cent to less than 19 per cent, trading rules have been greatly eased and many unprofitable enterprises have been either closed or privatized. These changes have been coupled with skillful negotiations with the international financial community to reduce the burden of debt repayments.

Canada-Mexico trade relations are governed by the General Agreement on Tariffs and Trade (GATT), to which Mexico acceded in 1986. Prior to 1986, Canada-Mexico trade had been governed by a 1946 Trade Agreement, a Joint Ministerial Committee established in 1968 and an Economic Co-operation Agreement in 1980.

During Prime Minister Brian Mulroney's visit to Mexico in March 1990, the relationship was further enhanced through bilateral agreements in such areas as customs administration, agriculture and livestock, forestry, environment, tourism and taxation. Since that time, eight additional bilateral agreements have been signed covering, among other areas, double taxation, energy, telecommunications and labour.

A North American Free Trade Agreement will further enhance this co-operation between Canada and Mexico, and increase trade and investment.

Canadian Participation in the Mexican Market

Canadian entrepreneurs have been quick to take advantage of this new environment. The Canadian Embassy in Mexico City received 4,450 visits from business representatives in the first six months of 1992, up from 193 in 1988 and 2,200 in 1991.

Canadian exporters have strengthened their presence in the U.S. market through the Free Trade Agreement (FTA). Privileged access to the Mexican market of over 85 million is an added benefit, particularly as Mexico's modernization and industrialization programs offer exciting new prospects for suppliers of capital equipment, technologically advanced components and parts, and high quality semi-manufactured industrial materials.

Successful Canadian Exporters

Many Canadian exporters already enjoy success in the Mexican market, and two-way trade should reach $5 billion by the end of the decade. Canadian technology is welcome, relevant and competitive. For example, Northern Telecom Ltd. recently received a contract for cellular telephone central switching equipment to meet the needs of five of the eight concessionaires selected by the Mexican Department of Communications and Transport (SCT).

Canadian consultants last year completed a $3.5-million contract to supply technology for spectrum management to the SCT. This contract includes the transfer of applied systems technology and will be followed by further sales expected to exceed $15 million. ABB/Combustion Engineering has been awarded a $40 million contract from the Comisión Federal de Electricidad to rebuild its boilers. In 1991, the Canadian Wheat Board sealed a transaction for $23 million with Conasupo for the purchase of 167,000 tonnes of wheat. On January 24, Conasupo announced it would buy a further 248,000 tonnes of Canadian Western Red Spring wheat worth an estimated $50 million. Most recently, Systemhouse signed a US$500 million contract over 10 years to install and manage computer systems for the Mexican Department of Finance.

Canadian automotive component manufacturers are already shipping significant quantities of these products to assembly facilities in Northern Mexico. This trade could grow very rapidly as Mexican manufacturing capacity increases.

Canada supplies basic foodstuffs to Mexican consumers including wheat, oil seeds, beans and milk powder. There has been an important relationship established in recent years by Canada's producers of breeding stock. As the Mexican economy strengthens, there will be increased requirements for quality food products, in line with improved standards of living.

The Canadian steel industry supplies tinplate for the Mexican food industry and steel rail against World Bank tenders for the Mexican railway system. Canadian suppliers are highly regarded in Mexico, and sales should increase rapidly as the economy achieves its growth potential.

By way of agreements with the Mexican banks (Bancomext, Banobras, Nafinsa, Serfin, Banamex, Atlantico, Comermex, Bancomer and International), the Export Development Corporation (EDC) in July 1991 arranged lines of credit valued at US$170 million to finance purchases of Canadian goods and services. More than a dozen new transactions valued at over $10 million were financed in 1991.

Two other lines of credit for US$500 million and US$30 million have been arranged with Petroleos Mexicanos (PEMEX) and the Comisión Federal de Electricidad. And Canadian telecommunications suppliers will now benefit from a US$100 million line of credit established by the EDC with Telefonos de Mexico (Telmex).

Through its Industrial Co-operation Program, the Canadian International Development Agency (CIDA) has contributed $1,964,557 to projects in Mexico during the past fiscal year.

Free movement of specialized technical personnel is a key area of future Canadian participation in Mexico. Canada is an active exporter of engineering, financial and other advisory services. Enhanced access for this expertise will see a rapid increase in Canadian participation in the Mexican market. Reprivatization of the banking sector will undoubtedly open additional opportunities to Canada.

Important Two-way Investment

In turn, Mexico is an important supplier to the Canadian market, with sales (according to Canadian statistics) of more than $2.5 billion in 1991. Under Canada's General Preferential Tariff Scheme, Mexican manufacturers are important suppliers of automotive parts and engines. Almost 75 per cent of Canadian imports from Mexico already enter the country duty-free, under the Most Favoured Nation status and the Auto Pact. In some respects, therefore, Canadian consumers already enjoy duty-free access to Mexican products, and Mexican components are already being assembled by our automotive industry.

Improved access to the Mexican market will provide a distinct advantage to Canadian exporters, since our products, services and technology are competitive and essential in a modernizing Mexico. The Canadian business community is already attracted to the opportunities that are developing in Mexico -- a convenient and natural business partner.

August 1992

MEXICO FACT SHEET

BASIC DATA

Area: 1,958,201 km^2: 19% cultivable; 48% suitable for livestock; 29% forested
Population: 85 million
Language: Spanish
Ethnic group: Mestizo 79%; Indian 11%; Caucasian 10%
Life expectancy: 66 years

Major religion: Roman Catholic 93%
Main cities & population: Mexico City 19.3 million; Guadalajara 3.4 million; Monterrey 3.1 million
Climate: Temperate in the highlands; tropical in the south; dry in the north
Measures: Metric
Time: 6 hours ahead of GMT in Mexico City

POLITICAL STRUCTURE

President: Carlos Salinas de Gortari (1988-1994)
Foreign Minister: Fernando Solana
Government: Federal republic, operating under a centralized structure, 31 states, one federal district (Mexico City)
Ruling party: Institutional Revolutionary Party (PRI), which currently holds 61 of 64 seats in the Senate and 319 of 500 seats in the Chamber of Deputies.

Opposition parties: Several opposition parties are guaranteed representation in the Chamber of Deputies through access to 200 seats allocated on the basis of proportional representation.
Diplomatic relations established: April 27, 1944
Canadian Embassy: Mexico City
Honorary Consuls: Acapulco, Cancún, Guadalajara, Mazatlán, Puerto Vallarta, Tijuana and Oaxaca

ECONOMIC DATA

Real GDP growth: (3.5% in 1991)
Inflation rate: (18.8% in 1991)
Currency: Peso
GDP: (US$250 billion in 1991)
Per capita income: (US$2,285 in 1991)

July 1992

CANADA-MEXICO EXPORT/IMPORT STATISTICS

	JAN-DEC 1989 (C$ millions)	JAN-DEC 1990 (C$ millions)	JAN-DEC 1991 (C$ millions)	GROWTH 91/90
EXPORTS	603,098	593,700	524,544	-12%
IMPORTS	1,698,368	1,729,848	2,573,972	49%
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MAIN CANADIAN EXPORTS TO MEXICO
(C$ millions)

	1990	1991
1. Motor Vehicle Parts	82,100	153,461
2. Iron & Steel Products	67,700	46,281
3. Newsprint	15,900	34,489
4. Wheat	8,400	25,038
5. Telecoms, Related Equipment/Parts	51,400	23,048
6. Paper Products	11,000	18,888
7. Sulphur	28,800	18,868
8. Aircraft & Parts	39,100	18,583
9. Petroleum Oils	5,100	16,109
10. Asbestos	13,400	15,989

MAIN CANADIAN IMPORTS FROM MEXICO
(C$ millions)

	1990	1991
1. Motor Vehicles and Parts	564,002	1,439,259
2. Engines and Parts	389,379	339,989
3. Radio, Telephone, Audio Parts/Equipment	146,572	143,225
4. Data Processing Machines and Parts	177,815	127,166
5. Petroleum Oils	56,804	97,606
6. Fruits, Coffee and Nuts	68,485	76,008
7. Air Conditioners, Fans Equipment & Parts	32,030	58,334
8. Vegetables	79,306	48,546
9. Carpets, Fabrics and Yarn	27,813	30,077
10. Kitchen Appliances, small	13,670	23,317

Source: Statistics Canada, Merchandise Trade Statistics

July 1992

CANADA-MEXICO MERCHANDISE TRADE EXPORTS

January to March, 1992
($C millions)

EXPORTS TO MEXICO	ANNUAL 1990	ANNUAL 1991	JAN-MAR 1991	JAN-MAR 1992
Motor Vehicle Parts (including Engine Parts)	82,100	153,461	19,968	32,871
Iron and Steel Products	67,700	46,281	8,639	25,127
Aircraft and Parts	39,100	18,583	125	20,780
Bituminous Coal	0	----	0	11,699
Telecoms, Related Equipment/Parts	51,400	23,048	1,567	7,348
Newsprint	15,900	34,489	632	6,889
Asbestos	13,400	15,989	2,591	5,455
Milk Powder	72,500	13,429	5,403	5,240
Sulphur	28,800	18,868	0	4,585
Rape or Colza Seeds	0	0	3,649	----
Meat	14,800	6,070	1,763	3,554
Cattle, Live	7,200	12,827	3,550	3,134
Wood Pulp	27,500	15,299	4,178	2,487
Articles of Rubber	5,900	3,768	467	1,963
Paper Products	11,000	18,888	3,632	911
Office/Data Processing Equipment	2,600	10,283	330	342
Pulses	5,700	0	0	14
Potash	2,000	2,427	----	----
Petroleum Oils	5,100	16,109	9,143	0
Wheat	8,400	25,038	0	0
SUBTOTAL	461,100	434,857	61,988	136,048
Others	132,600	89,687	19,924	18,445
TOTAL EXPORTS	593,700	524,544	81,912	154,493

GROWTH IN EXPORTS BETWEEN JANUARY AND MARCH 1991/92: 76%

Source: Statistics Canada, Based on Preliminary Merchandise Trade Statistics
July 1992

AGREEMENTS BETWEEN CANADA AND MEXICO

Memorandum of Understanding on Co-operative Labour Activities between the Department of Labour of the Government of Canada and the Secretariat of Labour and Social Welfare of the United Mexican States

This Memorandum of Understanding provides a framework for co-operative activities involving governments, labour and business on a wide range of labour-related matters. These activities will focus attention on issues of great importance to workers in both countries, while facilitating greater contact between Canadian and Mexican workers, unions, labour administrators and industry representatives. **Signed: May 1992**

Memorandum of Understanding on Co-operation in Telecommunications between the Department of Communications of the Government of Canada and the Secretariat of Communications and Transportation of the United Mexican States

This Memorandum of Understanding will establish the basis for discussions aimed at improving co-operation and understanding of technical requirements; increasing co-operation in research and development; gaining support in multilateral forums; developing and improving telecommunications satellite technology between the two nations; co-ordinating frequency usage; and discussing the exchanges of experts. **Signed: April 1992**

Canada/Mexico Double Taxation Agreement

The Double Taxation Agreement is a bilateral treaty designed to ensure that income from dividends, interest and royalties is taxed by mutual agreement at an acceptable rate; to eliminate double taxation through foreign tax credits; to provide a government to government tax dispute resolution system; and to facilitate the exchange of information on tax evasion.

This Agreement will facilitate international trade and investment. It is the first Double Taxation Agreement that Mexico has signed with another country. **Signed: April 1991**

Film and Television Co-Production Agreement

The general aim of the Canada-Mexico film and television co-production agreement is to broaden financing and production opportunities for the film and television industries of both countries. The Agreement will assist co-production projects approved under the Agreement by reducing risks through the pooling of creative, technical and financial resources. Canada and Mexico view co-productions as a means to expand financial and market opportunities and to contribute to the ongoing development of their respective film and television industries, through enhanced opportunities in production and distribution and for cost-recovery. **Signed: April 1991**

Memorandum of Understanding (MOU) between the Canadian Export Development Corporation (EDC) and Petroleos Mexicanos (PEMEX)

The EDC's US$500-million Memorandum of Understanding with PEMEX, Mexico's national oil agency, confirms the interest of both parties to establish a line of credit to promote the sale of Canadian goods and services to PEMEX for implementation of its significant development plans over the next five years. EDC has maintained a US$10-million line of credit with PEMEX since 1985, but this new line is designed to accommodate the expected increase in Canadian participation in this key sector of the Mexican economy. **Signed: April 1991**

Memorandum of Understanding between the Canadian Export Development Corporation and the Mexican Secretariat of Finance

This Memorandum of Understanding covers Mexican guarantees for EDC loans to their commercial banks in that country that are to be privatized. It will assist Canadians pursuing opportunities in Mexico by ensuring that competitive financing arrangements are available to their potential Mexican buyers. **Signed: April 1991**

Memorandum of Understanding between the Government of Canada and the United Mexican States regarding a Framework for Trade and Investment Consultations

This Memorandum of Understanding will facilitate discussions between Canada and Mexico on the key features of bilateral trade and investment flows. Working Groups to be established under its provisions will examine specific issues and product areas where increased trade is possible. These include automotive, agriculture, food, fisheries, mining, telecommunications, forestry, energy, transportation, petrochemical and electrical products. The MOU also establishes a dispute settlement mechanism, consistent with GATT provisions, to resolve any bilateral trade irritants. **Signed: March 1990**

Memorandum of Understanding between the Government of Canada and the Government of the United Mexican States on Co-operation in Combatting Narcotics Trafficking and Drug Dependency

This Memorandum of Understanding identifies a number of fields of co-operation, including assessment of drug abuse, treatment of abusers, identification of persons involved in trafficking, movement of drugs, law enforcement training, development of measures to ensure chemicals and other items are not diverted into drug production, and substitution of unlawful cultivation of narcotics with legal crops. Officials will meet every two years to review co-operation and develop further MOUs in specific subject areas. **Signed: March 1990**

Treaty between Canada and the United Mexican States on Mutual Legal Assistance in Criminal Matters

Together with the new Extradition Treaty, this Treaty will enhance Canada's ability to deal with international drug trafficking and money laundering. Assistance covers the areas of prevention, investigation and prosecution of offences or any other criminal proceedings arising from acts within the competence or jurisdiction of the party seeking such assistance. **Signed: March 1990**

Treaty of Extradition between Canada and the United Mexican States

The Extradition Treaty incorporates the modern "no list" approach (specific offences are not listed in the Treaty). It will replace the current treaty, which was concluded between Mexico and the United Kingdom in 1886 and is still in force for Canada. The new treaty sets out in detail requirements to ensure admissibility in Canadian courts of evidence submitted in support of extradition requests by Mexico and is consistent with treaties Canada has negotiated with other civil law countries. **Signed: March 1990**

Agreement between Canada and the United Mexican States regarding Mutual Assistance and Co-operation between their Customs Administration

A mutual assistance agreement in customs matters between Canada and Mexico would facilitate the exchange of information on enforcement matters and technical expertise, allow the exchange of personnel and encourage co-operation in additional areas of mutual benefit to the two parties. **Signed: March 1990**

Memorandum of Understanding on Forestry Co-operation between the Secretariat of Agriculture and Water Resources of the United Mexican States and the Department of Forestry of Canada

Under the proposed Memorandum of Understanding, five projects covering forest management, seed production, fire management, inventory and wood technology are listed. The MOU will assist Mexico in reaching the objectives of its Integrated Rural Development Program in Forestry, as well as facilitate commercial activity between the private sectors of both countries. **Signed: March 1990**

Agreement on Tourism Co-operation between the Government of Canada and the Government of the United Mexican States

At Mexican request, this modifies the existing agreement. It outlines how reciprocal tourism and cultural exchanges shall be promoted and calls for the facilitation of tourist travel, the exchange of statistical and other information, co-operation in training and research, and mutual support in the World Tourism Organization. **Signed: March 1990**

Agreement on Environmental Co-operation between the Government of Canada and the Government of the United Mexican States

The Agreement, to be administered by the Mexican and Canadian Environment Ministries, provides a facilitative framework for expanding bilateral environmental co-operation, pursuant to which specific projects in a wide range of areas may be negotiated. Co-operation may be in the form of information, technical or personnel exchanges and may also provide commercial opportunities. **Signed: March 1990**

<u>Arrangement on Agricultural and Livestock Co-operation between the Department of Agriculture Canada and the Secretariat of Agriculture and Water Resources of the United Mexican States</u>

Amending the MOU on Agricultural Co-operation signed on June 20, 1980, the parties agree to establish a Joint Canada/Mexico Secretariat to serve as a forum for the exchange of information, for consultation and for the implementation of specific projects. **Signed: March 1990**

<u>Convention between Canada and the United Mexican States for the Exchange of Information with Respect to Taxes</u>

This is a limited tax treaty which covers the exchange of information between Canadian and Mexican tax collection authorities, and is the first such agreement negotiated by Canada outside a Double Taxation Agreement (DTA). The main objective is to curb fiscal evasion and fraud. Mexico will negotiate a DTA as soon as domestic legislative obstacles have been removed. **Signed: March 1990**

August 1992

CANADA-U.S. TRADE RELATIONS

Canada and the United States are partners in the largest bilateral trading relationship in the world.

Total two-way merchandise trade (balance of payments basis) was $202.4 billion in 1991. In this period, Canada exported goods worth $107.6 billion to the United States and imported U.S. goods worth $93.7 billion, giving Canada a surplus on goods transactions of $13.9 billion. The United States is the only country with which Canada has a significant trade surplus.

Non-merchandise trade, including tourism, services, investment income and transfers, represents over 20 per cent of bilateral trade. Canada has historically run a deficit with the United States in these areas.

Canada is by far the largest single customer for U.S. sales abroad, purchasing 21 per cent of all U.S. exports. Canada buys more U.S. products than do Germany, the U.K., France and Italy combined. Ontario buys more U.S. goods than all of Japan. According to the U.S. Department of Commerce, Canadian imports of U.S. goods maintain over two million manufacturing jobs in the United States. At the same time, the United States is also Canada's largest customer, absorbing 76 per cent of our exports.

The United States is the largest foreign investor in Canada. It accounts for about $79 billion or almost 62 per cent of foreign direct investment in Canada. A major source of this investment is reinvested earnings of U.S. multinationals based in Canada.

But as our trade and investment relationship has grown, the complexion of our exports has changed. Since 1988, Canada has expanded exports of end-products substantially, totalling $53 billion in 1991. Sectors where exports to the United States have expanded include aerospace, electrical machinery, transportation equipment and specialty chemicals.

The production processes of both countries are closely linked, and goods pass back and forth across the border in various stages of assembly. This is especially true for autos and auto parts, which account for a large part of exports and imports.

The U.S. market is also vitally important to Canadian manufacturers in a number of sectors. In agri-food, for example, the U.S. market represented 41 per cent of Canadian exports, or $4.6 billion in 1991. Canadian manufacturers of office furniture and equipment also sold $1.2 billion worth of goods in the United States last year. Other Canadian exports include telecommunications equipment, newsprint and other forest products, crude petroleum and natural gas.

The Canada-U.S. Free Trade Agreement:
Strengthening the largest trading relationship in the world

Since 1989, the Canada-U.S. Free Trade Agreement (FTA) has been facilitating the flow of goods and services across the border. Based upon the principle of trade liberalization, the FTA greatly expanded opportunities for both countries to increase their volumes of trade, create jobs and encourage investment.

The FTA is the largest bilateral trade agreement ever concluded. It covers more trade and more trade-related issues than any other such trade agreement. The FTA provides for liberalization of trade in most sectors of the economies of both countries, and it also includes binding commitments on trade in services, business travel and investment.

While the FTA already offers gradually improving market access through annual tariff reductions, many firms are confident they can compete, and they don't want to wait. That is why Canada and the United States negotiated two rounds of accelerated tariff reductions, the first in 1990 covering 400 items and $6 billion in two-way trade, the second in July 1991 covering an additional 250 items and $2 billion in trade. The two governments are now negotiating a third round.

The FTA also makes business travel easier. Before the FTA, entrepreneurs were frustrated in their attempts to service customers across the border. Since its implementation, the temporary entry clause of the FTA has operated smoothly under the direction of the two immigration services. The provisions continue to be expanded and refined. To date, 61 professions enjoy easier access to the U.S. market to sell goods and services and supply after-sales services to customers.

Placing the world's largest bilateral trading relationship on a rules-based footing has been one of the most significant results of the FTA. The dispute settlement mechanisms of the FTA offer both countries protection against arbitrary application of each other's trade laws. Over the past three years, Canadian companies have been using these provisions of the FTA quite successfully. Despite the existence of some trade disputes, however, virtually all of Canada-U.S. trade is dispute free. This is all the more remarkable, given the size of the Canada-U.S. trade relationship.

After more than three years in operation, the FTA has more than proven its worth in other ways. Since 1989, foreign investors have shown a significant interest in

Canada, as reflected in the sharp increase in direct investment activity. In the first three years of the FTA, net investment flows to Canada totalled $15.1 billion, or an average of $5.0 billion per year. In comparison, during the three years preceding the FTA, cumulative investment flows to Canada totalled $10.5 billion, or $3.5 billion per year.

Exports to the United States also grew substantially during the first three years of the FTA, reaching a cumulative total of $323.7 billion. Over the previous three years, the total was $292.5 billion. In effect, during the first three years of FTA implementation, merchandise export trade grew by more than 10.7 per cent. In the first quarter of 1992, Canadian exports to the United States and to the world reached all-time highs.

The FTA, the multilateral trade negotiations under the auspices of the General Agreement on Tariffs and Trade, and now the North American Free Trade Agreement, all form a single policy framework that reflects the steady liberalization of world trade. That framework creates the basis for Canadian industries to become more competitive throughout North America and in foreign markets.

August 1992

UNITED STATES FACT SHEET

BASIC DATA:

	1990	1991
Real GDP growth (%):	1.0	-0.7
GDP (US$ billions):	5,514	5,674
Inflation rate (%):	5.4	4.2
Population (millions):	250.0	250.9
Exports (US$ billions):	388.7	416.0
Imports (US$ billions):	497.6	489.4

MAIN DESTINATIONS OF EXPORTS 1991:

	% of total
Canada	20.4
Japan	11.3
Mexico	7.9
U.K.	5.2
Germany	5.1
South Korea	3.7
EC	24.5

MAIN ORIGINS OF IMPORTS 1991:

	% of total
Canada	19.0
Japan	18.7
Mexico	6.4
Germany	5.4
Taiwan	4.7
U.K.	3.8
EC	17.7

PRINCIPAL STATES IMPORTING FROM CANADA: (C$ billions)

	1990	1991
Michigan	31.5	29.9
New York	10.2	11.3
Illinois	5.4	5.3
California	5.3	5.0
Ohio	4.6	4.4
Washington	3.2	4.4
Pennsylvania	4.4	3.9
Texas	2.7	3.0
Massachusetts	3.3	3.0
New Jersey	3.0	2.7

PRINCIPAL EXPORTS 1991:

	(US$ billions)
Machinery and transport equipment	206.2
Other manufactured goods	70.2
Industrial supplies and materials	109.2
Food, drink, etc.	35.8

PRINCIPAL IMPORTS 1991:

	(US$ billions)
Machinery and transport equipment	206.2
Other manufactured goods	124.0
Industrial supplies and materials	131.4
Food, drink, etc.	26.5

COMPONENTS OF GDP 1991:

	% of total
Private consumption	68.6
Federal expenditure	7.8
State and local expenditure	11.3
Non-residential investment	9.7
Residential investment	3.4
Exports of goods and services	10.4
Imports of goods and services	-11.0

PRINCIPAL STATES EXPORTING TO CANADA: (C$ billions)

	1990	1991
Michigan	16.1	16.0
New York	7.6	7.1
California	6.6	7.0
Illinois	6.0	5.8
Texas	3.7	3.9
Pennsylvania	3.8	3.6
New Jersey	2.6	2.9
Indiana	2.8	2.8
Massachusetts	2.4	2.8
Wisconsin	2.5	2.1

Sources: The Economist Intelligence Unit, *U.S.A. Country Report*, No. 2, 1992; Statistics Canada, Merchandise Trade Statistics. U.S. Department of Commerce, June 1, 1992

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CANADA-UNITED STATES EXPORT/IMPORT STATISTICS
(Balance of Payments Basis)

	1989	1990	1991
		(C$ billions)	
EXPORTS	105.7	110.5	107.6
IMPORTS	94.0	93.7	93.7
BALANCE	11.7	16.8	13.9

MAIN CANADIAN EXPORTS TO THE U.S.
(C$ millions)

	1990	1991
1. Passenger Auto and Chassis	16,236	16,438
2. Trucks, Truck Tractors and Chassis	7,501	7,088
3. Motor Vehicle Parts except Engines	7,558	6,533
4. Crude Petroleum	5,474	5,974
5. Newsprint	5,483	5,165
6. Telecommunications and Related Equipment	3,832	4,185
7. Natural Gas	3,267	3,511
8. Softwood Lumber	3,158	3,055
9. Petroleum and Coal Products	3,126	2,994
10. Wood Pulp	3,067	2,243

MAIN CANADIAN IMPORTS FROM THE U.S.
(C$ millions)

	1990	1991
1. Motor Vehicles and Parts except Engines	10,931	10,148
2. Passenger Automobiles and Chassis	6,886	6,988
3. Computers	4,059	4,330
4. Trucks, Truck Tractors and Chassis	2,279	2,463
5. Telecommunications and Related Equipment	2,866	2,320
6. Motor Vehicle Engines	1,934	2,018
7. Electronic Tubes and Semi-conductors	1,533	1,540
8. Plastic Material	1,341	1,394
9. Miscellaneous Equipment and Tools	1,255	1,344
10. Organic Chemicals	1,335	1,271

Source: Statistics Canada, Merchandise Trade Statistics

July 1992

NORTH AMERICAN FREE TRADE AGREEMENT

THE NAFTA MANUAL

August 1992

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HIGHLIGHTS

OF THE

NORTH AMERICAN FREE TRADE AGREEMENT

(NAFTA)

AUGUST 1992

CANADA'S KEY OBJECTIVES MET

Barrier-Free Access to Mexico

- Phase-out of tariffs for virtually all Canadian exports to Mexico over 10 years;
- Elimination of Mexican import licensing requirements for goods;
- Opportunities to bid for major Mexican government procurement contracts;
- Canadian financial services companies will be able to open subsidiaries, invest in, and acquire financial institutions in Mexico (banking, securities and insurance);
- Major liberalization of the restrictive Mexican investment regime;
- Liberalization of the Mexican services market, including land transport, specialty air services, professional services, and enhanced telecommunications (e.g., advanced data-processing services). Agreement between Canada and Mexico to maintain their relatively open international maritime shipping services.

FTA Benefits Plus Improvements

- The Auto Pact remains;
- Protection of Canada's cultural industries;
- Social services and health services are protected;
- High health, safety and environmental standards are preserved and can be strengthened;
- Canada's supply management import quotas for egg, dairy and poultry products are not affected;
- Unlike in the Free Trade Agreement (FTA), transportation services (including land and specialty air services) and intellectual property rights are included;
- Clearer North American content rules, including for autos, reducing the risk of unilateral interpretations by customs officials;
- The impact of the new rules of origin for textiles and apparel is offset by increases in the quotas giving preferential access to the U.S. market for Canadian goods that do not meet the rules of origin;
- Extension for two years of duty drawback beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods into other NAFTA countries;
- Clearer disciplines on energy regulators to avoid discriminatory actions against contractual arrangements, benefiting Canadian gas exporters;
- More stringent discipline on the United States for imposing border restrictions against imports from Canada; and
- Improved dispute settlement procedures.

Canada -- An Attractive Place to Invest

- Canada will be on an equal footing in competing for investment in North America because the NAFTA ensures secure access for our exporters to both the United States and Mexico.

WHAT'S IN THE AGREEMENT

TARIFFS

- Canada and Mexico have agreed to phase out virtually all tariffs over a maximum of 10 years. Mexico has also agreed to eliminate import licences. The tariff reductions will either be immediate or generally phased out in equal annual cuts over 5 or 10 years. Mexico will provide immediate duty-free access for many of Canada's key export interests including many fish items, some grains, many important ferrous and non-ferrous metals and minerals, fertilizers and sulphur, certain wood and paper items, most telecommunications equipment, many types of machinery manufactured in Canada including agricultural, resource and industrial, as well as health and medical equipment. Canada's tariffs on key import-sensitive sectors will be phased out over the long term (10 years) including such areas as apparel, most footwear, toys, plastic articles and other miscellaneous manufactured articles. Canada will impose special tariffs to prevent sudden surges of imports of certain fresh, frozen or prepared fruits and vegetables and cut flowers. Tariff cuts to Mexico's import-sensitive sectors will also be phased in over 10 years, including furniture, pharmaceuticals, certain grains, some wood products, some finished metal products, toys and some sporting goods. Both Canada and Mexico have the right to take safeguard measures that allow them to reimpose duties to protect producers from surges of imports.

THE AUTO INDUSTRY

- The NAFTA preserves the Auto Pact and creates new opportunities for Canadian firms and workers in the auto industry. The Mexican market, which was largely closed due to the restrictive Auto Decree, will be opened to Canadian auto exports. Canadian manufacturers will get immediate access into Mexico for medium and heavy-duty trucks and buses.

  The Mexican auto market has tremendous potential. It is the fastest growing in North America. The North American content requirement for light vehicles including cars and light trucks, to qualify for duty-free treatment has been raised to 62.5 per cent in two stages over eight years. In a move to encourage new investment in the sector, new plants will have five years to reach the new content level. Major plant refits will have two years. The NAFTA incorporates major improvements in the rules of origin and changes in customs procedures, both of which will help avoid disputes such as those involving the North American content of Honda cars and vehicles made by GM-CAMI.

Another improvement is the extension of duty drawback for two years beyond the FTA expiry in 1994, and a new duty refund system thereafter, which will reduce future input costs for Canadian manufacturers. The higher content levels, coupled with the improved rules of origin and extension of duty drawback provisions, balance the interests of Canada's diverse auto industry -- the Big Three, the Asian assemblers, and the auto parts manufacturers. The changes will preserve Canada's position as a prime North American location for investment by the auto industry.

Under the NAFTA, Canada can maintain and strengthen its high safety and emission standards for automotive products.

AGRICULTURE

- The FTA continues to govern agricultural trade between Canada and the U.S. Within the NAFTA, Canada and Mexico have a separate agreement. Mexico's market will be opened through the immediate elimination of import licences and phase-out of tariffs. Key Canadian exports include grains, oilseeds, pork, fish, potatoes and processed foods. Canada's import quotas for supply managed egg, poultry and dairy products remain unaffected by the Agreement. Mexico will also exclude these sectors. Canada and Mexico retain the right for 10 years to impose special tariffs to prevent sudden surges of import-sensitive products. For Canada, the safeguards apply to certain fruits and vegetables. Health and safety standards are maintained and can be strengthened.

TEXTILES AND APPAREL

- The NAFTA contains new, tighter rules of origin requiring greater sourcing in North America. For apparel, the new rules require that yarns and fabrics in a garment be made in North America to qualify under the Agreement. For textile fabrics, the rules are largely unchanged. For yarns, the fibres must originate in North America. These new rules have been offset by increased "tariff rate quotas" which provide preferential access for Canadian producers to the U.S. market. The FTA quota for non-wool apparel has been doubled; for wool apparel, the quota will increase steadily for five years; the quota for fabrics has now been made permanent and nearly tripled; and a new quota has been set for yarns at four times the 1991 export levels. Unlike in the FTA, most quotas are to be increased by 2% per year for five years, with possible further upward adjustment in the future. Canada's tariffs on Mexican textiles and apparel will be phased out over a long term (10 years for apparel; 8 years for textiles). The FTA duty drawback rights have been improved and extended, reducing input costs for Canadian manufacturers.

ENERGY

- The NAFTA energy provisions create a new framework in which Canadian firms will have new opportunities.

  The NAFTA limits Mexico's use of restrictive trade practices in the sector. It contains disciplines that prohibit Mexico from applying discriminatory border restrictions and export taxes. In the petrochemical sector, the elimination of Mexican investment restrictions, coupled with immediate elimination of trade restrictions on most petrochemicals, offers important opportunities for Canadian companies. The Agreement also contains clearer disciplines on energy regulators to avoid discriminatory actions and to minimize disruption of contractual arrangements. This is an important gain for Canadian gas exporters to the United States.

  The NAFTA provisions reflect unique factors, like Mexico's constraints on private ownership in its energy sector. While Mexico did not agree to security of supply provisions, neither did it obtain security of supply for its imports or security of access for its exports.

SERVICES

- The NAFTA provides wider coverage of cross-border trade in services than the FTA, including transportation services and new areas of professional services. In transportation services, the trucking industry has been opened to allow greater freedom for Canadian transporters to carry cargo from Canada to the U.S. and onward to Mexico. Domestic carriers in each of the three NAFTA countries retain the exclusive right to haul cargo within their own country.

  For the first time, specialty air services have been included, opening opportunities for Canadian suppliers particularly in the high-tech area (aerial mapping and surveying) in both the U.S. and Mexico. Canada and Mexico have agreed to maintain their relatively open international maritime shipping market. Mexico has agreed to open its market to business and professional services, including management, engineering, accounting and legal services. The Agreement will simplify temporary entry procedures for business persons and place fewer restrictions on professionals. Such travellers will not pay duty on accompanying tools and equipment.

  Like the FTA, the NAFTA excludes basic telecommunications such as local and long-distance telephone services. However, enhanced services (e.g., advanced data-processing services) are covered. This will encourage North America-wide competition in the latest telecommunications and computer services in which Canada excels.

FINANCIAL SERVICES

- Under the NAFTA, Mexico will provide full access to its market after a transition period. Canadian banks, trust companies, securities brokers and insurance companies will be able to open subsidiaries, invest in, and acquire ownership of financial institutions in Mexico. In an improvement on the FTA, the NAFTA establishes principles to which all countries must adhere, including equal treatment for foreign-owned and domestic firms. Also, for the first time, this sector will be subject to dispute settlement provisions.

INTELLECTUAL PROPERTY

- The NAFTA includes comprehensive coverage of intellectual property rights encompassing standards and rules of enforcement. The patents, trademarks, copyrights and trade secrets of Canadian companies and individuals will be protected under these provisions. Patent protection will be the same in all industrial sectors. The inclusion of intellectual property in the Agreement is a major improvement over the FTA.

INVESTMENT

- Under the NAFTA, Mexico will reduce investment restrictions on dozens of sectors, including autos, mining, agriculture, fishing, transportation and most manufacturing. Investor-state arbitration has also been included so that disputes between investors from a NAFTA country and a NAFTA government may, at the investor's request, be settled through international arbitration. This will give Canadian investors in the United States and Mexico added confidence and security. Canada retains the right to review foreign takeovers in Canada consistent with current policy.

STANDARDS

- The NAFTA allows Canada to maintain its high standards for health, safety and the environment. It also establishes rules to prohibit standards, regulations and procedures that are unnecessary obstacles to trade. The NAFTA establishes a Standards Committee to address technical standards problems before they become trade irritants. The Agreement affirms the resolve of the NAFTA partners to protect, enhance and enforce workers' rights and to improve working conditions in each country.

THE ENVIRONMENT

- The NAFTA represents an important step forward in dealing with trade and the environment. It contains more environmental provisions than any previous trade agreement. Canada was an active proponent of a number of the environmental provisions. The NAFTA contains a strong commitment to sustainable development and environmental protection and enforcement. It recognizes the right of each NAFTA country to maintain environmental standards higher than those recommended by international organizations. The Agreement also recognizes that the NAFTA countries should not lower health, safety, or environmental standards to attract investment.

  Mexico's commitment to improving its environment, combined with the removal of Mexican trade barriers on equipment and services, will present Canadian suppliers with new opportunities.

GOVERNMENT PROCUREMENT

- The NAFTA provides for better access to government procurement of goods, services and construction in all three countries. In addition, there are improved procedures to cover tendering, challenges to bids and provisions for dispute settlement. The scope and coverage of procurement contract opportunities available to Canadian companies under the NAFTA increase from $20 billion under the General Agreement on Tariffs and Trade (GATT) and FTA to $70 billion. This will open up opportunities for Canadians, including suppliers of electrical, oil and gas, and telecommunications equipment and of building materials; consulting engineers; and high-tech software providers.

DISPUTE SETTLEMENT

- When disputes arise involving interpretation of the Agreement, the NAFTA provides an effective, timely and impartial method of resolving them. The general dispute settlement provisions (Chapter 18 of the FTA) have been drafted to incorporate the entry of a third party (Mexico). These include such aspects as institutional provisions (e.g., creation of a trilateral trade commission), procedures for the selection of panelists, provisions for scientific advice from environmentalists and other experts, and greater transparency. The possibility of unilateral action by any one country has been limited.

The FTA includes a unique dispute settlement system providing for binational panel review of final anti-dumping and countervailing duty determinations (Chapter 19), instead of judicial review by domestic courts. In the NAFTA, this system has been strengthened. The binational panel system will continue to function as it has for the past four years under the FTA. Under the NAFTA, Canadian exporters will have access to binational panel review of Mexican anti-dumping and countervailing duty determination instead of judicial review by Mexican courts. In addition, a new provision has been added to safeguard the dispute-settlement panel system, to ensure that panels are established and their decisions are implemented. If one country denies another these benefits, the affected country will now have recourse. Obligations ensuring the establishment of panels and the implementation of their decisions were enshrined in the Canadian law implementing the FTA. The new provision will ensure that the application of Mexican and American law does not frustrate the binational dispute settlement panel process.

WHAT'S NOT IN THE NAFTA

- The NAFTA preserves the FTA exemption for cultural industries. Canada's ability to maintain existing cultural support measures -- as well as to introduce new ones -- is undiminished. It has not been watered down or changed. Government health and social services are fully protected, as in the FTA. They are specifically excluded from NAFTA provisions. Canadian government policy prohibiting the large-scale export of water is unaffected.

WHAT IF OTHER COUNTRIES WANT TO JOIN THE NAFTA?

- The NAFTA includes an "accession" clause permitting other countries to join provided they meet all the necessary requirements and submit to NAFTA disciplines. Each original NAFTA partner will have the right to approve admission of another country.

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CANADA'S PROSPERITY: THE TRADE LINK

- Canada's prosperity is directly linked to our success in the world marketplace. The creation of jobs and wealth at home depends on our ability to compete successfully abroad.

- One-quarter of Canadian jobs and one-quarter of our national wealth depend on trade. That's a huge investment in the global economy.

- The government launched the Prosperity Initiative last year to ensure that our economy becomes stronger and more competitive. Following intensive community consultations across the country, specific plans to ensure that Canada can make the most of its abilities and potential will be announced in September.

- But doing better at home is only part of the solution. Canada needs improved and more secure access to world markets to exploit our economic strengths.

- Our global trade plan is designed with precisely that end in mind. That explains why we have been leaders in the Uruguay Round, why we entered the Canada-U.S. Free Trade Agreement (FTA) and why we pursued the North American Free Trade Agreement.

- The advantages of freer trade -- with the improved market access and better trade rules we are achieving -- are clear for Canada's workers, for our companies which produce goods and provide services, and for our investors.

- More open access to foreign markets under fair-trade rules will help the Canadian economy become even more competitive. This will eventually pay off in more and better jobs in Canada, better deals for our consumers, and increased national wealth to help us support and improve our social programs.

- Canada is already a great trading nation. We had a merchandise trade surplus of $7 billion with the rest of the world in 1991. But we cannot afford complacency. The Prosperity Initiative will give us the tools to compete even better; our global trade plan will provide us the opportunity to use those tools.

COMMONLY ASKED QUESTIONS

Does the emphasis on North America divert our trade and investment from other areas such as Asia and Europe?

The FTA and the NAFTA are part of a global approach to trade. They reinforce our attempts to get freer trade worldwide, and they dovetail with our key trade promotion initiatives such as Pacific 2000, Europe 1992 and Going Global. Our regional arrangements are entirely compatible with the rules of world trade as set out in the General Agreement on Tariffs and Trade (GATT) and, in fact, can be seen as contributing to the trade liberalization being sought under the GATT. In addition, as we improve our competitiveness by selling to the huge North American market we will be better placed to compete aggressively in other markets.

Should Canada be putting more effort into reform of the GATT, the cornerstone of world trade?

We have been working hard on the Uruguay Round for several years now and will continue to do so. It is our top trade priority. Unfortunately, progress is slow. The opportunities for early success in the NAFTA talks were clearly greater and we could not afford to ignore that. However, our commitment to successful GATT reform through the Uruguay Round remains undiminished.

Our two-way trade with Mexico is small. How does a deal with Mexico contribute to our prosperity and trade agendas?

Mexico is a market of 85 million people that is expanding rapidly and is at the forefront of economic and trade liberalization throughout Latin America. But Mexico has had a highly protected economy through high tariffs and import licences. The NAFTA will change that, giving Canadians access to this dynamic market and a competitive edge in both the U.S. and Mexico over our rivals from other parts of the world. It will contribute both to our prosperity and to the process of adapting to doing business on a more open and global basis.

FTA BENEFITS

BOLSTERING EMPLOYMENT

- Every billion dollars' worth of exports creates or maintains 15,000 Canadian jobs. In the period 1989-91, Canada's exports to the U.S. increased by over $31 billion or 11% compared to the three years leading up to the Canada-U.S. Free Trade Agreement (FTA).

- The FTA has assured and improved access to U.S. markets, keeping existing jobs in Canada, and creating new jobs that might otherwise have gone to the U.S.

- Employment in relatively high-paying managerial, administrative, professional and technical occupations in Canada have increased by 200,000 since the FTA came into effect, helped in part by new export opportunities in the U.S. market.

INCREASING EXPORTS

- Despite the recession and a relatively strong Canadian dollar, in the period 1989-1991, Canadian merchandise exports to the U.S. grew by 10.7% to $323.7 billion from $292.5 billion in the period 1986-1988.

- In May, U.S.-bound exports were $10.1 billion, just short of the all-time high reached in April, and total exports to the world hit a new all-time record monthly high of $12.9 billion.

- Canada's merchandise trade surplus with the U.S. in the first five months of 1992 is running at an annual rate of $20 billion, its highest total since 1985.

LOWER PRICES AND SAVINGS TO CONSUMERS AND BUSINESS

- Duty elimination under the FTA on imported components saved Canadian manufacturers and businesses in excess of $600 million.

- A 1991 study by the University of Toronto concluded that the FTA has placed "some downward pressure on inflation."

HIGHER INVESTMENT

- Since the FTA there has been a dramatic turnaround in American investment in Canada. Since 1989, Canada has been the net recipient of an average of $2 billion per year.

- More investment is going into job-creating manufacturing facilities -- an average of 55% of annual total investment flow.

- A Canadian Manufacturers' Association survey of some 325 companies conducted in April and May 1992 found that nearly half the companies said they increased capital investments in Canada after the FTA came into effect while only 9% reduced investment.

INCREASING PRODUCTIVITY

- Real manufacturing output per person in Canadian industry rose by 0.4% in 1991, an unprecedented occurrence in a recession (in 1982, it fell by 4%).

- According to the Bank of Montreal, Canada's manufacturing productivity (not adjusted for inflation) rose 6.8% in 1991, compared to 1.3% in the U.S.

- Wood Gundy forecasts call for productivity in manufacturing to be up possibly as much as 8% in 1992, and 12% in 1993.

EFFECTIVE DISPUTE SETTLEMENT

- The FTA has provided Canada with a mechanism to ensure that disputes, which inevitably arise in the world's largest two-way trading relationship, are handled in a fair and expeditious manner.

- Under the FTA, of 12 completed cases involving challenges of U.S. trade actions against Canada, 7 have resulted in positive decisions for Canada.

- Decisions have generally been unanimous -- meaning American experts support the Canadian position.

- Experts consider the FTA dispute settlement mechanisms to be better than those of the GATT. Not only is FTA dispute settlement faster, but Chapter 19 FTA panel decisions are binding.

- In a number of instances the FTA has been used successfully to head off and protect Canada from new and potentially damaging U.S. trade legislation before it was passed into law.

CANADA'S KEY OBJECTIVES MET

BARRIER-FREE ACCESS TO MEXICO

- Phase-out of tariffs for virtually all Canadian exports to Mexico over 10 years;
- Elimination of Mexican import licensing requirements for goods;
- Opportunities to bid for major Mexican government procurement contracts;
- Canadian financial services companies will be able to open subsidiaries, invest in, and acquire financial institutions in Mexico (banking, securities and insurance);
- Major liberalization of the restrictive Mexican investment regime;
- Liberalization of the Mexican services market, including land transport, specialty air services, professional services, and enhanced telecommunications (e.g., advanced data-processing services). Agreement between Canada and Mexico to maintain their relatively open international maritime shipping services.

FTA BENEFITS PLUS IMPROVEMENTS

- The Auto Pact remains;
- Protection of Canada's cultural industries;
- Social services and health services are protected;
- High health, safety and environmental standards are preserved and can be strengthened;
- Canada's supply management import quotas for egg, dairy and poultry products are not affected;
- Unlike in the Free Trade Agreement (FTA), transportation services (including land and specialty air services) and intellectual property rights are included;
- Clearer North American content rules, including for autos, reducing the risk of unilateral interpretations by customs officials;
- The impact of the new rules of origin for textiles and apparel is offset by increases in the quotas giving preferential access to the U.S. market for Canadian goods that do not meet the rules of origin;
- Extension for two years of duty drawback beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods into other NAFTA countries;
- Explicit obligations on energy regulators to avoid discrimination against NAFTA partners and to minimize disruption of contractual arrangements;
- More stringent discipline on the United States to limit its ability to impose border restrictions against imports from Canada; and
- Improved dispute settlement procedures.

CANADA -- AN ATTRACTIVE PLACE TO INVEST

- Canada will be on an equal footing in competing for investment in North America because the NAFTA ensures secure access for our exporters to both the United States and Mexico.

COMMONLY ASKED QUESTIONS

Why does Canada need to be involved in the NAFTA?

The NAFTA preserves Canada as a preferred location for investments in goods and services for the integrated North American market. Being part of the NAFTA negotiations gave Canada the opportunity to improve upon the gains it made in the FTA. The NAFTA gives Canada access to a growing and dynamic market of 85 million people in Mexico.

By being part of the NAFTA, Canada has signalled its willingness to adapt to the realities of global trade liberalization. With Canada in the NAFTA, we are in a position to take advantage of -- and influence -- the future of the larger hemispheric trading relationship.

Why was it necessary to improve upon the FTA in the NAFTA?

After several years' experience with the FTA, we identified some areas where improvements would be beneficial. A good example would be more predictable rules of origin to prevent disputes like the Honda Civic case. Clearer guidelines have been achieved that spell out precisely how the North American content for autos should be calculated. Improvements were also made in other areas, with whole new sectors added, such as land transportation services and intellectual property rights. Those FTA provisions that have passed the test of time have simply been rewritten in the NAFTA to include Mexico.

What incentive is there to invest in Canada when Mexico has the advantage in labour costs?

The wage issue is just one of many considerations when deciding to invest. Canada has a number of advantages that make it a competitive location for investment. Good transportation and communications links, access to affordable capital, abundant energy resources, and an educated and highly skilled work force are some of our key competitive advantages.

EXPORT OPPORTUNITIES IN MEXICO

Canadian exports to Mexico were up by 100% during the first five months of this year compared to the same period in 1991.

- The trade deal should open up a total North American auto parts market of more than $12.8 billion by 1994.
- Mexico is updating and improving its telecommunications system to the tune of $30 billion over the next 10 years.
- Mexico's commitment to addressing its pollution problem creates increased demand for more sophisticated and specialized pollution control equipment and technology -- a market worth more than $280 million.
- Computer and computer parts exports to Mexico are growing fast. The computer software market alone -- estimated at $1.4 billion this year -- could be one of the most lucrative for Canadian exporters under a NAFTA.
- The consumer and leisure products market in Mexico is rapidly expanding -- Canada is already Mexico's sixth largest supplier.
- Recent reductions in duties on electric components entering Mexico make foreign producers even more competitive than before.
- The Mexican forestry industry is highly dependent on imports of machinery, with a market estimated at $55 million by 1994.
- Recent privatization in the steel industry and plans to modernize facilities will open a steel technology and equipment market worth some $100 million by 1994.
- Mexico is the thirteenth largest consumer of machine tools, importing 90% of its needs.
- The Mexican mining industry equipment and services, estimated at $164 million by 1994, relies on imports for over 80% of its needs.
- The oil and gas equipment market in Mexico is worth more than $2 billion.
- Mexican agricultural machinery purchases are expected to exceed $273 million by 1994.
- There is a large market for expertise in irrigation and drainage.
- With a NAFTA, Canada should surpass its 1990 level of $116 million worth of agricultural products exports to Mexico.
- Mexico will buy $610 million of plastics and resins this year.
- A growing $2.5-billion-a-year tourism industry -- Mexico's second-largest industry after oil -- offers opportunities in restaurant equipment and supplies.

For more information on trade opportunities in Mexico please contact the Latin America and Caribbean Trade Division of External Affairs and International Trade Canada at (613) 996-5547 or (613) 995-8804. Our fax number is (613) 943-8806.

MEXICO'S MAJOR ECONOMIC REFORM

- Embarked on an ambitious economic reform program in the 1980s.
- Joined the General Agreement on Tariffs and Trade (GATT) in 1986.
- Since then, the average tariff dropped from 25% to 10%; the highest tariff dropped from 100% to 50%.
- Dropped many requirements for import licences.
- In 1988, environmental laws underwent major reform, setting tough new standards. Funds for enforcement have increased eight-fold.
- Inflation dropped from 160% in 1987 to 18% in 1991.
- Sweeping tax reforms instituted, tax loopholes eliminated and enforcement improved.
- 770 of the 1,155 state-owned firms privatized.
- Sweeping reform of intellectual property rights.

CANADA-MEXICO TRADE

- Two-way trade exceeded $3 billion in 1991 and will exceed $5 billion by the end of the decade.
- Canada's exports to Mexico were up by 100% for the first five months of 1992.
- In 1991, Canada's trade deficit with Mexico was $2.1 billion.
- 80% of Mexican exports enter Canada duty free.
- Mexican duties are on average more than twice as high as Canadian duties.

MAJOR MEXICAN EXPORTS TO CANADA

- Iron and steel products, motor vehicle parts, telegraphic and television equipment, ignition wiring sets, vegetables, petroleum products, electrical appliances and components, fruits, filters and purifiers, and air conditioners.

MAJOR CANADIAN EXPORTS TO MEXICO

- Iron and steel products, motor vehicle parts, telegraphic and television equipment, helicopters, sulphur, fertilizer, wood pulp, meats and livestock, engines, and newsprint.

TRADE PROMOTION IN MEXICO

MEXICO: A MARKET OF OPPORTUNITY

- The NAFTA offers opportunities for many sectors. The Canadian government has a range of services to assist companies wanting to market goods and services in Mexico.
- In 1988, 193 Canadian entrepreneurs contacted the Canadian Embassy in Mexico. In 1991, that figure rose to 2,200, and in the first six months of this year, that number increased to 4,450.
- Over the next six months, External Affairs and International Trade Canada (EAITC) will undertake 20 trade promotion projects covering a wide variety of sectors in Mexico.
- These projects will give Canadian companies the market intelligence, local contacts and purchasing data they need to position themselves in the local market.
- Canada Expo'92 in Monterrey -- the largest solo trade exhibition ever organized by EAITC in Latin America, held in January 1992 -- resulted in 16 potential joint-venture agreements, reported on-site sales of $2.9 million and another $80 million in projected sales. More than two-thirds of the 206 companies present were first-time visitors to Mexico and the majority were small and medium-sized firms.
- Canadian exports to Mexico rose by about 100% in the first five months of 1992.

A SAMPLE OF PLANNED TRADE PROMOTION ACTIVITIES

- Expo Metal Mechanica 92: Machine Tool and Metalworking: August 1992
- Computer Software Products Mission to Mexico: September 1992
- Guadalajara Agricultural Exposition: September 1992
- Plastics Technology Exhibition: Plastimagen 92: September 1992
- Oil and Gas Exposition: Expo Petro y Chem 92: November 1992
- Fisheries Products and Technology Expo: Pesca 92: August 1992
- Telecom Expo: ExpoComm 93: February 1993
- National Retailers and Wholesalers Expo: ANTAD 93: March 1993
- Process Control Mission: November 92

Services Available to an Exporter Interested in the Mexican Market:

Industry, Science and Technology Canada (ISTC) and External Affairs and International Trade Canada (EAITC) have a number of programs in place, designed to help exporters get started. These include:

Marketing Studies

There are 27 such studies covering sectors of opportunity for Canadian companies available now from EAITC.

Market Advisory Services and Programs

- In Mexico, embassy trade commissioners provide advice and assistance to Canadian business;
- International Trade Centres are located in regional offices of ISTC in major cities across Canada and provide a contact point to discuss programs and services available;
- Geographic and industry sector divisions at EAITC in Ottawa can give companies advice on markets for products and services, major capital projects, details on access to markets, and trade fairs and missions.

Export Development Corporation (EDC)

The EDC has programs to help Canadian exporters compete more effectively in international markets by reducing financial risks in support of export sales, and has already set up credit lines with major Mexican banks.

Program for Export Market Development (PEMD)

This program offers Canadian businesses financial assistance to undertake or participate in various trade promotion activities that focus on generating export sales. In addition:

- Trade associations, including the Automotive Parts Manufacturers' Association, the Canada-Mexico Committee of the Canadian Council for the Americas, and the Vancouver Board of Trade, will also be recruiting member firms for exploratory market trips and follow-up visits.
- A number of provincial government trade missions (Alberta, B.C., New Brunswick, Nova Scotia, Ontario, Quebec and Saskatchewan) are also expected to visit Mexico within the next eight months to pursue trade opportunities of interest to regional exporters.

For more information, contact the Latin America and Caribbean Trade Division of External Affairs and International Trade Canada at (613) 996-5546 or InfoExport 1-800-267-8376.

NAFTA - FTA

HOW THE NAFTA AFFECTS THE FTA

The North American Free Trade Agreement (NAFTA) incorporates many of the rights and obligations of the Canada-U.S. Free Trade Agreement (FTA). All the basic elements of the FTA remain intact, including provisions to protect cultural industries, social services, supply managed commodities and the Auto Pact. The NAFTA preserves, expands and strengthens the gains Canada made in the FTA. Key improvements include:

- Clearer and more precise rules of origin, particularly in calculating North American content in the auto sector, which will narrow the scope for disputes such as the Honda and CAMI cases;
- Working groups to determine customs matters such as how audits will be interpreted and administered by customs authorities in the three countries, and clear grievance procedures;
- Canadian producers have the same access to the Mexican market as U.S. producers;
- Canada's import quota system in support of supply management remains untouched;
- Expanded access to U.S. markets for textiles and apparel under special quotas;
- Addition of land transportation services, phasing out rules against moving international cargo from Canada through the U.S. into Mexico;
- Easier temporary entry to NAFTA countries for business people;
- Stronger mediation and panel procedures to settle trade disputes among NAFTA partners, including, for the first time, those on banking and securities services;
- Further discipline on U.S. energy regulators to reduce their capacity to interfere with Canadian sales in the U.S.;
- Explicit recognition of the right to limit foreign investment when government services are privatized;
- More stringent discipline regarding U.S. imposition of border restrictions against imports from Canada;
- Inclusion of precedent-setting environmental provisions;
- Addition of intellectual property rights protecting the work and inventions of Canadian creators, inventors and researchers;
- Extension of duty drawback for two years beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods shipped into other NAFTA countries; and
- Lessening U.S. restrictions on how goods are marked to indicate their country of origin.

COMMONLY ASKED QUESTIONS

Is the FTA working?

Yes. Independent studies suggest that, without the FTA, the economic impact of the recession and global restructuring would have been much greater. Canada's exports to the U.S. continue to climb. They were up by 8.8%, a record three-month high, in the first quarter of 1992 compared to 1991.

If the FTA is working, why did Canada suffer an economic slowdown shortly after it came into force?

Along with other industrial countries, Canada experienced a recession in 1990-91. Yet Canada's exports, especially to the United States, are growing at the fastest pace in three years. In 1991, Canada exported $15 billion more in goods to the U.S. than it imported. With one out of four jobs in Canada dependent on trade, those are encouraging figures. In addition, foreign investment in Canada has increased sharply, reflecting investor confidence in the Canadian economy and support for trade liberalization. Statistics Canada reports that Canada's overall productivity rose 1.5% in 1991, an extraordinary achievement in a period of recession. Meanwhile inflation is below 2% and interest rates are at the lowest level in 17 years.

Why have manufacturing jobs declined in Canada?

Manufacturing jobs declined over the past 25 years while jobs in the service industries increased. It is not true that the FTA has caused a net loss in jobs and wrong to assume the NAFTA will harm Canada's overall employment picture. Labour adjustment is not unique to Canada. The recession and competitive factors in global trade have forced all countries to adopt new technologies and obtain materials from all over the world. Streamlining in manufacturing has triggered productivity improvements that economists predict could increase by as much as 8% in 1992.

The NAFTA gives Canadian exporters privileged access to a new market of more than 85 million Mexicans. If Canada can carve out even a small share of that vast and growing market, we will inevitably create jobs. For every billion dollars of new exports, 15,000 jobs are created.

How can you say that the new rules of origin for autos, textiles and apparel have brought improvements?

The new automotive rules of origin mean that significant assembly and auto parts manufacturing will occur in Canada, while ensuring that Canada remains an attractive site for off-shore investment in this key sector. For textiles and apparel, the impact of the rules of origin is more than offset by increased quotas into the U.S. market for goods that do not meet the new requirements.

NAFTA - REMOVAL OF TARIFFS AND TRADE BARRIERS

WHAT'S IN THE AGREEMENT

- Virtually all Mexican tariffs eliminated within 10 years;
- Immediate elimination of many Mexican import licences that restrict Canadian exports;
- Gradual removal of Canadian duties on Mexican imports that compete with sensitive Canadian products. This will occur over 10 years to give Canadian producers time to make adjustments. No tariff reductions in poultry, eggs, dairy products or sugar.
- Safeguards that allow Canada to reimpose duties to protect Canadian producers from surges of imports;
- Extension for two years of duty drawback beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods shipped into other NAFTA countries;
- Simplified customs procedures;
- Easier temporary entry to NAFTA countries for business people and duty exemptions for their accompanying equipment;
- Permission for rail equipment and trucks to enter through and exit from different ports;
- Disciplines on how goods are marked to indicate their country of origin; and
- Duty requirements eased for repairs on all goods, along with clarification of U.S. procedures on ship repairs.

BENEFITS FOR CANADA

- Opportunity to correct the trade imbalance between Canada and Mexico, which is now weighted in Mexico's favour;
- Immediate elimination of Mexican tariffs and import licences on a range of fish products exported from Canada;
- Immediate access to Mexican markets for Canadian fertilizers and sulphur; early access for some aluminum, agricultural, construction and resource machinery, rail and industrial equipment, selected wood and paper items, telecommunications equipment, pre-fabricated houses, printed circuit boards, medical equipment and most auto parts;
- Creates new opportunities for such sectors as environmental products, lumber products, consumer and leisure goods; and
- Duty drawback extension avoids rising input costs for Canadian exporters.

COMMONLY ASKED QUESTIONS

Will elimination of our duties result in a flood of Mexican imports?

Close to 80% of Mexican goods already enter Canada duty free. Tariffs on the remaining imports will be phased out, with the duties on import sensitive products being phased out over 10 years. This will give Canadian producers time to adjust. If there are surges of imports, the NAFTA includes provisions for Canada to reapply the original duties to protect Canadian producers.

How high are Mexican tariffs? Are they really an obstacle to trade?

Mexican duties are, on average, more than twice as high as Canadian duties. Indeed, Mexican duties add an average of 10% to the cost of Canadian goods, and are often as high as 20%. In addition, Mexican import licences have proved a serious obstacle to trade in the past. Their elimination will result in a significant opening up of the Mexican market for Canadian exports, especially for fish and grains.

How does the NAFTA affect tariff phase-outs under the FTA?

The NAFTA will have no effect. Canada-U.S. products will continue to trade under the schedule negotiated in the FTA. The last remaining tariffs with the United States will be phased out by 1998, while tariffs will remain on some Mexican imports until 2003.

NAFTA - TARIFF REDUCTION HIGHLIGHTS -- PART I

Canada and Mexico have agreed to the following reductions in duties. Tariffs will be eliminated within 10 years.

Aerospace

- Mexico -- immediate elimination for all aircraft, parts, radar and navigational equipment.
- Canada -- already duty free.

Autos

- Canada and Mexico -- immediate or five-year phase-out for 75% of automotive parts; Tariffs on passenger cars and light trucks are reduced by 50% immediately, with remaining duties phased out over five years for cars, 10 years for trucks; Buses, trucks, specialty and heavy vehicles tariffs phased out in 10 years.

Chemical, Pharmaceutical and Plastics

- Mexico -- immediate elimination on sulphur, aluminum oxide and hydroxide, carboxylic acids, nitrogen function compounds, sulphates, potassium chloride and other mineral/chemical fertilizers; Five-year phase-out for radioactive elements and isotopes; 10-year phase-out for pharmaceuticals.
- Canada -- generally matches Mexico phase-out; Immediate phase-out for products not made in Canada; 10-year phase-out for plastic sanitary ware, plastic articles, floor coverings and luggage.

Electrical Equipment

- Mexico -- immediate or five-year phase-out for electrical relays, co-axial cable, gas and steam turbines, electrical tools, lighting equipment, photosensitive semi-conductor devices, electrical plugs and sockets, and electroplating machines.
- Canada -- tariff phase-out generally matches Mexico's; 10-year phase-out for ballasts, some batteries, and hand-held drills.

Ferrous and Non-Ferrous Metals

- Mexico -- immediate or five-year phase-out for coal, nickel, magnesium, copper and unwrought, non-alloyed aluminum ingots;
- Canada -- already duty free for most of above goods.
- Mexico and Canada -- 10-year phase-out for most iron and steel and their products.

Forest Products

- Mexico -- immediate phase-out for Canadian export interests including chemical pulp, softwood lumber for timber frame construction, beech lumber, veneers, shakes and shingles, softwood mouldings, some newsprint, some coated and uncoated papers, and wooden prefabricated houses; Five-year phase-out for railway ties, maple lumber, some other newsprint and fibreboard. A five to 10-year phase-out on most other paper products. Ten-year phase-out for most other forest products; The Canadian prohibition on the export of logs remains as in the Canada-U.S. Free Trade Agreement (FTA).
- Canada -- already duty free on most items; Five-year phase-out for most further manufactured wooden products (e.g., window frames).

Fish

- Mexico -- immediate elimination on most fresh and frozen fish including trout, salmon, sole, herring, mackerel, haddock, hake, most dried and smoked fish and many shellfish including crabs; Five-year phase-out for lobster, scallops, halibut and prepared fish, including fish sticks; 10-year phase-out for sardines, frozen fillets and shrimp.
- Canada -- already duty free for most items. Five-year phase-out for further processed fish products.

NAFTA - TARIFF REDUCTION HIGHLIGHTS -- PART II

Canada and Mexico have agreed to the following reductions in duties:

Food and Beverage Industry

- Canada and Mexico -- no phase-out for sugar or our supply-managed dairy, poultry or eggs.
- Mexico -- immediate elimination for dried peas, some dried beans, mustard flour, millet, honey, lentils, rye, buckwheat and Canadian Whisky -- all Canadian export interests; Five-year or 10-year phase-out for most food products; 10-year phase-out on other grains, pork, and vegetable oils including canola.
- Canada -- most Mexican food exports to Canada already duty free, including tropical fruits and vegetables and those outside the Canadian growing season; 10-year phase-out for sensitive fruit and vegetables; Five-year phase-out for most other products.

Footwear

- Canada and Mexico -- 10-year phase-out on most footwear, including leather boots; Eight-year phase-out on some leather shoes; Immediate phase-out for some specialty sports footwear, most of which is not made in Canada.

Industrial Equipment

- Mexico -- generally immediate, with some five-year phase-out. Includes Canadian export interests in resource, construction, agricultural, environmental and industrial equipment such as bulldozers; front end loaders; excavators; unloading machinery; cranes; paper and paperboard making machinery; dryers for wood and paper; coal and rock cutters; heat exchangers; centrifuges; milling, sanding, sawing, drilling and boring machines; tractors, ploughs, harrows, cultivators, weeders, combine-harvesters and other harvesting machinery; poultry incubators; filtering and purifying equipment; plastic and rubber injection, extruding and moulding machines; packaging and wrapping machinery; parts for generators; spark ignition engines and parts; gas turbine parts; weighing devices; roller bearings; and many combustion engine parts.
- Canada -- most industrial equipment already duty free. Immediate elimination for most remaining items. Five years for such areas as compressors, water boilers and furnace burners.

Information Technology

- Mexico -- immediate phase-out for telecommunications and high-tech products, including, pbx switching apparatus, modem digital multipliers, transmission apparatus, fibre optic cables; cathode ray tubes for televisions and computers, and monolithic and hybrid integrated circuits.
- Five-year phase-out for tariffs on telephone sets, central switching apparatus and printed circuits.
- Canada -- mostly duty free already, or immediate elimination for most of the above products; Five-year phase-out for televisions and printed circuits.

Rail and Urban Transit

- Mexico -- immediate elimination for most rail products, including rolling stock, locomotives, urban rail cars and their parts including bogies, axles and wheels; 10-year phase-out on a few products, including passenger coaches and air brakes.
- Canada -- immediate elimination in this sector, except for 10-year phase-out for self-discharging railway cars and cargo containers.

Recreational, Household and Healthcare Products

- Mexico -- immediate elimination for Canadian export interests in health and medical equipment, including electro-diagnostic apparatus and x-ray equipment; The rest a mix of immediate, five-year and 10-year phase-outs.

- Canada -- immediate elimination for consumer products not made in Canada (e.g., hairdryers and toasters); Five-year phase-out on most sporting equipment; 10-year phase-out for toys, roller skates, some brooms and miscellaneous manufactured items.

Furniture

- Mexico and Canada -- 10-year phase-out for most household and office furniture; Immediate elimination for medical furniture.

Textiles and Apparel

- Mexico and Canada -- 10-year phase-out on all apparel; Eight-year phase-out on most textile products; Six-year phase-out on certain textile products, including wool fabrics; Immediate elimination of duties on denim fabrics; and linen yarns and fabrics.

NAFTA - RULES OF ORIGIN

WHAT'S IN THE AGREEMENT

- Clear and predictable rules that build on the Canada-U.S. Free Trade Agreement (FTA), allowing NAFTA preferential duties on a good after it has undergone a specified change from one tariff description to another;
- For some products, there will also be a second test based on the value of the content originating in the NAFTA countries. Two alternative formulae for calculating value content will give exporters flexibility. Products other than autos and footwear would qualify for preferential duties at 50% North American content under the net cost formula;
- Cohesive, new rules of origin for autos and auto parts, with a requirement of 62.5% North American content for light vehicles (including cars and light trucks) and their engines and transmissions, and 60% for other auto goods to qualify for duty-free access to U.S. and Mexican markets;
- For apparel: new rules of origin requiring that yarns, as well as fabric in a garment, be made in North America; for most yarns, new rules requiring that fibres be sourced in North America;
- Extended and enlarged quotas into the U.S giving preferential tariff treatment to Canadian textiles and apparel not meeting the rules of origin;
- Improved rules of origin for computers, telecommunications equipment and other high-tech equipment;
- Changes to FTA rules requested by Canadian producers (e.g., on computers, copper products, and certain household appliances).
- The FTA rules are continued in the NAFTA for many products, including most agricultural, food and beverages products, minerals, most chemicals, pulp and paper, wood products, most rubber and plastic products, much machinery and equipment, and most base-metal products;
- Uniform regulations to ensure the rules of origin are interpreted and applied uniformly in the NAFTA countries; and
- A mechanism to settle differences in interpreting and administering the rules of origin.

BENEFITS FOR CANADA

- A clearer and more predictable formula for calculating value content of automobiles and parts, thereby creating greater certainty for the North American auto industry;
- New quotas giving preferential tariff treatment to textiles and apparel that do not meet the rules of origin substantially exceed current export levels. Quotas in two key sectors are more than double the FTA levels. A 2% annual growth rate will also apply on most quotas for at least five years;
- Improved, straightforward rules for computers, telecommunications products, and other high-tech and electronic goods;
- FTA rules of origin are retained on a wide variety of exports, providing stability for those industries already benefiting from the FTA; and
- Improved dispute settlement procedures will constrain unilateral determinations, as occured in the Honda case.

COMMONLY ASKED QUESTIONS

How will the new formula on rules of origin help the auto industry in Canada?

The new formula is clearer and more straightforward than the FTA formula and provides more certainty for manufacturers. The formula addresses the problems of ambiguity experienced under the FTA regarding the types of costs that can be included. Manufacturers will be required to trace their North American content, thereby ensuring that the real North American level is calculated accurately. Content levels calculated under the formula are less likely to be misinterpreted and challenged. The new formula should encourage more sourcing of auto parts in Canada.

Did Canada agree to more restrictive rules of origin for textiles and apparel than existed in the FTA?

Canada agreed to accept the new rules only if, at the same time, Canadian producers obtained better access to the U.S. market. This was done by enlarging the special quotas contained in the FTA that extend the preferential duties to textiles and apparel that do not meet the rules of origin. The new quotas give the apparel industry ample opportunity to increase its exports to the U.S. under preferential conditions. The quotas substantially exceed the existing export levels of the Canadian apparel industry. Two of the three key quotas established in the FTA have been more than doubled in size. The quotas have also been made permanent and, in most cases, will increase by 2% annually for at least the next five years. In addition, the Agreement includes review clauses which will allow for future adjustments in light of changing circumstances.

Will the new rules of origin hurt Canada's textile and apparel industries?

Both industries benefited from the FTA and both stand to gain from the NAFTA. Since the FTA, our apparel exports to the U.S. have increased in value by 60%, with Canada holding a trade surplus. Our exports of yarns have more than doubled, with fabrics and fibres registering increases of 15% and 50% respectively.

The NAFTA will ensure that Canadian exporters continue to benefit from participation in an expanding hemispheric market. The tariff rate quotas negotiated by Canada will provide substantial room for export growth where goods do not meet the rules of origin.

NAFTA - STANDARDS

WHAT'S IN THE AGREEMENT

The provisions on standards-related measures:

- Maintain Canada's high standards for health, safety and the environment;
- Ensure that standards and technical regulations are applied without discrimination to products and certain services of Canadian, Mexican and U.S. origin;
- Establish rules to prohibit standards, regulations and procedures from being used as unnecessary obstacles to trade;
- Require central governments to take "reasonable measures" to ensure state, provincial and local governments, as well as private standards organizations, comply with the NAFTA rules;
- Promote the use of international standards;
- Encourage agreements between governments and between private standards organizations for mutual acceptance of test results and certification procedures;
- Provide for a more open development and application of standards through further consultation among regulators and greater access to information on technical regulations; and
- Establish a Trilateral Committee to facilitate the raising of standards and compatibility among the three countries and act as a forum for consultation and co-operation.

BENEFITS FOR CANADA

- Canada's high standards will be preserved: each country has the right to maintain standards to achieve legitimate objectives, including environmental protection;
- Canadian exporters will encounter fewer barriers to trade at the federal and state levels in the U.S. and Mexican markets;
- More compatible standards will contribute to enhanced Canadian competitiveness by reducing the burden of compliance with different standards; and
- The NAFTA Standards Committee will be able to address technical standards problems before they become trade irritants, and act as a forum for continued enhancement of health, safety and environmental standards.

COMMONLY ASKED QUESTIONS

Is there a risk that Canada's high technical standards will be lowered to those of Mexico?

No. On the contrary, the NAFTA ensures the right of each country to preserve its existing standards and technical regulations and to adopt new ones that are more stringent than international standards.

Harmonization of standards does not imply accepting either the lowest common denominator or the middle ground. The NAFTA standards chapter calls for co-operation in the enhancement of the protection of human, animal and plant life, and of the environment, and provides the impetus for Mexico to raise its standards.

How can we be sure that these new rules on standards will not be used as barriers to trade?

The NAFTA prohibits using standards as unnecessary obstacles to trade.

The NAFTA will encourage the establishment of similar standards in all three countries. In turn, this will make trade among the three countries easier. Industries will be encouraged to work together, on a sectoral basis, on developing new compatible standards that will be applicable throughout North America.

Industry associations have a vested interest in setting generally accepted standards for their respective sectors. Compatibility of standards will reduce the burden on multi-product Canadian companies trying to comply with the numerous North American standards currently in force.

Have you done anything to prevent companies from avoiding tough Canadian environmental laws by moving to Mexico?

Mexico has some of the toughest environmental legislation of any developing country (comparable to U.S. and Canadian legislation). It is now taking steps to enforce those laws.

The reality is that enforcing environmental laws takes money. Greater prosperity will enable the Mexican government to continue to clean up the environment -- and that means no longer tolerating companies that pollute.

The NAFTA includes a recognition by all three countries not to lower environmental standards to attract investment. The closer relationship fostered by the NAFTA will also bring closer examination of environmental practices by citizens of all three countries.

NAFTA - AGRICULTURE

WHAT'S IN THE AGREEMENT

The agricultural provisions of the Canada-U.S. Free Trade Agreement (FTA) remain the basis for agricultural trade between Canada and the United States. Canada and Mexico negotiated a separate market access agreement on agriculture. The main elements are:

- Retention of Canada's import quotas and tariffs for poultry, eggs and dairy products; Mexico will also exclude these sectors;
- On sugar Canada will match Mexican tariffs;
- Phasing out of all remaining Mexican tariff and non-tariff barriers that hinder Canadian exports;
- Immediate elimination of Mexico's import licences on wheat, with progressive tariff removal over 10 years;
- Immediate elimination of Mexico's import licences on barley and table potatoes. Immediate duty free access for specified quantities of barley and table potato exports, and barrier-free access after 10 years;
- Immediate elimination of Mexico's tariffs on dried peas, mustard flour, millet, honey, lentils, rye and buckwheat; other tariffs will be phased out over 10 years with the exception of corn, and some dried beans (15 years).
- Improved access to Mexico for pork, apples and potato products, with barrier-free access after 10 years;
- Removal by Canada of restrictions on the import of Mexican wheat and barley, beef and margarine;
- Maintaining for 10 years the right to impose automatic tariff safeguards when imports of certain fresh, frozen or prepared fruits and vegetables, and cut flowers, exceed specified levels;
- On exports to Mexico, an understanding that Canada and the U.S. will not use export subsidies except where competition is subsidized; and
- Agreement by all three countries not to use health and sanitary regulations as disguised trade barriers.

BENEFITS FOR CANADA

- Canadian producers can compete in Mexico on the same basis as U.S. producers;
- Canada's import quota system in support of supply management for dairy, egg and poultry sectors remains untouched;
- Mexico's import restriction on wheat is converted to a low tariff immediately and then phased out over 10 years; Mexico's markets will be open to key Canadian exports such as grains, pork, and potato products;
- Canada is well positioned to benefit from the growing demand in an increasingly affluent Mexico for food products; and
- Canada's high health and safety standards for agriculture are maintained and can be strengthened.

COMMONLY ASKED QUESTIONS

Why did Canada make a separate agreement on agriculture with Mexico?

This allows us to negotiate improved opportunities in Mexico's markets while keeping Canadian import quotas in support of the supply management system.

How can Canadian fruit and vegetable producers compete against Mexico, with its longer growing season and lower wages?

Mexican fruit and vegetable exports to Canada are small and most of them are already entering duty free during the winter months, when Canada has to import fresh produce. Canadian horticultural producers will be shielded during the transition period for sensitive commodities. NAFTA will provide export opportunities for Canadian temperate fruits (apples, blueberries) and potatoes and potato products.

What was accomplished with respect to export subsidies?

On exports to Mexico, there is an understanding that Canada and the U.S. will not use export subsidies except where competition is subsidized. The overall question of export subsidies is being addressed in the Multilateral Trade Negotiations, as this is a global issue.

NAFTA - THE AUTO INDUSTRY

WHAT'S IN THE AGREEMENT

- Preservation of the Canada-U.S. Auto Pact;
- Cohesive, new rules of origin for autos and auto parts, with a requirement of 62.5% North American content, in two stages over eight years, for light vehicles and their engines and transmissions, and 60% for other auto goods, to qualify for duty free access to the U.S. and Mexican markets.
- New plants will have five years to reach the new content level; major plant refits will have two years;
- A clear and straightforward method to calculate the North American content of autos and auto parts; content will be traced, thereby insuring a more accurate calculation;
- Extension for two years of duty drawback beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods shipped into other NAFTA countries;
- Elimination, after 10 years, of Mexico's protectionist Auto Decree which has distorted investment and restricted imports;
- Immediate, significant improvements in access for Canada into Mexico for autos produced by assemblers which already have operations in Mexico (i.e., the Big Three);
- Immediate access for Canada into Mexico for medium and heavy duty trucks and buses;
- Removal of Mexican tariffs on most auto parts within five years and on all auto products within 10 years;
- Embargo for used cars maintained for 25 years;
- Canada retains its high safety and emission standards for automotive products; and
- Establishment of a Trilateral Automotive Standards Council to review issues related to automotive standards.

BENEFITS FOR CANADA

- Canada-U.S. Auto Pact is preserved; auto rule of origin provisions of the Canada-U.S. Free Trade Agreement (FTA) clarified;
- Canada's number one export industry has new opportunities and a key sector of the Canadian economy is strengthened;
- Higher content rules create opportunities for auto parts producers, who employ two out of three workers in the auto sector;
- Canada has improved access to the Mexican markets -- the fastest growing auto market in North America -- and barriers to Canadian exports are reduced immediately and removed at the end of 10 years;
- The imbalance between Canada's open auto market and Mexico's highly restricted market has been addressed;
- Autos produced in Canada will have the same duty-free access to the Mexican market as autos produced in the U.S.;
- New rules of origin and improved dispute settlement procedures reduce the likelihood of customs actions such as the one against Honda;
- Creates certainty for the auto industry. Canada therefore remains a good place for foreign investors, including Asian auto manufacturers;
- Pressure on parts producers to relocate to Mexico to satisfy local content requirements has been relieved and will be eliminated in 10 years; and
- Canada retains its high safety and emission standards for automotive products.

COMMONLY ASKED QUESTIONS

How will the NAFTA help Canadian exports?

Many of the benefits of the NAFTA will accrue to Canada's auto industry because virtually all Mexican automotive parts already enter Canada duty free. The NAFTA will help correct the trade imbalance by reducing and eliminating Mexican barriers. In addition, the new rules of origin for trade in North America will improve opportunities for Canadian auto-parts manufacturers faced with growing pressure from low-cost suppliers in Brazil and Southeast Asia.

Will the NAFTA solve the U.S. customs problems faced by Honda Civics from Ontario?

A new formula to calculate the North American content of autos produced in Canada and improved dispute settlement procedures should avoid repetition of the Honda Civic case. Manufacturing processes previously disallowed by U.S. customs under the old FTA rules will now be included. Under the new net cost formula, a company can include virtually all of its North American costs in determining the origin of an automobile for customs purposes.

Will the new 62.5% rules of origin discourage investment by Asian car makers and result in job losses?

The new 62.5% rule was agreed to after extensive consultation with all segments of the Canadian industry, including Asian car makers. The new content level, combined with the new rules of origin and eventual unrestricted access to the fast growing Mexican market, will create additional opportunities for all segments of the Canadian auto sector.

Will low-paid Mexican workers take away jobs from Canadian auto workers?

No. An integrated North American market is essential to increase opportunities for the industry and preserve and create jobs for auto workers. Wages represent a small part of the cost of production. Other factors play a much more important role. Canada's strength will remain in providing highly skilled labour, using outstanding technology, employing innovative production practices within the auto industry and having a highly developed infrastructure. Our strength is reflected in recent decisions by the Canadian-based assemblers to invest close to $3 billion in new plants. Large, modern assembly plants will provide significant opportunities for Canadian parts manufacturers who are located close to these plants.

NAFTA - TEXTILES AND APPAREL

WHAT'S IN THE AGREEMENT

- For apparel: the new rules of origin require yarns and fabrics in a garment to originate in North America to qualify for duty preference; under the Canada-U.S. Free Trade Agreement (FTA) only the fabrics had to be North American;
- For textiles: the rules of origin on fabrics remains largely unchanged from those in the FTA; for most yarns, the fibres must originate in North America;
- Significantly larger quotas providing preferential access to the U.S. for apparel and textiles that do not meet the rules of origin. For non-wool apparel, the quota has almost doubled in size from that contained in the FTA. For wool apparel the quota will increase by 6% within five years. The quota for fabrics is nearly tripled in size from that in the FTA. A quota for yarns affected by the new rules of origin is nearly four times the size of Canada's exports to the U.S. in 1991;
- These special quotas have now been made permanent. They will also be subject to growth rates, in most cases 2% annually, for at least five years;
- Review clauses have been included to allow future upward adjustment of quotas and improvements in rules of origin; and
- Reciprocal phase-out of Canadian and Mexican tariffs over a 10-year period for apparel and over eight years for most textile products.

BENEFITS FOR CANADA

- Canada's access to the U.S. market has been maintained, and is in most cases improved;
- Expanded and extended quotas for products that do not meet the rules of origin will offset the new rules;
- Higher quotas not only fully accommodate existing levels of Canadian textile and apparel exports to the U.S. but also allow for substantial growth;
- Long-term tariff phase-out (10 years for apparel; eight years for textiles) provides time for adjustment;
- Canada's exports of textiles and apparel to the U.S. have increased significantly under the FTA and are expected to grow under the NAFTA;
- With access guaranteed by the NAFTA to an integrated North American market, Canada will remain an attractive location for investment in the textile and apparel industries; and
- Extension for two years on duty drawback beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods into other NAFTA countries.

COMMONLY ASKED QUESTIONS

Will the restrictive rules of origin hurt the apparel and textile industries?

We have succeeded in offsetting the more restrictive rules through increases in our quota access. The new quotas for Canadian textiles and apparel leave substantial room for export growth. For example, the new yarn quota is nearly four times higher than last year's exports to the U.S. Compared to the FTA levels, the quota for non-wool apparel has doubled and the quota on fabrics has almost tripled. The non-wool apparel quota is set at nearly twice the level of all non-wool apparel exports to the U.S. in 1991. A 2% annual growth rate has also been added to these quotas for at least the first five years. The tariff rate quota for wool apparel will also increase by 6% within five years and would allow for substantial increases in exports of Canadian wool suits and other wool apparel from current levels.

What adjustment programs are in place to assist the apparel industry?

Canadian import tariffs on apparel from Mexico will be removed over 10 years to allow the industry time to adjust. The federal government is considering several initiatives to assist the apparel industry in becoming more competitive, including providing better tariff treatment on its fabric and yarn imports.

Will the low wages paid to Mexican workers give them a competitive edge?

Mexican exports of textile products to Canada are extremely low. Only 0.5% of our apparel imports come from Mexico. We are confident about our industry's ability to compete. The Mexican apparel industry produces cheaper, low-quality items while the Canadian industry is moving into high-quality designer fashions.

What are the prospects for Canadian exports?

Canadian textile and apparel exports to the U.S. have grown since the FTA came into effect and are expected to grow under the NAFTA. Canada currently exports more apparel to the U.S. than it imports. Our apparel exports to the U.S. have increased by 60% since the FTA. Canadian yarn exports to the U.S. have more than doubled in the same period. Our fibre exports have increased by 50% and our fabric exports by 15%.

NAFTA - SERVICES

WHAT'S IN THE AGREEMENT

- Wider coverage of cross-border trade in services than in the Canada-U.S. Free Trade Agreement (FTA), including transport services, as well as additional professional services, so that now virtually all are covered;
- Liberalization of international bus, truck and specialty air services (e.g., aerial mapping and surveying) between the three countries, and agreement between Canada and Mexico to maintain their relatively open international maritime shipping services;
- Secure access to Mexico's fast growing market for enhanced telecommunications services;
- Encouragement of professionals to develop mutually acceptable standards in key areas leading to mutual recognition of licensing and certification;
- Specific commitments to facilitate mutual access for engineers and foreign legal consultants;
- Removal within two years of citizenship and permanent residency requirements as conditions of licensing professionals; and
- Clear protection of services provided by government, in areas such as law enforcement, correctional services, income security or insurance, social security or insurance, social welfare, public education, public training, health and child care.

BENEFITS FOR CANADA

- For Canadian exporters of services (e.g., consulting engineers, computer services), the NAFTA will open new marketing opportunities in the U.S. and Mexico;
- Service providers are no longer required to set up shop locally in order to offer a cross-border service (except where justified for regulatory reasons, e.g., consumer protection);
- Canada can continue to establish its own standards, particularly for the professions, based on competency, training and experience;
- Land transportation services (bus, truck and rail) included for the first time; and
- New opportunities in the U.S. and Mexico for Canadian providers of specialty air services.

COMMONLY ASKED QUESTIONS

Which services have been excluded by Canada from the NAFTA?

Key services Canada has excluded from the NAFTA are passenger and cargo air services, basic telecommunications, cultural industries, and government services such as health and social services.

Are government health and social services open to takeover by privately owned or foreign firms under the NAFTA?

No. The government retains the right to provide services in areas such as law enforcement, correctional services, income security or insurance, social security or insurance, social welfare, public education, public training, health, and child care. This is explicitly provided for in the NAFTA. If a province wishes to privatize any service related to health care, it may establish regulations requiring that the service be provided only by Canadian-owned firms.

NAFTA - FINANCIAL SERVICES

WHAT'S IN THE AGREEMENT

- Full access into Mexico's financial markets for Canadian and U.S. financial institutions over time, which until now has been denied to foreign firms;
- Canadian and U.S. banking, insurance and securities firms will be able to establish wholly owned subsidiaries in Mexico. Initially, foreigners will be subject to certain market share limitations, but these will disappear by the year 2000. Further safeguard provisions in banking and securities if market shares of Canadian and U.S. subsidiaries become extremely large, but these apply only until, at the latest, 2007;
- The Agreement establishes principles to which all countries must adhere, including market access, equal treatment for foreign owned and domestic firms, and most-favoured-nation status for the NAFTA parties;
- The establishment of a consultations process with annual trilateral meetings, or more if deemed necessary. Consultations may include regulators;
- For the first time, banking and securities services will be subject to the disciplines of a dispute settlement mechanism, which was not the case in the Canada-U.S. Free Trade Agreement (FTA).

BENEFITS FOR CANADA

- Significant new expansion opportunities for Canadian financial institutions in the developing Mexican market;
- The FTA has been improved to include clear principles or "rules of the road" defining our trade relationship with the U.S. and Mexico in financial services;
- Matters such as an enhanced consultation and dispute settlement process will allow for greater opportunities to discuss and resolve industry concerns with the other NAFTA parties.

COMMONLY ASKED QUESTIONS

Did Canada gain better terms for Canadian banks in the U.S. market?

While no specific commitments have been secured from the U.S., the Agreement does contain a set of important principles which U.S. law must respect. Under the Agreement, Canadian banks and other financial institutions will be entitled to the same treatment as U.S. institutions in all future U.S. liberalization initiatives.

Will there be a long transition period before Canadian banks, securities and insurance companies can operate in Mexico?

Canadian financial institutions will be able to establish wholly owned subsidiaries. These firms will, however, be subject to market share limitations which will be removed by the year 2000. There are also safeguard provisions in banking and securities if market shares of Canadian and U.S. subsidiaries exceed specified thresholds.

Will the NAFTA result in more foreign ownership of Canadian banks and other financial institutions?

The NAFTA extends to Mexico the benefits of market access that Canada provided to the U.S. in the FTA. However, Mexican financial institutions are not at this time strongly export oriented, so it will be many years before any meaningful Mexican investment into Canada can be expected. With respect to the U.S., the NAFTA does not provide any new market opportunities that did not previously exist, so there is no reason to expect any change in foreign investment by the U.S. in Canadian financial institutions.

NAFTA - TELECOMMUNICATIONS

WHAT'S IN THE AGREEMENT

- As under the Canada-U.S. Free Trade Agreement (FTA), protection of basic telecommunications, such as telephone services;
- Elimination of Mexican trade barriers to the provision of enhanced services (e.g., advanced data processing services);
- Access to contracts offered by government-operated telecommunications services in Mexico;
- Guaranteed access to and use of telecommunications networks in the three countries;
- Future compatibility of standards for telecommunications equipment in Canada, the U.S. and Mexico;
- Immediate removal of Mexican tariffs on all telecommunications equipment, except central switching apparatus and telephone sets, which are phased out in five years.

BENEFITS FOR CANADA

- The NAFTA preserves Canadian control of basic telecommunications services;
- The NAFTA expands and improves business and investment opportunities for the industry in one of the world's fastest growing markets;
- Mexico's demand for imported telecommunications products is expected to grow by 42% by the year 2000 as Mexico modernizes and integrates its telecommunications with the rest of North America;
- There is strong market potential for Canadian world-class telecommunication equipment and systems;
- NAFTA will encourage the development of competitive networks providing a market for Canadian developers of enhanced telecommunications services, such as electronic messaging services or advanced data networks, data banks and electronic mail.

COMMONLY ASKED QUESTIONS

Will the NAFTA allow U.S. giants like AT&T to move into Canada?

The NAFTA will not open the door for foreign-owned telephone companies to provide basic telephone service in Canada. Canada's limitation on foreign ownership remains in effect.

As under the FTA, foreign companies such as AT&T may operate in Canada, but only as resellers of basic telephone services or as providers of enhanced services. They cannot own or control telecommunications facilities in Canada. Canada's 20% limit on foreign ownership of basic services has not been altered by the NAFTA.

Is the NAFTA another step towards bringing U.S.-style deregulation to Canada, similar to the recent Canadian Radio-Television and Telecommunications Commission (CRTC) decision on long-distance telephone competition?

The NAFTA will not lead to U.S.-style telephone deregulation, as the provision of basic telecommunications services has been excluded from the NAFTA. In Canada, decisions on deregulation have been made, and will be made, on the basis of what is best for Canadians. That was the basis for the recent decision by the CRTC which introduced competition for long-distance telephone services.

What is the difference between the FTA and the NAFTA in the telecommunications sector?

Both agreements maintain a competitive environment for the provision of computer services and enhanced telecommunications services, which means anything beyond basic telephone services. This would include automatic answering services, E-mail services and data processing services. NAFTA contains broader rules which guarantee that providers of enhanced services and companies can operate their own private networks. It also establishes a program to recognize compatible equipment standards.

NAFTA - TRANSPORTATION SERVICES

WHAT'S IN THE AGREEMENT

Unlike the Canada-U.S. Free Trade Agreement (FTA), the NAFTA includes comprehensive provisions on land transportation services. The main elements are:

- Greater freedom to provide trucking services and bus transportation services into Mexico;
- Opening up the trucking of cargo between the United States and Mexico over a six-year period. (Canada does not restrict either the U.S. or Mexico. Mexico was previously closed to foreign trucking);
- Gradual removal of Mexican foreign ownership restrictions on international trucking firms over a ten-year period;
- Commitment to harmonize, over a three- to six-year period, operating and safety standards, including drivers' licences, equipment standards (such as the weight and length of trucks) and the transport of dangerous goods;
- A program of co-operation among the three countries to maintain and enhance environmental and safety standards;
- Liberalization of trilateral trade in specialty air services, including aerial mapping;
- Agreement between Mexico and Canada to maintain their relatively open international maritime shipping services;
- Agreement to consider within seven years a possible liberalization of ownership of domestic trucking companies in Mexico;
- Current regulatory regimes for domestic trucking and bus sectors remain.

BENEFITS FOR CANADA

- Easier shipment of goods by land across borders throughout North America;
- Gradual phasing out of Mexican investment restrictions giving Canadian carriers time to develop long-range business plans, such as expanding fleets and routes across North America;
- Canadian companies have the same competitive advantages in Mexico and the U.S. as their U.S. counterparts;
- Canadian truckers can carry goods to the U.S., for example, pick up cargo there, deliver it in Mexico, and make the return trip, delivering Mexican cargo to both U.S. and Canadian destinations;
- Canadian and Mexican international maritime shipping firms can operate into each other's markets;
- Canadian shipyards have greater opportunities to do repairs on U.S. merchant vessels;
- Canada's operating and safety standards for transportation are maintained and Canada retains the right to strengthen them.

COMMONLY ASKED QUESTIONS

Does the agreement mean that Mexican and American truckers can compete with Canadians on routes within Canada?

No. The NAFTA allows truckers only to transport international cargo from one country to another, not to pick up and deliver cargo to points within the country. Domestic carriers have the exclusive right to haul cargo within their own country.

Will changing the rules on international cargo cause difficulty for the Canadian trucking industry?

No, because Canada currently maintains an open regime vis-à-vis both Mexico and the U.S. Canada therefore will not have to make any regulatory changes, unlike Mexico and the U.S., both of which will have to change their regimes. Industry representatives were consulted throughout the negotiations and fully support the land transportation provisions of the NAFTA. Canadian land carriers can benefit from the right to take on cargo in the U.S. for onward transport to Mexico. This will increase the industry's efficiency and can enhance the competitiveness of Canadian goods.

What does the NAFTA say about air transportation?

NAFTA deals only with specialized air services, such as aerial mapping and surveying. Transborder specialty services will be opened gradually to allow greater market access in Mexico and the U.S. for Canadian companies. The NAFTA does not include passenger and cargo services. Canada is holding separate "Open Skies" negotiations with the U.S. on transborder air services. These negotiations are not part of the NAFTA.

Did the U.S. agree to open the American maritime shipping transportation sector, now protected from competition under the Jones Act?

No. Canada aggressively pursued an opening of the maritime shipping sector. The U.S. did not agree to open this sector. However, in spite of the U.S. position, Canada did strike an agreement with Mexico for international shipping which excludes the U.S. We believe that Canada has a competitive shipping industry which will benefit from increased trade among the three countries and, in particular, between Canadian and Mexican ports.

NAFTA - INVESTMENT

WHAT'S IN THE AGREEMENT

- All investors from NAFTA countries to be treated equally;
- Mexico to eliminate screening of new foreign investment in most sectors and severely curtail its review of takeovers of existing enterprises; Canada retains its investment screening regime;
- Investment restrictions reduced on dozens of sectors in Mexico including autos, mining, agriculture, fishing, financial services, transportation and most manufacturing;
- Mexico no longer to impose trade-distorting performance requirements on foreign investors;
- Investments from NAFTA countries may be expropriated only for public purposes, and fair market value must be paid promptly;
- Disputes between an investor from a NAFTA country and a NAFTA government may be settled, at the investor's option, by binding international arbitration;
- Foreign investment may be restricted for existing state enterprises or government operations that are privatized;
- Local currency may be converted into foreign currency for investment transactions and freely transferred into and out of the country.

BENEFITS TO CANADA

- Increased investment opportunities in Mexico;
- Unlike the FTA, the NAFTA provides protection for all types of investment including minority as well as majority or controlling interest in a business and investments in stocks, bonds or real estate;
- Canada maintains all existing investment restrictions in key sectors including transportation and telecommunications;
- Canadian cultural industries and social services are protected;
- Canada retains the ability to review major takeovers;
- Provincial autonomy is safeguarded by allowing provinces to preserve existing investment restrictions within their jurisdiction;
- Greater certainty and protection for investors throughout North America.

COMMONLY ASKED QUESTIONS

What does the NAFTA do for Canadian investors?

The Agreement provides increased security for Canadian investment in Mexico and places Canadian investors there on an equal footing with United States investors.

How can Canada compete for foreign investment against Mexico with its low standards and wages?

Canada has a longstanding reputation as a favourable place for foreign investment. NAFTA enhances the current investment climate by providing a larger market for exports of goods and services. Besides market access, Canada has important advantages as an investment location, including a modern infrastructure, a skilled and productive work force, access to resources and stability.

Do the investment provisions of the NAFTA threaten Canada's sovereignty?

No. Canada maintains the right to screen large foreign takeovers. All Canadian limitations on foreign investment remain unaffected for specific sectors, such as air transportation, telecommunications and financial services. Cultural industries and social services are protected. The provinces have two years to list those investment restrictions they wish to maintain.

NAFTA - ENERGY

WHAT'S IN THE AGREEMENT

- Application to Mexico of Free Trade Agreement (FTA) disciplines that prohibit discriminatory border restrictions and export taxes;
- Explicit obligations on energy regulators to avoid discrimination against NAFTA partners and to minimize disruption of contractual arrangements;
- For the petrochemical sector, elimination of Mexican investment restrictions on all but a few basic petrochemicals still under state control;
- Immediate elimination of Mexico's trade restrictions on all petrochemicals;
- Barrier-free trade in Mexican non-energy refinery products such as asphalt, greases, lubricating oils and waxes; and
- New opportunities for investment in the Mexican electricity sector.

BENEFITS FOR CANADA

- Canadian energy industries obtain the same level of access as the U.S. to the Mexican energy sector;
- Canadian gas exporters obtain a firmer basis for recourse against discriminatory measures by both federal and state energy regulators in the U.S. -- a substantial improvement over the FTA;
- Opportunities for Canadian trade and investment in previously closed Mexican markets for petrochemical and fertilizer products;
- Opportunities for Canadians to invest in non-utility generation of electricity in Mexico, which can also help to open up the Mexican market for natural gas from Canada.

COMMONLY ASKED QUESTIONS

Does Mexico match Canada's FTA commitments on energy?

The NAFTA energy chapter mirrors that of the FTA through a similar set of rights and obligations. These have been specifically tailored to govern three-way trade in the NAFTA, as opposed to two-way trade in the FTA. For instance, Mexico must now abide by FTA provisions on the use of import and export restrictions, and export taxes.

The NAFTA energy chapter, however, reflects unique factors like Mexico's constraints on private ownership in its energy sector. While Mexico wants to increase investment, its constitution stops it from attracting foreign investment to much of its energy sector. By contrast, Canada has a less restricted investment climate -- one that encourages energy development and the creation of jobs in this country.

What improvements are there in the NAFTA over the FTA?

NAFTA provides new market opportunities for Canadian energy goods and services by limiting Mexico's use of restrictive trade practices. Another significant improvement over the FTA is the imposition of explicit obligations on energy regulators. This provides Canadian gas exporters with a firmer basis for recourse against the discriminatory application of measures by both federal and state energy regulators in the U.S. Both federal and state regulators will have to treat Canadian natural gas no less favourably than U.S. gas and will have to minimize the disruption of contractual relationships.

NAFTA - GOVERNMENT PROCUREMENT

WHAT'S IN THE AGREEMENT?

- Better access for suppliers of goods, services and construction in all three countries.
- The Mexican construction services market will open in incremental stages over the next ten years.
- Improved procedures to cover tendering and challenges to bids as well as dispute resolution.
- Scope and coverage of government procurement contracts in the NAFTA exceeds that of the GATT and FTA. Market opportunities for Canadian suppliers increase from $20 billion to approximately $70 billion.

BENEFITS FOR CANADA

- For the first time, government procured services in the U.S. and Mexico will be open to Canadian suppliers. In the U.S. alone the services market is approximately $30 billion per year.
- For the first time, suppliers of Canadian building materials will have competitive access to U.S. government construction contracts.
- The United States have agreed to lift the Buy America restrictions on loans provided under the Rural Electrification Administration (about US$ 1.5 billion). This will provide Canada's high-tech telecommunications equipment suppliers access to this previously restricted market.
- Internationally competitive Canadian companies will have a fair opportunity to serve the U.S. and Mexico markets, particularly PEMEX (petroleum monopoly) and CFE (electricity monopoly), which represents almost US$ 8.2 billion of Mexican government procurement. Canada's heavy electric equipment producers and oil and gas equipment suppliers will for the first time have access to this market opportunity.

COMMONLY ASKED QUESTIONS

What is the Agreement worth to Canadian businesses?

The NAFTA chapter on government procurement represents a major step forward to removing access impediments to the markets in the three countries. Canadian suppliers have gained access to goods, services and construction contracts in the U.S. and Mexico for a total value of approximately of $70 billion.

How can Canadian firms access the procurement opportunities?

Canadian suppliers will have access to published opportunities in each of the three markets. The Agreement sets requirements for the publishing of contract opportunities and, if necessary, a bid-challenge procedure. This transparency and predictability provides a new level of openess for Canadian suppliers.

What about procurement by provinces and municipalities?

It is excluded from the NAFTA.

What about procurement by provincial utilities? (i.e., Quebec Hydro)

This is also excluded from the agreement.

Will the Canadian government have the freedom to promote regional economic development in Canada under the NAFTA?

Canada has retained a number of sectoral exceptions that allow it to continue support for regional and industrial development. In addition, Canada has not offered: shipbuilding and repair; dredging; construction for Transport Canada; and the Merit Partnership Program.

NAFTA - INTELLECTUAL PROPERTY

WHAT'S IN THE AGREEMENT

Unlike the Canada-U.S. Free Trade Agreement (FTA), the NAFTA has a comprehensive chapter on intellectual property which will provide protection for inventions, designs and creative works. The main elements are:

- Standards in the areas of copyright, sound recordings, trademarks, patents, integrated circuits, trade secrets, geographical indications, plant breeders' rights and industrial designs;
- Comprehensive rules for enforcing intellectual property rights;
- In applying for U.S. patents, research done in Canada will now be on an equal footing with research done in the U.S. when applying for patents in the U.S.; and
- Patent protection will be the same in all industrial sectors.

BENEFITS FOR CANADA

- Strong intellectual property protection is a major advantage to Canadian creators, inventors and researchers;
- The necessary climate will be created for Canada to attract investment and new technology, meaning more high-skill jobs;
- By providing innovative pharmaceutical companies with the same level of patent protection offered by most other industrialized countries, Canada becomes a more attractive location for increased research, development and manufacturing of medicines;
- Canadian creators of computer software can be confident that their work will be protected; and
- Canadian researchers inventing new plant varieties or designing integrated circuits will have protection in Mexico.

COMMONLY ASKED QUESTIONS

Why did Canada eliminate compulsory licensing for pharmaceuticals in the NAFTA?

Canada's decision to eliminate compulsory licensing was taken outside the context of the NAFTA. Increasing the protection on pharmaceuticals is good for Canada. This will create jobs, new investment in research and development, and new opportunities in a large, high-technology industry important to Canada's prosperity. The provisions of the NAFTA on pharmaceuticals are identical to the proposals in the General Agreement on Tariffs and Trade (GATT) Multilateral Trade Negotiations. These proposals reflect a multilateral consensus on the need for greater patent protection for creators, inventors and researchers. Since Canada announced its decision to implement the GATT proposal, announcements of close to $500 million in new investment in the pharmaceutical industry in Canada have been made.

NAFTA - GENERAL DISPUTE SETTLEMENT

WHAT'S IN THE AGREEMENT

Institutional Provisions

- The creation of a Trade Commission, made up of cabinet-level officers of the three countries, to oversee implementation, ensure joint management, and avoid and settle disputes between the countries over interpretation or application of the rules;
- The Commission will meet at least once a year and at the request of any of the three countries; and
- The establishment of a permanent Secretariat that will serve the Commission, dispute settlement panels and, unlike the Canada-U.S. Free Trade Agreement (FTA) all working groups and committees created under the Agreement.

Dispute Settlement Procedures

- Emphasis on amicable settlement by the parties and the Commission and strengthened to emphasize the finality of panel decisions;
- Right of third country to participate in consultations and panels to protect its interests;
- Trilaterally agreed roster of eminent experts;
- Dispute settlement panel selection procedure which promotes impartial decisions -- two panelists from the complaining party are selected by the defending party, two panelists from the defending party are selected by the complaining party, and the chair, who may be from the third NAFTA country or a neutral country, is selected by mutual agreement or, failing agreement, by lot;
- Special provisions to permit expeditious review of any retaliation alleged to be excessive; and
- Provisions for panels to consult scientific or other experts for advice on environmental, technical standards and related matters.
- (See also NAFTA - Subsidies/Antidumping and Countervail Dispute Settlement)

Transparency

- The NAFTA ensures that each country will provide publication and notification of changes to its laws and regulations that might adversely affect the NAFTA partners;
- Traders and investors will be assured of administrative and judicial review of domestic trade measures; and
- The Agreement encourages private commercial arbitration for settlement of international business disputes.

Benefits for Canada

- Possibility of unilateral action by any one country is limited;
- Ensures that Canada is an equal partner in overseeing the rules of trade in North America;
- Ability to select the chair of the dispute settlement panel from the third NAFTA country or neutral country ensures the proceedings are unbiased;
- Ensures procedural due process for Canadian business in the U.S. and Mexico.

COMMONLY ASKED QUESTIONS

How have the dispute settlement provisions been improved from the FTA?

The selection procedure for the roster and for panel members helps ensure a fair hearing in trade disputes. For the first time, Canada may obtain a binding ruling on whether retaliatory measures taken against it are excessive. Unlike the FTA, disputes regarding financial services are now covered, along with all other sectors. When disputes involve environmental issues, provision to engage the required experts ensures the necessary scientific expertise.

Will this ensure that we have fewer disputes with the United States and Mexico?

While disputes affect only a tiny share of our total trade, they are inevitable.

Dispute settlement provides an effective and timely method of resolving disputes when they do arise.

Dispute settlement provisions under the NAFTA will not prevent disputes -- just as they did not under the FTA nor do they under the General Agreement on Tariffs and Trade. They do, however, provide a process to minimize and amicably settle disputes when they do arise.

Review procedures under the NAFTA equivalent of Chapter 18, and provisions ensuring procedural due process ("transparency") and the arbitration of private commercial disputes, contribute to a more stable, predictable environment for Canadian exporters. In addition, speedier resolution of disputes results in real cost savings to Canadian companies affected by disputes.

NAFTA - SUBSIDIES/ANTIDUMPING AND COUNTERVAIL DISPUTE SETTLEMENT

WHAT'S IN THE AGREEMENT

- Binational panel review of final antidumping and countervailing duty determinations, instead of judicial review by domestic courts (no change from Chapter 19 of the Canada-U.S. Free Trade Agreement -- the FTA);
- Bilateral review and dispute settlement procedures with respect to changes in existing antidumping and countervailing duty laws (no change from the FTA); and
- A provision to safeguard the panel system and provide recourse in the event that the application of another party's domestic law prevents the establishment of a panel, prevents the panel from rendering a final decision, prevents the implementation of a panel's decision, or results in a failure to provide opportunity for judicial or panel review. (Note: all of these obligations are enshrined in Canadian law implementing the FTA.)

BENEFITS FOR CANADA

- The binational dispute settlement system has been strengthened and any ambiguity over its permanency has been removed;
- There is no change in the binational panel procedure as Canadian exporters have known it in some 20 cases over nearly four years;
- Canadian exporters will have access to binational panel review of Mexican antidumping and countervailing duty determinations, instead of judicial review by Mexican courts;
- The agreement provides that any amendments to U.S. and Mexican antidumping and countervailing duty law will not normally apply to imports from Canada; and
- The safeguard provision will help to ensure that Mexico and the United States do not frustrate the binational dispute settlement process.

COMMONLY ASKED QUESTIONS

Have there been changes to the dispute settlement provisions?

The provisions of the FTA have been strengthened through the addition of safeguard measures to protect the dispute settlement process and ensure that Canadian exporters receive due process in the application of trade remedy laws in Mexico and the United States. In addition, any ambiguity about their permanency has been removed.

There is no change in the functioning of FTA binational dispute panels as Canadian exporters have known them in some 20 cases over nearly four years.

A new provision is added to safeguard the panel system guaranteeing that dispute settlement panels are established and their decisions are implemented. If the application of the laws of one country deny the benefits of the dispute panel review system to another country, that other country will now have recourse against the offending country. This will ensure that the application of Mexican or American law does not frustrate the binational dispute settlement panel process. Canadian law requires that the benefits of the dispute settlement system be provided.

Does the NAFTA impose new disciplines on the use of subsidy-countervail and anti-dumping measures?

No, these issues are being dealt with in the Multilateral Trade Negotiations under the General Agreement on Tariffs and Trade (GATT).

The draft Uruguay Round text, proposed by GATT Director General Arthur Dunkel, meets Canadian objectives for substantive disciplines in this area. A successful conclusion to the Uruguay Round is a top Canadian Government priority.

NAFTA - ENVIRONMENT

WHAT'S IN THE AGREEMENT

The NAFTA represents an important step forward in dealing with trade and the environment. It contains more environmental provisions than any previous trade agreement. Canada was an active proponent of a number of the environmental provisions. The willingness of Mexico and the United States to accept them demonstrates both countries' commitment to working to improve our common continental environment. The environmental provisions include:

- A strong commitment to sustainable development, and environmental protection and enforcement;
- The right of Canada to determine the level of protection required to protect its environment and its human, animal or plant life or health;
- The establishment of a work program to enhance levels of protection in these areas throughout North America;
- The right to maintain environmental standards that are higher than those recommended by international organizations;
- Recognition that NAFTA countries should not lower health, safety or environmental standards ("create pollution havens") to attract investment; and
- Provision for special scientific review boards to advise dispute settlement panels if environmental issues are raised.

BENEFITS FOR CANADA

- Canada's high environmental standards are maintained and can be strengthened;
- The NAFTA incorporates many recommendations put forward by the provinces, advisory panels and environmental interest groups;
- The NAFTA explicitly protects the rights of Canada's federal, provincial, territorial and local governments to determine appropriate levels of environmental protection for their own regions;
- Canada's bilateral agreement with Mexico intensifies environmental co-operation; and
- The NAFTA provides greater opportunities for Canadian exporters of pollution-abatement equipment and waste-management services.

COMMONLY ASKED QUESTIONS

Will Mexico be able to attract more industry than Canada or the U.S. because of its environmental practices?

The NAFTA countries recognize in the Agreement that they should not lower environmental standards to attract investment ("create pollution havens"). The closer relationship fostered by the NAFTA will also bring closer examination of environmental practices by citizens of all three countries.

Mexico has some of the toughest environmental legislation of any developing country (comparable to U.S. and Canadian legislation). It is now taking further steps to enforce those laws.

The reality is that enforcing environmental laws takes money. Greater prosperity will enable the Mexican government to continue to clean up the environment -- and that means no longer tolerating companies that pollute.

Is Canada doing anything in the NAFTA to encourage Mexico to improve its environmental record?

Canada believes a practical way to encourage and support Mexico in improving its environment is through an ongoing program of concrete and practical co-operation. In March 1992, Canada announced a $1-million package to assist environmental enforcement and monitoring in Mexico.

Will the harmonization of standards mean that environmental regulations will be weakened under the NAFTA?

The NAFTA does not require the three countries to harmonize their environmental standards. A guiding principle of the NAFTA is the right of each country to maintain its standards, even those that are more stringent than those recommended by international organizations. The work program on standards to be undertaken in NAFTA will intensify scrutiny of existing practices and encourage continuous improvements.

Is there anything Canada can do if Mexico does not enforce its standards?

A NAFTA country must consult with its partners if it lowers health, safety or environmental standards to attract investment. The closer relationship fostered by the NAFTA will also bring closer examination of environmental practices by citizens of all three countries.

Is there an environmental assessment of NAFTA?

Yes. The environmental review will be considered by Cabinet at the same time as the legal text of the NAFTA. The review committee took into account the views submitted by environmentalists.

NAFTA - LABOUR, WAGES AND ADJUSTMENT

At Canada's insistence, the Preamble to the NAFTA text states the commitment by all three governments to protect, enhance and enforce workers' rights.

WAGE COMPETITION

- Wages are just one factor affecting competitiveness. Total labour costs represent only 17% of the average cost of production and only 9% in the critical automotive assembly sector. Other key factors in competitiveness include a trained labour force, good transportation and communication links, affordable capital, good energy sources, productivity, and product reliability and quality. These are all areas where Canada demonstrates strength.
- Wages are not as critical to competitiveness as some believe. The world's largest traders (Japan, Germany, the United States and Canada) are all high wage countries.
- Canada's market is and has been largely open to Mexican imports. About 80% of Mexican products already enter this country duty-free.
- Despite this access into Canada, Mexico's current lower wages have not posed a major threat to Canadian production. On the other hand, Mexican import restrictions significantly limit access to Mexico for Canadian exports of goods and services. The NAFTA will correct this imbalance.

ASSISTING WORKERS AND INDUSTRIES

- Canada's adjustment programs for workers and industry are among the best in the world, better than most of our major trading partners.
- As a percentage of the economy, Canadian governments spend more than three times as much on labour market programs as the United States.
- Given that Canada's market is already open to most Mexican goods, the NAFTA should not pose major adjustment problems. In a number of areas, Canada has negotiated tariff phase-out periods that will allow sufficient time for each sector to adjust, as well as safeguard mechanisms to address any negative import surges.
- Co-operation between the federal and provincial governments and labor and management will be required to ensure that labour adjustment programs respond to changes in the global economy. The government's broad response to the new competitive challenge this poses for Canadian firms and their employees will come forward as part of the Prosperity Initiative this fall.

CANADA AND MEXICO TO CO-OPERATE ON LABOUR STANDARDS

- Canada and Mexico signed a labour co-operation agreement in May 1992. Projects aimed at sharing experience and expertise will involve dialogue between Canadian and Mexican workers, unions, labour administrators and industry representatives.

COMMONLY ASKED QUESTIONS

Why isn't the labour issue directly addressed in the NAFTA?

At Canada's insistence, the labour issue is addressed in the Preamble. Since the outset of NAFTA negotiations in June 1991, all three parties agreed that discussions on labour would proceed at the same time as the NAFTA talks. Within this parallel process, both Canada and the U.S. are working with Mexico through separate agreements on labour issues.

Why didn't the NAFTA countries negotiate a social charter as in the European Community?

The NAFTA is a trade agreement. The European Community is a more comprehensive association that is moving toward greater political and social union. That is not the objective of Canada in either the Canada-U.S. Free Trade Agreement (FTA) or NAFTA. Therefore, Canada, the United States and Mexico decided that it would be more practical to undertake a program of extensive labour co-operation outside the NAFTA that could continue after the Agreement is ratified.

If there's no social charter, how can we be sure that Mexico will enforce existing labour standards?

Legislation on worker and workplace standards in Mexico are already as comprehensive as that of many industrialized countries and in some cases surpasses them. Mexico's record of enforcement has been criticized. However, with the implementation of NAFTA, pressures to improve enforcement will increase. The increased economic activity and resources that will flow from the NAFTA will allow Mexico to deploy more resources to monitoring and enforcement activities. We will also continue to work closely with Mexico through our bilateral agreement on labour signed in May 1992.

How come the U.S. is planning to introduce adjustment programs for workers affected by the NAFTA and Canada is not?

Our market is already largely open to Mexican goods. Many of the remaining Canadian tariffs will be phased out over a period of up to 10 years. The NAFTA should have a minimal effect on the Canadian economy. Canada's adjustment programs for both workers and firms are the most generous and comprehensive in the world. Trade agreements are only one factor among many leading to restructuring of the global economy. The government's broad response to the competitive new challenge this poses for Canadian firms and their employees will come forward as part of the Prosperity Inititative this fall.

CANADA-MEXICO ENVIRONMENT AND LABOUR AGREEMENTS

A) ENVIRONMENT

The NAFTA contains a strong commitment to sustainable development and environmental protection and enforcement. For example, the NAFTA recognizes the right of each NAFTA country to maintain environmental standards higher than those recommended by international organizations. The Agreement also recognizes that the NAFTA countries should not lower health, safety or environmental standards to protect investment.

Recognizing the importance of continental co-operation on the environment, Environment Minister Jean Charest, his American counterpart, Administrator William Reilly, and his Mexican counterpart, Secretary Luis Donaldo Colosio, will meet in Washington on September 17 to discuss the establishment of a common strategic approach to North American environment issues.

Canada-Mexico Environmental Co-operation

On March 16, 1990, Canada and Mexico signed an Agreement on Environmental Co-operation. The Agreement is very broad, permitting co-operation on environmental issues of importance to both countries.

On March 18, 1992, the government announced a $1-million program, under the Canada-Mexico Agreement, to help Mexico improve its environmental monitoring and enforcement practices.

The chosen projects are tailored to meet Mexico's needs and will assist Mexico's Secretariat of Social Development to enforce the tough environmental laws which that country passed in 1988.

Approximately 20 projects involving Canada's and Mexico's private and public sectors are being implemented in six different areas:

Compliance Monitoring

- Acquisition of a mobile laboratory,
- Training seminars in Mexico and Canada, and
- Software acquisition.

Management of Hazardous Substances and Waste

- Creation of technical standards and regulations and
- Comparative analyses.

Air Pollution Control

- Creation of technical standards and
- Study of emissions inventories.

Environmental Impact Assessment

- Environmental impact assessment manuals for specific sectors.

In addition, projects on the Monarch butterfly and environmental education are being developed within this $1-million program.

B) LABOUR

On May 4, 1992, Canada and Mexico signed a Memorandum of Understanding (MOU) on Co-operative Labour Activities. The activities of this MOU focus attention on issues important to workers in both countries. At the same time, they encourage greater contact between Canadian and Mexican workers, unions, labour administrators and industry representatives.

Labour Market Statistics

- An exchange of information and publications;
- Technical seminars to examine systems used to collect, measure and disseminate labour statistics; and
- Joint projects on specific issues of interest in labour statistics to be developed after the technical seminars.

Occupational Health and Safety

- An exchange of information and publications on standards, inspection and prevention programs;
- Technical conferences on health and safety in selected "high-hazard" areas. The first conference will focus on the construction, chemical and mining industries;
- Joint seminars on hazardous materials in the workplace; and
- Working visits by technical experts from Mexico to Canada.

Job Training

- An exchange of information on job training and placement services;
- A seminar showcasing successful examples of on-the-job training programs, school-industry linkages and initiatives undertaken by training institutes and labour-management organizations; and
- Study visits to government employment centres and private-sector placement services.

Labour Relations, Workplace Innovation, Quality and Productivity

- Information exchanges on innovative programs and learning materials related to quality and productivity; and
- A seminar on productivity and quality and their relationship to new forms of labor-management co-operation.

NAFTA - PROTECTION OF CANADIAN SOVEREIGNTY

Canada's ability to exercise its national sovereignty is undiminished by the NAFTA.

CULTURE

- Cultural industries are exempt from NAFTA. The Agreement reached in the Canada-U.S. Free Trade Agreement (FTA) remains in force.

HEALTH CARE

- Government health care and social services are specifically protected in the NAFTA.

WATER

- Like the FTA, the NAFTA does not apply to large-scale water exports.

INVESTMENT

- Canada retains its investment screening system to review takeovers by foreigners.

STANDARDS

- Canada retains the right to preserve and strengthen its own high standards for health and safety.

ENVIRONMENT

- Canada retains the right to maintain and strengthen our high environmental standards.

TELECOMMUNICATIONS

- The NAFTA preserves Canadian control of basic telecommunications services.

COMMONLY ASKED QUESTIONS

CULTURE

Are you sure Canada's cultural industries are fully protected?

Yes. The FTA cultural exemption is reaffirmed in the NAFTA.

HEALTH

Will our trading partners regard medicare as an unfair subsidy and try to take action against Canada?

All Canadians are eligible for health-care insurance. Our system is universal, and such benefits are not considered subsidies subject to trade actions under the NAFTA or any other international trade agreement.

ENERGY

Does Mexico match Canada's FTA commitments on energy?

The NAFTA energy chapter mirrors that of the FTA through a similar set of rights and obligations. These have been specifically tailored to govern three-way trade in the NAFTA, as opposed to two-way trade in the FTA. For instance, Mexico must now abide by FTA provisions on the use of import and export restrictions, and export taxes.

The NAFTA energy chapter, however reflects unique factors like Mexico's constitutional constraints on foreign ownership in its energy sector. While Mexico wants to increase investments, its constitution stops it from attracting foreign investment to much of its energy sector. By contrast, Canada has a less restricted investment climate -- one that encourages energy development and the creation of jobs in this country.

WATER

Will the government introduce legislation to ensure water cannot be exported, as it did with the FTA?

Yes. The NAFTA implementing legislation will contain a specific provision confirming Canadian sovereignty over water resources.

NAFTA - CULTURAL INDUSTRIES

WHAT'S IN THE AGREEMENT

- A guarantee of Canada's right to implement special measures for cultural industries;

- Preservation of exemptions negotiated in the Canada-U.S. Free Trade Agreement (FTA) in such areas as publishing, film and video, music and sound recording, broadcasting and cable industries;

- Preservation of the right to maintain existing cultural support measures, as well as the right to introduce new ones;

- U.S. and Mexico have chosen to undertake obligations to each other in their cultural industries.

BENEFITS FOR CANADA

- The NAFTA provides an exemption that allows for continued government support of cultural industries through special measures.

COMMONLY ASKED QUESTIONS

Are you sure Canada's cultural industries are fully protected?

Yes. The FTA cultural industries exemption is reaffirmed in the NAFTA.

NAFTA - WATER

CANADA'S WATER RESOURCES -- A SUMMARY

- Like the Canada-U.S. Free Trade Agreement (FTA), the NAFTA does not apply to large-scale exports of water.
- As in the FTA, only water packaged as a beverage or in tanks is covered in the NAFTA.
- Water was not discussed during the NAFTA negotiations with the United States and Mexico.
- Large-scale exports of water, either by inter-basin transfer or diversion, are contrary to the 1987 federal water policy.

THE NAFTA WILL NOT AFFECT WATER EXPORTS

- Canada's legislation to implement the FTA already states clearly that the FTA does not apply to water, except in the case of water packaged as a beverage or in tanks. Similar provisions will be included in the NAFTA implementing legislation.
- There neither has been, nor will be, any negotiation or provision for large-scale exports of water to another country.

COMMONLY ASKED QUESTIONS

Will Canada be forced into allowing water exports under the NAFTA?

No. The large-scale export of water was not part of the NAFTA negotiations. The Government of Canada has developed a firm policy on water transfers or diversions. The policy expressly prohibits such projects.

Will the government introduce legislation to ensure water cannot be exported, as it did with the FTA?

Yes. The NAFTA implementing legislation will contain a specific provision confirming Canadian sovereignty over water resources.

NAFTA - HEALTH CARE

- Government health care and social services are protected.
- Canada's health-care system is one of the most effective in the world. Many people in the U.S. are taking a closer look at Canada's system as the model for national health care.
- Licensing bodies in all three countries are encouraged to develop mutually acceptable professional standards but Canada is in no way required to weaken its standards.
- There is no obligation for provincial governments to open contracts for health-care management services to foreign bidders. Provincial procurement was not covered by the FTA, nor is it included in the NAFTA.
- There is no obligation to admit physicians to practise medicine in Canada.

AS A RESULT:

- Canada's high health-care standards are maintained and can be strengthened;
- The NAFTA improves upon the FTA by allowing professionals, including some health professionals but not medical practitioners, to work in NAFTA countries as long as licensing requirements are met; and
- Under the FTA, Canada and the U.S. retained the right to establish their own standards for the protection of public health and safety as long as those standards were not intended as barriers to trade. Those rights are maintained in the NAFTA.

COMMONLY ASKED QUESTIONS

Will the NAFTA restrict Canada's ability to manage its health-care system?

No. The NAFTA does not limit the ability of Canadian governments to develop or maintain health or social programs. The NAFTA specifically protects law enforcement, correctional services and the following social services: income security or insurance, social security or insurance, social welfare, public education, public training, health and child care.

Will the NAFTA regulate or in any way affect health care and other locally based services?

No. Health care is a provincial responsibility. Provinces can decide if they wish to have foreign companies provide additional services to basic health care. Under the Canada Health Act, basic health care must be provided on a non-profit basis. If a province wishes to privatize any service related to health care, it may establish regulations requiring that the service be provided only by Canadian-owned firms.

Will our trading partners regard medicare as an unfair subsidy and try to take action against Canada?

All Canadians are covered by health-care insurance. Our system provides for universal access. Such systems are not subject to retaliatory duties under existing trade laws.

NAFTA - HUMAN RIGHTS

HUMAN RIGHTS IN MEXICO -- A SUMMARY

- Reports of human rights violations in Mexico have caused many Canadians to question the wisdom of negotiating a free-trade agreement with that country.
- Canada recognizes that human rights abuses do occur. We consider this to be deplorable and unacceptable. It is a subject we raise regularly -- and will continue to raise -- with Mexican ministers.
- Canada also recognizes, however, that the Salinas administration is taking further steps to improve the situation. A key initiative has been the establishment of a Human Rights Commission, which issues reports independent of the government.
- The reforms made in the area of human rights and freedom of the press in recent years have been impressive, although the results of these reforms will not become evident overnight.
- With more than 100 citizen-based human rights groups in Mexico, Mexicans are keenly aware of their rights and the recourse they have against abuses.
- Most of Mexico's human rights violations result from three systemic problems: 1) a poorly paid and poorly trained police force, 2) conflicts over land tenure, and 3) the war on drugs.
- While problems remain, Amnesty International has acknowledged in its annual report that abuses of human rights are becoming less common.

HOW THE NAFTA WILL PROMOTE HUMAN RIGHTS

- The ripple effect of such a wide-ranging agreement as the NAFTA will reach into every sector of the Mexican economy.
- The strengthened, more prosperous economy that will result from the NAFTA will increase the Mexican standard of living, promote a higher level of education, and encourage individuals to take an active role in creating a more pluralistic society.
- Greater exchanges of information and experiences will occur between Mexico and Canada as a result of NAFTA. This should contribute to greater awareness among both Canadians and Mexicans of the challenges and efforts being made to deal with human rights problems.

COMMONLY ASKED QUESTIONS

Is Canada pressing Mexico to clean up its human rights record?

Canada has made it clear to Mexican officials at the highest levels that we find the human rights abuses in Mexico deplorable and unacceptable.

Canada also recognizes, however, that the Salinas administration is taking steps to improve the situation. High-ranking police and government officials have recently been charged with human-rights offenses. Canada is satisfied that the record is improving.

How do we know Mexico is sincerely trying to address its human rights problem?

Mexican President Carlos Salinas recognizes the need to improve human rights in his country and has set up a Human Rights Commission that has issued independent reports. The Attorney General of Mexico has promised to investigate all of Amnesty International's allegations of torture. With more than 100 citizen-based human rights organizations in Mexico, citizens are keenly aware of their rights and the recourse they have against abuse.

NAFTA - THE LEGISLATIVE AND CONSULTATIVE PROCESS

THE LEGISLATIVE PROCESS

- Following the so-called "ministerial handshake," lawyers from the three countries will require further time to complete the legal text of the proposed agreement.
- Once a final legal text is completed, it will be initialled by all three countries, indicating that the text is acceptable to Canada, the United States and Mexico. It will then be made public and each of the governments will follow their legislative approval process. In the meantime, a trilaterally agreed summary will be available.

CANADA

- The proposed Agreement, along with the environmental review of the NAFTA prepared by an inter-departmental team in co-operation with environmentalists and the business community, will be presented to Cabinet.
- Following Cabinet approval, the proposed Agreement will be introduced into the House of Commons and will follow the normal parliamentary process, including consideration by the House and Senate and committee hearings.
- The Agreement, once approved by Parliament, would be implemented on January 1, 1994.

UNITED STATES

- Once the President notifies Congress of his intent to sign the Agreement, the U.S. Congress has 90 calendar days to review the text and provide comments.
- After the 90-day period, the President can sign the Agreement and submit the required implementing legislation to Congress.
- Congress has up to 90 working days to consider the legislation. Under U.S. "fast track" trade negotiating authority, Congress must either approve or defeat the package in its entirety.

MEXICO

- The NAFTA, as an international agreement, requires ratification by a two-thirds majority of the Mexican Senate. The governing party currently holds 61 of 64 Senate seats.
- As in Canada and the U.S., implementing legislation, if required, would have to be passed by the Mexican House of Deputies and the Senate.

THE CONSULTATIVE PROCESS

The government's system of consultations has successfully struck a fair balance between the requirements of an international negotiating process and the need for interested groups to receive information and provide advice.

- The government has held detailed consultations on NAFTA with its International Advisory Committee (ITAC) and the 15 Sectoral Advisory Groups on International Trade (SAGITs) on a continuous basis since the negotiations began. In addition, ongoing and frequent consultations were held with industry associations and several hundred individual firms.
- The Minister for International Trade and senior federal officials, including the NAFTA chief negotiator, have consulted with the ITAC 12 times since May 1991, a month before the negotiations were launched. Also since that time, 77 different consultations have been held with the SAGITs.
- In the same period, the federal trade minister has met with his provincial counterparts six times to review NAFTA issues in detail.
- Senior federal and provincial trade officials have met 16 times since May 1991, in addition to holding nine telephone conference calls. The frequency of these consultations increased as agreement drew closer.
- A number of conference calls have also been held with officials from individual provinces to discuss progress in the talks in sectors of particular interest to them.
- Negotiators have travelled to provincial capitals for joint industry-provincial consultations on the NAFTA.
- The trade minister has appeared twice to discuss NAFTA before the International Trade Sub-Committee of the Standing Committee on External Affairs and International Trade (SCEAIT) of the House of Commons.
- All party caucuses were offered detailed briefings on the status of the talks. The New Democratic Party refused. The caucuses of the other parties have been briefed regularly since March, without confidentiality requirements.
- Negotiators have talked to environmental organizations, both directly and through the ITAC/SAGIT network. Their advice was instrumental in shaping the environmental provisions of the Agreement.

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Industrial Equipment Industry
Information Technologies Industry
Recreational, Household and Health-care Products Industries
Textiles, Apparel, Leather and Footwear Industries
Transportation Services Industry
Urban Transit and Rail Equipment Industry

CANADA'S KEY OBJECTIVES MET

Barrier-Free Access to Mexico

- Phase-out of tariffs for virtually all Canadian exports to Mexico over 10 years;
- Elimination of Mexican import licensing requirements for goods;
- Opportunities to bid for major Mexican government procurement contracts;
- Canadian financial services companies will be able to open subsidiaries, invest in, and acquire financial institutions in Mexico (banking, securities and insurance);
- Major liberalization of the restrictive Mexican investment regime;
- Liberalization of the Mexican services market, including land transport, specialty air services, professional services, and enhanced telecommunications (e.g., advanced data-processing services). Agreement between Canada and Mexico to maintain their relatively open international maritime shipping services.

FTA Benefits Plus Improvements

- The Auto Pact remains;
- Protection of Canada's cultural industries;
- Social services and health services are protected;
- High health, safety and environmental standards are preserved and can be strengthened;
- Canada's supply management import quotas for egg, dairy and poultry products are not affected;
- Unlike in the Free Trade Agreement (FTA), transportation services (including land and specialty air services) and intellectual property rights are included;
- Clearer North American content rules, including for autos, reducing the risk of unilateral interpretations by customs officials;
- The impact of the new rules of origin for textiles and apparel is offset by increases in the quotas giving preferential access to the U.S. market for Canadian goods that do not meet the rules of origin;
- Extension for two years of duty drawback beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods into other NAFTA countries;
- Clearer disciplines on energy regulators to avoid discriminatory actions against contractual arrangements, benefiting Canadian gas exporters;
- More stringent discipline on the United States for imposing border restrictions against imports from Canada; and
- Improved dispute settlement procedures.

Canada -- An Attractive Place to Invest

- Canada will be on an equal footing in competing for investment in North America because the NAFTA ensures secure access for our exporters to both the United States and Mexico.

NAFTA AND THE AEROSPACE AND DEFENCE ELECTRONICS INDUSTRIES

THE CANADIAN INDUSTRY

- The total employment in the industry is 90,000.
- In 1991, Canada's exports of aerospace and defence electronics to all countries were valued at $3.9 billion.
- Canada's major exports include aircraft, aircraft engines and aircraft parts, helicopters, flight simulators, and radio navigational apparatus.

WHAT'S IN THE AGREEMENT

- Elimination of all Mexican and Canadian duties within 10 years for all aerospace and defence electronics products.
- Opportunities for an integrated North American market for aerospace and defence electronic products.
- Immediate elimination of Mexico's tariffs on aircraft, aircraft parts, parts, helicopters, radar and navigational equipment -- export interests to Canadian manufacturers in this sector.
- Enhanced access for Canadian suppliers to U.S. procurement contracts. Procurement at the provincial and municipal levels is not included in the NAFTA.
- Commercial air transport of passengers and cargo is excluded.

BENEFITS FOR CANADA

- A competitive advantage for Canadian exports over European suppliers.
- Opportunities will increase for Canada to trade with Mexico in aircraft, aircraft engines and aircraft parts.
- Canada retains preferential access to the United States for defence-related equipment under the Canada-United States Defence Production Sharing Agreement.

THE MEXICAN MARKET

- Mexico imports products worth nearly $1 billion within this sector from all countries.
- Mexico imports products such as airplanes, aircraft engines, flight simulators, radio remote-control apparatus and helicopters.

CANADIAN EXPORT INTERESTS IN MEXICO

- Large aircraft engines
- Business jets and commuter aircraft
- Water bombers
- Helicopters
- Air-traffic control and flight simulators
- Radio navigational and air-traffic control equipment
- Space communications equipment
- Space-based remote-sensing equipment
- Commercial avionics

COMMONLY ASKED QUESTIONS

What assurances are there in the NAFTA that innovative Canadian technologies and product ideas developed by our aerospace and defence electronic industries are not copied and manufactured in the U.S. or Mexico?

Unlike the FTA, the NAFTA includes intellectual property provisions to protect the rights of inventors, designers and creators. Specific standards are in place for areas such as copyright, trademarks, patents, semiconductor integrated circuits, trade secrets and industrial designs.

NAFTA AND THE AUTO INDUSTRY

THE CANADIAN INDUSTRY

- The industry directly employs more than 185,000 Canadians. Mainly located in Ontario and Quebec, this is Canada's largest export sector.
- In 1991, Canada's total exports of automotive products to all countries were valued at over $35 billion. Major exports include automobiles, light and heavy-duty trucks, buses and specialty vehicles, parts and accessories, and rubber tires.
- More than 85% of Canadian exports are destined for the United States.

WHAT'S IN THE AGREEMENT

- Removal of Mexican and Canadian tariffs on most auto parts within 5 years and on all auto products within 10 years.
- The Canada-U.S. Auto Pact remains intact.
- Clearer rules of origin and a more precise and predictable method for calculating the North American content of autos and parts.
- Cohesive, new rules of origin for autos and auto parts, with a requirement of 62.5% North American content in two stages over eight years for light vehicles (including cars and light trucks), and their engines and transmissions, and 60% for other auto goods, to qualify for duty-free access to the U.S. and Mexican markets.
- New plants will have five years reach new content level; those undergoing major refits will have two years.
- Elimination, after 10 years, of Mexico's protectionist Auto Decree, which has distorted investment and restricted imports.
- Immediate, significant improvements in access for Canada into Mexico for autos produced by assemblers that already have operations in Mexico (i.e., the Big Three).
- Immediate access for Canada into Mexico for medium and heavy-duty trucks and buses.
- A Trilateral Automotive Standards Council will be established to deal with issues related to standards.
- Extension of duty drawback for two years beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods into other NAFTA countries.

BENEFITS FOR CANADA

- Canada-U.S. Auto Pact is preserved; auto rules of origin provisions of the Canada-U.S. Free Trade Agreement (FTA) are clarified.
- Canada's number one export industry has new opportunities and a key sector of the Canadian economy is strengthened.
- Canada has improved access to the Mexican markets -- the fastest-growing auto market in North America -- and barriers to Canadian exports are reduced immediately and removed at the end of 10 years.

BENEFITS FOR CANADA (continued)

- The imbalance between Canada's open auto market and Mexico's highly restricted market has been addressed.
- Autos produced in Canada will have the same duty-free access to the Mexican market as autos produced in the U.S.
- New rules of origin reduce the likelihood of customs actions such as the ones against Honda.
- Creates certainty for the auto industry. Canada therefore remains a good place for foreign investors, including Asian auto manufacturers.
- Pressure on parts producers to relocate to Mexico to satisfy local content requirements has been relieved and will be eliminated in 10 years.
- Canada retains its high safety and emission standards for automotive products.

THE MEXICAN MARKET

- Mexico presently imports more than $5 billion in automotive products from Canada and the United States.
- It is estimated that the market for imported automotive parts will grow at over 7% per year over the next 10 years, resulting in significant opportunities for Canadian companies.

CANADIAN EXPORT INTERESTS IN MEXICO

- Cars and trucks
- Auto parts
- Specialty vehicles
- Buses

COMMONLY ASKED QUESTIONS

Will the new 62.5% rules of origin discourage investment by Asian car makers?

The new 62.5% rule was agreed to after extensive consultation with all segments of the Canadian industry, including Asian car makers. The new content level, combined with the new rules of origin and eventual unrestricted access to the fast-growing Mexican market, will create additional opportunities for all segments of the Canadian auto sector.

NAFTA AND BUSINESS AND PROFESSIONAL SERVICES

THE CANADIAN INDUSTRY

- Total Canadian exports of services to all countries of $23.4 billion.
- Business and professional services account for 20% of all Canadian service exports.
- Canadian service sector strengths include technical and consulting services related to mining, forestry and agriculture, hydro-electric power generation and distribution; exploration services; engineering and environmental services; resource-based scientific services; telecommunications; computer communications and software; training and education; and biotechnology services.
- The Canadian consulting engineering industry ranks among the most developed in the world, earning over $590 million on foreign projects.
- The surveying and mapping geomatics industry has export revenues of $92 million.

WHAT'S IN THE AGREEMENT

- Obligation to develop mutually acceptable professional standards and criteria, requiring that licensing criteria be objective and transparent. Provincially regulated professions encouraged but not forced to recognize credentials from other NAFTA countries.
- Removal within two years of citizenship requirements for the licensing and certification of professional services.
- Commitment to develop procedures for the temporary licensing of foreign engineers.
- Improved temporary entry provisions for business visitors, traders and investors, intra-corporate transferees and more than 60 professions. Duty-free access for equipment and samples accompanying business visitors.
- A comprehensive chapter on intellectual property rights to protect inventors and creators (e.g., of computer software).

BENEFITS FOR CANADA

- Enhanced access to government procurement opportunities in the U.S. and Mexican markets for a range of service providers, including computer software firms, architects and engineers.
- Mexico's developing economy will require an increasingly broad range of service sector assistance, bringing new opportunities for Canada's consulting service providers.

THE MEXICAN MARKET

- Although Mexico is considered a developing economy, services represent about the same share of its economy as they do in Canada and in the U.S.
- Many elements of the Mexican infrastructure are poorly developed, including telecommunications, utilities, power and sewerage, and land and maritime transportation services. Upgrading will require international service sector expertise.

CANADIAN EXPORT INTERESTS IN MEXICO

- Architecture, design, geomatics, engineering and environmental services
- Financial, transportation and communications services and training, and tourism services
- Management consulting, accounting and franchise services

COMMONLY ASKED QUESTIONS

Under the NAFTA, will Mexican and U.S. professionals, such as engineers or lawyers, be free to work in Canada?

No. The NAFTA encourages the professional licensing authorities of the three countries to develop mutually agreeable criteria and standards for the licensing of professionals. Foreign professionals can only work in Canada if they meet the requirements of the licensing authority and are on the list of professionals granted temporary entry.

Have there been any changes to the temporary entry provisions of the FTA which service sellers have been using to cross into the U.S.?

The temporary entry provisions of the FTA have been improved under the NAFTA. Business persons can now bring their equipment with them duty free, regardless of the origin of that equipment. The Agreement now uses plainer language to make the provisions more transparent and understandable. Coverage has been extended to over 60 professions, including oceanographers, geographers and statisticians, and professionals conducting seminars or training.

What about temporary entry for spouses?

The NAFTA provides for a Working Group to consider providing temporary entry rights for spouses of business persons entering each of the NAFTA countries.

NAFTA AND THE CHEMICAL, PHARMACEUTICAL AND PLASTICS INDUSTRIES

THE CANADIAN INDUSTRY

- The sector directly employs more than 117,000 Canadians.
- Major producers in this sector are located in Quebec, Ontario and Western Canada.
- In 1991, Canada's exports of chemicals, pharmaceuticals and plastics to all countries were valued at $9.7 billion.
- Major exports include polyethylene, sulphur and styrene.
- Canadian exports to Mexico are mainly sulphur, potassium chloride and synthetic rubber.

WHAT'S IN THE AGREEMENT

- Elimination of all Mexican and Canadian duties within 10 years for all chemical, pharmaceutical and plastic products.
- Immediate duty-free access to Mexico for sulphur and fertilizers, two of the largest Canadian exports to Mexico.
- Liberalization of Mexican market restrictions on all but a few basic petrochemical products.
- Immediate Canadian tariff elimination for many organic chemicals and chemical products not made in Canada.
- Most Mexican trade in this sector already enters Canada duty free.
- 10-year phase-out of most pharmaceuticals and other products, such as sanitary ware and plastic articles.
- Coverage of intellectual property rights, including the extension of patent protection on pharmaceuticals, in line with proposed domestic legislation and consistent with the proposals under the General Agreement on Tariffs and Trade (GATT).

BENEFITS FOR CANADA

- Overall, the Mexican market for imported chemicals, pharmaceuticals and plastics is expected to grow by as much as 30% per year over the next five years.
- Canadian pharmaceutical operations are gaining North American export manufacturing mandates that will include access to the Mexican market.

THE MEXICAN MARKET

Mexico has in the past limited foreign participation in this sector. In today's fierce global market PEMEX, the state monopoly controlling all aspects of the petrochemical industry, is becoming more open to foreign suppliers and services. Canada, with its leading technology and co-operative business style, is well positioned to take advantage of the opportunities presented.

- Mexican demand for many petrochemical and pharmaceutical products exceeds domestic capacity. Imports are valued at $5 billion.
- Mexico's imports include polyethylene, polypropylene, heterocyclic compounds, aluminum oxide and photographic paper.

CANADIAN EXPORT INTERESTS IN MEXICO

- Sulphur
- Adipic acid and urea
- Synthetic rubbers
- Mineral chemical and fertilizers
- Chromium compound pigments
- Potassium chloride
- Ammonium sulphate
- Ethylene glycol
- Polyethylene

COMMONLY ASKED QUESTIONS

Will Canadian companies be excluded from the Mexican market because of the PEMEX (state-owned oil company) monopoly on the petroleum industry?

Mexico is presently constrained from attracting foreign investment to much of its petrochemicals sector. However, Mexico has recently made several adjustments to its petrochemicals policy. While a few basic petrochemical products remain under state control, all other items become open to foreign participation.

NAFTA AND THE ELECTRICAL MANUFACTURING EQUIPMENT INDUSTRY

THE CANADIAN INDUSTRY

- In 1991, Canada's exports of electrical manufacturing equipment to all countries were valued at over $4 billion.
- Canada's major exports include turbines, generators, boilers, insulated wire and cable products, electric transformers/static converters and inductors.
- Canadian electrical lighting manufacturers are successful in specialty lighting fixtures, due to their innovations, product design and styling.
- Industry is concentrated in Ontario and Quebec and to a lesser extent in the Prairie provinces (mainly Alberta) and British Columbia.

WHAT'S IN THE AGREEMENT

- Elimination of all Mexican and Canadian duties within 10 years for all electrical manufacturing equipment.
- Early elimination of Mexican tariffs for lighting equipment, electrical relays, co-axial cable, gas and steam turbines -- all Canadian export interests.
- 10-year phase-out of Canadian tariffs for ballasts, batteries and handheld drills.
- Clearer and more precise rules of origin, narrowing the scope for disputes.
- Better access to government procurement contracts in Mexico for suppliers of heavy electrical and power generation equipment. Procurement at the provincial and municipal levels is not included in the NAFTA.
- Better access to construction contracts funded under the U.S. Rural Electrification Act.
- Extension for two years of duty drawback beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods into other NAFTA countries.

BENEFITS FOR CANADA

- In the area of capital-intensive products such as industrial motor controls, distribution transformers and low- and medium-voltage switchgear, the NAFTA is expected to enlarge Canada's access to the Mexican market.
- Modernization and expansion of Mexican electric infrastructure will provide new export opportunities for Canadian firms.

THE MEXICAN MARKET

- Mexico imports products worth $2.5 billion from all countries.
- Major imports include electrical apparatus for switching/protecting circuits.
- It is estimated that Mexico's market for imported electrical manufacturing equipment products will grow as much as 20-30% per year over the next five years.

CANADIAN EXPORT INTERESTS IN MEXICO

- Electrical apparatus for switching/protecting circuits
- Electrical transformers/static converters/inductors
- Electrical boards/control panels for various voltages
- Gas turbines

COMMONLY ASKED QUESTIONS

Will electrical products manufactured in the Mexican maquiladoras flood the Canadian market?

Canada has ensured that sensitive joint U.S. and Mexican goods produced in maquiladoras will receive a tariff phase-out from a higher rate of duty. This should provide Canadian producers with sufficient time to adjust to the new circumstances.

There is already a wide variety of technical standards with respect to the electrical manufacturing and electrical equipment sector. How can we be sure that the NAFTA rules on technical standards won't be used as barriers to trade?

Canada retains the right to maintain high safety and performance standards. The NAFTA will encourage compatibility of standards. This will make trade among the three countries easier. Industries will be encouraged to work together to develop new compatible standards that will be applicable throughout North America.

NAFTA AND THE ENVIRONMENTAL EQUIPMENT AND SERVICES INDUSTRIES

THE CANADIAN INDUSTRY

- Canadian environmental equipment and service capabilities are recognized worldwide.
- Canada is active in solid waste disposal technology, hazardous and non-hazardous waste consulting and engineering consulting, sewage treatment, water and waste-water treatment, as well as environmental rehabilitation and specialized air monitoring services.
- The environmental equipment and services industry in Canada is located mainly in Quebec and Ontario, with strengths in Alberta and British Columbia.

WHAT'S IN THE AGREEMENT

- Elimination of all Mexican and Canadian duties within 10 years for all environmental equipment.
- Early phase-out of Mexican duties on filtering and purifying equipment, providing greater opportunities for Canadian producers of environmental equipment.
- Rules to ease the temporary entry of environmental consulting industry and duty exemptions for their accompanying equipment and tools.

BENEFITS FOR CANADA

- Competitive access to environmental construction projects on the part of the U.S. Army Corps of Engineers, valued at approximately $2 billion annually.
- Stronger markets for Canadian exports. Canada is already well respected in the Mexican market in this industry. With increased importance placed on enforcement of environmental regulations, Canada's industry will likely see opportunities arise.
- Opportunities for Canadian producers to expand current trade with Mexico in waste disposal technology, in environmental consulting, in diagnostic analysis and in a wide range of environmental equipment.
- In March 1992, Canada announced a $1-million package to assist environmental enforcement and monitoring in Mexico. New market opportunities for Canadian exporters of environmental equipment and services.

THE MEXICAN MARKET

- In March 1988, Mexico enacted the Federal Law on Ecological Equilibrium and Environmental Contamination, which provides strict rules for protecting the environment. The government is demonstrating a strong commitment to enforcement of these laws.
- New focus on enforcement of environmental regulations and increased public pressure has created a growing demand for different sources of anti-pollution equipment and related services.
- The overall market in 1992 is estimated at $300 million -- with 12% or $36 million being imported. The market is expected to increase at an average annual rate of 15% through to the year 2000.

CANADIAN EXPORT INTERESTS IN MEXICO

- Solid waste disposal technology
- Hazardous and non-hazardous waste consulting
- Engineering consulting
- Sewage treatment
- Waste-water treatment
- Environmental rehabilitation
- Equipment for filtering and purification

COMMONLY ASKED QUESTIONS

How does the 1990 environmental co-operation agreement between Canada and Mexico benefit the environmental equipment and services industry?

The agreement emphasizes technical training and environmental rehabilitation, thereby providing opportunities for the Canadian industry to work with Mexico. Projects undertaken include rehabilitation studies for industrial and municipal waste, provision of drinking water supplies, the clean-up of Lake Chapala and the development of bilateral and trilateral projects concerning migratory birds, wetlands and environmental training, and clean-up of border rivers.

NAFTA AND THE FERROUS AND NON-FERROUS METALS AND FABRICATED MATERIALS INDUSTRIES

THE CANADIAN INDUSTRY

- Canada is a world leader in the production of non-ferrous metals, such as aluminum and copper.
- The sectors employ more than 160,000 Canadians, with annual production valued at $23 billion.
- In 1991, Canada exported $20-billion worth of products from these sectors.
- These industries are important to the economies of Ontario, Quebec, British Columbia, Manitoba, Saskatchewan, New Brunswick and Nova Scotia.

WHAT'S IN THE AGREEMENT

- Elimination of all Mexican and Canadian duties within 10 years for all ferrous and non-ferrous metals and fabricated materials.
- Immediate elimination of Mexico's duties on coal, nickel, magnesium, some copper and aluminum ingots, all of which are export interests for Canadian companies.
- 10-year phase-out of Canadian duties for most iron, steel and fabricated metal products.

BENEFITS FOR CANADA

- Competitive access for Canadian firms to purchases of pipe and tube products by PEMEX, Mexico's state oil producers.
- Canada already exports steel rails, wire of iron or non-alloy steel and tin plated steel to Mexico.
- Canada's strongest export interest to Mexico in this sector is aluminum. Mexico produces only a small amount and currently imports mostly from Venezuela. Potential in this area is good.

THE MEXICAN MARKET

- In 1990, the Mexican market for ferrous and non-ferrous metals and fabricated materials was over $4 billion.
- It is estimated that the market for imported ferrous and non-ferrous metals and fabricated materials will grow as much as 14% per year over the next five years.
- Mexico imports products worth almost $2 billion in this sector from all countries. Major imports include flat-rolled metal products, tin plated steel; aluminum alloy, plate, sheet or strip; refractory bricks; unwrought alloyed aluminum; asbestos; and iron or steel bars and rods.
- Mexico, like Canada, is a strong international competitor in and important supplier of non-ferrous metals (e.g., copper, lead, gold, silver and zinc) to the world market.

CANADIAN EXPORT INTERESTS IN MEXICO

- Aluminum
- Magnesium
- Asbestos
- Copper cathodes
- Iron and steel bolts and screws
- Iron ore concentrates
- Bituminous coal
- Gold powder
- Platinum catalysts

COMMONLY ASKED QUESTIONS

Given Mexico's poor record of enforcement of environmental regulations, will mining and smelting operations be more attracted to Mexico than to Canada?

Mexico has put polluters on notice that it will not become a sanctuary for companies wishing to short-cut environmental obligations. In addition, Mexico now has environmental standards and penalties that are comparable to those of industrialized nations for ignoring these standards.

NAFTA AND THE FINANCIAL SERVICES INDUSTRY

THE CANADIAN INDUSTRY

- Employment of 500,000 people in the financial sector.
- The life insurance industry employs 123,000 people. Assets of $135 billion. Assets invested by Canadian life insurance companies on behalf of foreigners totalled $47 billion.
- Banks employ 191,000 people. Assets of $635 billion. Foreign assets of all Canadian chartered banks represent 26% of their total assets.
- The securities industry employs 23,000 people. Assets of $33 billion.

WHAT'S IN THE AGREEMENT

- Full access into Mexico's financial markets for Canadian and U.S. financial institutions over time. Until now full access has been denied to foreign firms.
- Canadian and U.S. banking, insurance and securities firms will be able to establish wholly owned subsidiaries in Mexico. Foreigners will be subject to certain market share limitations, until the year 2000. There are safeguards in banking and securities if Canadian and U.S. market share levels become excessive, but these disappear by 2007.
- The Agreement establishes principles to which all countries must adhere.
- The establishment of a consultation process, which may include regulators.
- Financial services will be subject to the disciplines of a dispute settlement mechanism which includes the participation of financial services experts.

BENEFITS FOR CANADA

- Significant new expansion opportunities for Canadian financial institutions in the developing Mexican market.
- The FTA has been improved to include clear principles or "rules of the road" defining our trade relationship with the U.S. and Mexico in financial services.
- An enhanced consultation and dispute settlement process will allow for greater opportunities to discuss and resolve industry concerns with the other NAFTA parties.

THE MEXICAN MARKET

- Mexican commercial banks are the largest financial intermediaries in the country with $150 billion in assets, followed by development banks with assets of $39.3 billion.

- The insurance industry is small by international standards, with total assets of $3.5 billion at the end of 1988.

- The capitalization of the Mexican stock market is growing rapidly, from $41 billion to $102 billion during 1991, and then to $140 billion by April 1992.

COMMONLY ASKED QUESTIONS

Did Canada gain better terms for Canadian banks in the U.S. market?

While no specific commitments have been secured from the U.S., the agreement does contain a set of important principles which U.S. law must respect. Under the Agreement, Canadian banks and other financial institutions will be entitled to the same treatment as U.S. institutions in all future U.S. liberalization initiatives.

Will the NAFTA result in more foreign ownership of Canadian banks and other financial institutions?

The NAFTA extends to Mexico the benefits of market access Canada provided to the U.S. in the FTA. However, Mexican financial institutions are not at this time strongly export oriented, so it will be many years before any meaningful Mexican investment into Canada can be expected. With respect to the U.S., the NAFTA does not provide any new market opportunities that did not exist previously, so there is no reason to expect any change in foreign investment by the U.S. in Canadian financial institutions.

NAFTA AND THE FOOD AND BEVERAGE INDUSTRY

THE CANADIAN INDUSTRY

- The agri-food sector is one of the top five industries in Canada.
- The food processing sector alone employs 232,000 people and production is valued at $55 billion.
- Canada's exports of processed food and beverages average about $6.4 billion a year. Commodity exports such as grain increase these exports to $11 billion; sales to Mexico average about $114 million.
- Although value-added food and beverage production is centred in Ontario and Quebec, regionally based food-processing industries are found all across Canada.

WHAT'S IN THE AGREEMENT

- Retention of Canada's import quotas and tariffs for poultry, eggs and dairy products; Mexico will also exclude these sectors.
- Immediate elimination of Mexican tariffs on Atlantic salmon, crab, hake, haddock, and dried and smoked fish; five-year phase-out on lobsters, scallops, mussels, oysters, and prepared and processed fish.
- Phasing out of all remaining Mexican tariff and non-tariff barriers that hinder Canadian exports.
- Immediate elimination of Mexico's import licences on wheat with progressive tariff removal over 10 years.
- Immediate elimination of Mexico's import licences on barley and table potatoes. Immediate duty-free access for specified quantities of barley and table potato exports, and barrier-free access after 10 years.
- Immediate elimination of Mexico's tariffs on dried peas, some dried beans, mustard flour, millet, lentils, honey, rye and buckwheat; other tariffs will be generally phased out over 5 or 10 years.
- Improved access to Mexico for pork, apples and potato products, with barrier-free access after 10 years.
- On exports to Mexico, an understanding that Canada and the U.S. will not use export subsidies except where competition is subsidized.
- Removal by Canada of restrictions on the import of Mexican wheat and barley, beef and margarine.
- Canada will impose special tariffs to prevent sudden surges of imports of certain fresh, frozen, or prepared fruits and vegetables, and cut flowers over 10 years.
- Agreement by all three countries not to use health and sanitary regulations as disguised trade barriers.
- Distinctive recognition and immediate elimination of Mexican tariff on Canadian whisky.
- Eight-year phase-out of Canadian and Mexican tariffs on beer.

BENEFITS FOR CANADA

- Whereas 85% of agriculture trade from Mexico already enters Canada duty free, Mexico maintains high import duties and import restrictions on many food products. The NAFTA will correct this imbalance.
- Mexico is unable to produce all its own foodstuffs, due to limited arable land base and increasingly restricted water supply. This presents opportunities for Canadian exporters.
- As Mexico's standard of living improves, imports of a wide range of agri-food products are likely to increase.
- New market opportunities for Canadian industry in wheat, barley, pork, lentils, canary seed, berries and apples, potatoes and potato products.

THE MEXICAN MARKET

- In 1990, the Mexican market for food and beverage products was $39.5 billion.
- Mexico imports $5-billion worth of food and beverage products.
- It is estimated that the market for imported food and beverages will grow as much as 30-40% per year over the next five years, providing many opportunities for Canadian exporters.

CANADIAN EXPORT INTERESTS IN MEXICO

- Fish and shellfish
- Wheat, barley and oilseeds
- Pork and pork products
- Potatoes and potato products
- Canary seed, dried beans and peas

COMMONLY ASKED QUESTIONS

How can Canadian fruit and vegetable producers compete against Mexico with its longer growing season and lower wages?

Mexican fruit and vegetable exports to Canada are small and most of them are already entering duty free during the winter months, when Canada has to import fresh produce. Tariffs for Canada's sensitive fruits and vegetables and flowers will be phased out over 10 years. The most sensitive sectors will also benefit from a special safeguard which will trigger automatically if imports exceed specified volumes. NAFTA will provide export opportunities for Canadian temperate-climate fruits (apples, blueberries) and potatoes and potato products.

NAFTA AND THE FORESTRY INDUSTRY

THE CANADIAN INDUSTRY

- The forestry industry is important in British Columbia, Ontario, Alberta, Quebec, New Brunswick and Newfoundland.
- The industry is the principal employer in over 350 communities and provides jobs for over 250,000 people.
- Canada exported approximately $20-billion worth of forest products in 1991.

WHAT'S IN THE AGREEMENT

- While one of Mexico's most sensitive sectors, Canada gained early elimination of Mexico's duties on a number of wood, pulp and paper products and the elimination of all duties within 10 years on all forestry products.
- Immediate tariff phase-out for chemical pulp, softwood lumber for timber frame construction and mouldings, shakes and shingles, beech lumber, veneers, and wooden prefabricated houses.
- Five-year phase-out of tariffs for maple, fibreboards and railway ties.
- Early access to Mexico for some newsprint, coated and uncoated paper, and kraft and specialty paper.
- Five to ten-year phase-out on most primary papers, ten-year phase-out on converted papers.
- Better access to government procurement contracts for goods, including building and paper products.

BENEFITS FOR CANADA

- Markets for Canadian exports will improve. Canada already supplies 10% of the $1-billion Mexican market for imported wood and paper products.
- With the phase-out of duties, Canadian exports will have a competitive advantage over offshore suppliers, particularly in pulp, newsprint, fine paper and sanitary paper products.
- Plywood and veneer sheets are important export items for Canada, and the Mexican demand for such converted wood products is expected to grow by 11% per year.
- Mexican demand for pulp will grow by about 50% over the next 10 years.

THE MEXICAN MARKET

- Mexico imports almost $1 billion of forestry products annually and imports are expected to grow at a rate of 12% per year over the next five years.
- Good prospects exist in the areas of chemical wood pulp, fine paper, sanitary paper products (including diapers), softwood lumber, newsprint, veneer and plywood.

CANADIAN EXPORT INTERESTS IN MEXICO

- Coniferous lumber
- Maple, ash or western red cedar beams/planks
- Veneer sheets and plywood panels
- Particle wood panels
- Shingles and shakes
- Chemical wood pulp
- Newsprint, fine paper and writing paper
- Sanitary paper products
- Prefabricated housing
- Other wood products

COMMONLY ASKED QUESTIONS

Will Mexico turn to the U.S. to meet its growing demand for wood and paper?

Canada, the world's leading exporter of wood and paper products, now competes with the U.S. in the Mexican market. The NAFTA will ensure Canada competes on the same basis as U.S. suppliers. The elimination of Mexican duties will also make Canadian exports more competitive compared with the Scandinavian countries, which have traditionally been selling to the Mexican market. Also, as U.S. suppliers export to the Mexican market, there is increased opportunity for Canada to export to the U.S.

Will the NAFTA resolve the Canada-U.S. dispute on softwood lumber?

Canada will continue to challenge the U.S. ruling on softwood subsidies through the dispute settlement provisions of the FTA and the GATT. The major issues of subsidy and countervail disciplines are being negotiated in the GATT and are therefore not addressed in the NAFTA. The NAFTA will contain dispute settlement provisions similar to those of the FTA.

NAFTA AND THE INDUSTRIAL EQUIPMENT INDUSTRY

THE CANADIAN INDUSTRY

- The industry employs 84,400 Canadians.
- Total production is valued at $10 billion a year.
- In 1991, Canada exported $2.6-billion worth of industrial equipment.
- Major exports include resource and construction equipment, filtering/purifying equipment, tractors, rubber and plastic processing equipment and moulds.

WHAT'S IN THE AGREEMENT

- Elimination of all Mexican and Canadian duties within 10 years for all industrial equipment.
- Early phase-out of Mexican duties on filtering and purifying equipment.
- Immediate elimination of Mexican tariffs on plastic processing machinery, packaging and wrapping machinery, paper and paperboard-making machinery, weighing devices, materials handling equipment and tractors -- Canadian export interests.
- Clearer and more precise rules of origin, narrowing the scope for disputes.
- Extension of duty drawback for two years beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods shipped into other NAFTA countries.
- Enhanced access to U.S. procurement contracts for industrial equipment industries, including contracts from the Rural Electrification Administration and U.S. Army Corps of Engineers.
- Canadian firms will for the first time have competitive access to purchases by PEMEX, the state-owned oil company, and CFE, Mexico's power utility.

BENEFITS FOR CANADA

- Traditionally, Mexico has had large imports of industrial equipment. Canadian products in this sector are well accepted in Mexico. A January 1992 trade fair in Monterrey was very successful -- over 200 Canadian exhibitors participated. Opportunities for Canadian firms are expected to increase with the NAFTA.
- Modernization and expansion of Mexican industries will provide new export opportunities for Canadian exporters of industrial equipment.

THE MEXICAN MARKET

- In 1990, the Mexican market for industrial products was over $6 billion.
- Mexico imports industrial equipment worth $3.9 billion.
- Overall, the Mexican market for industrial products is expected to grow by as much as 35% over the next five years.

CANADIAN EXPORT INTERESTS IN MEXICO

- Pulp and paper machinery
- Plastic injection and extruding equipment
- Blow moulding equipment
- Moulds for rubber and plastics
- Tractors, graders and loaders
- Mining equipment

COMMONLY ASKED QUESTIONS

Will Mexico move to allow greater access for Canadian-made oil and gas equipment?

While México maintains some investment restrictions in the energy sector, it has agreed to liberalize access to its market for oil and gas industrial equipment. Canadian oil field supply and service companies are world-class and have a great deal to offer the Mexican market.

In July 1991, Canada's Export Development Corporation signed a line of credit with PEMEX and we expect that this will encourage them to "buy Canadian." A plan for restructuring PEMEX as a consortium of seven enterprises has been proposed. This would increase the opportunities for Canadian suppliers of equipment and services.

NAFTA AND THE INFORMATION TECHNOLOGIES INDUSTRY

THE CANADIAN INDUSTRY

- The industry directly employs over 160,000 Canadians and is one of the fastest growing areas in the Canadian economy.
- The industry is based mainly in Ontario, Quebec and British Columbia.
- In 1991, Canada's exports of information technologies to all countries were valued at $10 billion.
- Canada's major exports include data-processing machines, accessories and parts, printed circuits, telecommunications equipment, cathode-ray tubes for colour television and computer video monitors.

WHAT'S IN THE AGREEMENT

- Elimination of all Mexican and Canadian duties within 10 years for information technologies products.
- Immediate elimination of tariffs on television and computer tubes, and most telecommunications equipment. Central switching apparatus and telephone sets will be phased out over five years, as will be printed circuit boards and televisions.
- Early tariff elimination on transmission apparatus.
- All parties agree to apply identical tariffs for computers, microelectronics and related equipment from non-NAFTA countries within 10 years.
- Continued protection of basic telecommunications networks and services. Elimination of Mexican trade barriers on enhanced telecommunications and computer services as of July 1995.
- Better access to a range of government procurement contracts for high-technology equipment in the Mexican and U.S. markets.
- Clearer and more precise rules of origin, narrowing the scope for disputes.
- Extension of duty drawback for two years beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods shipped into other NAFTA countries.

BENEFITS FOR CANADA

- Mexico relies on imported technology to cover its industries' growing needs for high-technology products and inputs.
- As a result of the liberalization and privatization of the telecommunications sector, there will be a demand for more modern equipment and services, which will provide increased export opportunities to Canadian exporters.
- Other Canadian products with good sales prospects in Mexico include electronic components and computer software for micro-computers.

THE MEXICAN MARKET

- Mexico imported $10.62-billion worth of products in this sector last year.
- The Mexican government and the private sector are dedicated to modernizing and upgrading Mexico's infrastructure, in order to develop a more sophisticated manufacturing capability and to improve its economic position.
- Overall, the Mexican market for imported technology products is expected to grow up to 20% per year over the next five years.
- Present Mexican imports are wide-ranging and include television receivers/video monitors/projectors, telecommunications equipment and parts, and data input and output units.

CANADIAN EXPORT INTERESTS IN MEXICO

- Data-processing machines, accessories and parts
- Telecommunications equipment and parts
- Printed circuits
- Cathode-ray tubes for computers and colour televisions
- Point of sale terminals

COMMONLY ASKED QUESTIONS

How will Canadian computer assembly firms be affected by the NAFTA rules of origin?

The rules of origin for computers will enable our industry to further integrate into a larger North American economy, while maintaining its global competitiveness. To further advance the interests of our industry, the three countries have agreed to match their external tariffs in 10 years, thereby eliminating the need for rules of origin. This is strongly supported by our computer industry.

NAFTA AND THE RECREATIONAL, HOUSEHOLD AND HEALTH-CARE PRODUCTS INDUSTRIES

THE CANADIAN INDUSTRY

- Canadian exports to all countries were valued at $3.7 billion in 1991.
- Exports include medical equipment; tapes and sound recordings; newspapers, journals and periodicals; boats and canoes; furniture, books and coins; and sporting and camping goods.

WHAT'S IN THE AGREEMENT

- Elimination of all Mexican and Canadian tariffs within 10 years.
- Immediate phase-out of Mexican duties for most health and medical equipment. Five-year phase-out for most sporting goods.
- 10-year phase-out of Canadian duties for most furniture, toys, brooms, brushes and cosmetics.
- Immediate phase-out of Canadian tariffs for many products not made in Canada, such as toasters and hair dryers.
- Clearer and more precise rules of origin, narrowing the scope for disputes.
- Canada retains the right to maintain high health and safety standards.

BENEFITS FOR CANADA

- The newly opened Mexican market for these industries encompasses a variety of product categories beneficial to Canada.
- Mexico's growing young urban population, enjoying higher incomes generated by enhanced economic conditions, has a marked preference for imported products.
- The elimination of import restrictions and the favourable image of imported consumer and household products will provide new opportunities for Canadian business.

THE MEXICAN MARKET

- In 1991, Mexico imported $6.3-billion worth of recreational, household and health-care products.
- Growth potential is considerable given Mexico's growing young urban population. (Population: 85 million, of which 70% are under 30 years old.)
- It is estimated that the market for products in this sector will grow by more than 50% over the next five years.
- Mexico imports a wide range of consumer products including books, magazines, tapes, video games, newspapers and other periodicals and journals, perfumes and other cosmetics, and motorized toys. Many of these represent potential for Canadian exporters.

CANADIAN EXPORT INTERESTS IN MEXICO

- Photographic and cinematograph film
- Personal hygiene products
- Office supplies (envelopes, diaries, address/telephone books, binders, folders, file covers)
- Medical and hospital equipment

COMMONLY ASKED QUESTIONS

Canada is known for the high quality of many of its consumer and health-care products. Is there a risk that Canada's high technical standards will be lowered to those of Mexico?

No. On the contrary, the NAFTA ensures the right of each country to preserve existing standards and technical regulations and to adopt new ones that are more stringent than international standards. Harmonization of standards does not imply accepting either the lowest common denominator or the middle ground. The NAFTA standards chapter calls for co-operation in the enhancement of the protection of human, animal and plant life, and of the environment, and provides the impetus for Mexico to raise its standards.

Will the NAFTA benefit Canadian consumers?

Yes. Removing tariffs will reduce costs not only for Canadian consumers but also for Canadian manufacturers.

NAFTA AND THE TEXTILES, APPAREL, LEATHER AND FOOTWEAR INDUSTRIES

THE CANADIAN INDUSTRY

- These industries directly employ more than 178,000 people.
- Canada is internationally competitive in the area of designer fashions, outerwear, work and safety footwear, and many fibres, yarns, fabrics and industrial textiles.
- The industries are important to the economies of Ontario, Quebec and Manitoba, as well as to British Columbia and Nova Scotia.
- In 1991, Canada's total exports of textiles, apparel, leather and footwear to all countries were valued at $1.9 billion. Major exports include cowhides, fur skin accessories, mink fur skins, synthetic fibres, wool suits and tire cord fabric.
- Over 80% of Canada's apparel exports are to the U.S. market.
- Since the Free Trade Agreement (FTA), apparel exports to the U.S. have increased by 60% and fabric exports by 15%, yarn exports have more than doubled and fibre exports have increased by 50%.

WHAT'S IN THE AGREEMENT

- 10-year tariff phase-out for most apparel, footwear and leather goods.
- Eight-year phase-out for most textile goods.
- Changes in rules of origin for apparel and certain textiles are offset by larger tariff rate quotas, which extend preferential tariffs to goods that do not meet the rules.
- These special quotas are now made permanent and subject to annual growth rates.
- Extension of duty drawback for two years beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods shipped into other NAFTA countries.

BENEFITS FOR CANADA

- Improved quota access to U.S. for apparel and textile products, in some cases more than doubling current FTA levels.
- 10-year adjustment period for Canada's apparel and footwear industries.

THE MEXICAN MARKET

- In 1990 the total Mexican market for textiles, apparel, leather and footwear products was $10.5 billion.
- Mexico currently imports $1.4-billion worth of products.

CANADIAN EXPORT INTERESTS IN MEXICO

- High-end men's and women's clothing
- Work wear
- Industrial and geotextiles
- Textiles for the auto industry
- Apparel fabrics

COMMONLY ASKED QUESTIONS

Will textile and apparel manufacturing operations in the maquiladoras adversely affect workers in our industry?

We are confident about our industry's ability to compete. The Mexican apparel industry produces cheaper, lower-quality items, while Canada's industry is moving into high-quality, designer apparel. Canada also has the advantage of state-of-the-art equipment and technology.

By eliminating tariffs over 10 years, we will give our apparel manufacturers time to adjust. Canada's apparel imports from Mexico in 1990, including from the maquiladoras, represented only 0.5% of our total apparel imports.

NAFTA AND THE TRANSPORTATION SERVICES INDUSTRY

THE CANADIAN INDUSTRY

- The Canadian trucking industry employs about 130,000 people, with revenues exceeding $10 billion. The industry transports about two-thirds of all Canada-U.S. trade.
- The rail industry employs 63,000 workers, accounting for over 90% of all freight revenues in Canada.
- The marine industry employs 26,000 Canadians, with revenue totalling $62 billion.
- Canadian specialty air operations include helilogging, surveying/mapping, firefighting, spraying, forest management, sightseeing and flight training, generating about $300 million in revenue.
- The intercity bus industry employs 4,200 Canadians. The industry provides services to about 3,000 communities in Canada. Charter and tour operations account for about 15% of the industry.

WHAT'S IN THE AGREEMENT?

- Greater freedom by Canada to provide tour bus and trucking services into Mexico.
- Clearer immigration rules for operators of international transportation services.
- Gradual removal of all Mexican foreign ownership restrictions on international trucking firms over a 10-year period.
- Commitment to harmonize operating and safety standards.
- Commitment to enhance environment and safety standards.
- Trilateral liberalization of trade in specialty air services.
- Agreement between Canada and Mexico to maintain their relatively open international maritime shipping services.

BENEFITS FOR CANADA

- Easier shipment of goods by land in North America.
- Gradual phasing-out of Mexican investment restrictions, giving Canadian carriers time to develop long-range business plans, such as expanding fleets and routes across the continent.
- Canadian firms have the same competitive opportunities as their U.S. and Mexican counterparts.
- Canadian truckers can carry goods to the U.S., pick up cargo for Mexico, and make the return trip carrying cargo to both the U.S. and Canada.
- Clearer rules for ship repairs of U.S. vessels in Canadian shipyards.
- Canadian operating and safety standards are maintained.

THE MEXICAN MARKET

- Mexican domestic land transport regulations were dramatically liberalized in January 1990, leading to increased competition and improved transport services inside Mexico.
- The publication **Transportation Services Between Canada and Mexico** is available from the Transportation Services and Communications Division at External Affairs and International Trade Canada. It addresses the distribution and transportation needs of Canadian exporters to Mexico. It can be obtained by calling (613) 995-7554.

CANADIAN EXPORT INTERESTS IN MEXICO

- Specialty air services (aerial mapping/surveying)
- Increased access for trucking industry and tour bus operators in Mexican markets

COMMONLY ASKED QUESTIONS

Does this mean that Mexican and American truckers can compete with Canadians on domestic routes?

No. While the NAFTA provides for free access within the free-trade area for international routes, domestic carriers within each country will maintain exclusive rights to haul domestic cargo on domestic routes.

Will changing the rules on international cargo cause difficulty for the Canadian trucking industry?

No, because Canada currently maintains an open regime vis-à-vis both Mexico and the U.S. Canada therefore will not have to make any regulatory changes, unlike Mexico and the U.S., both of which will have to change their regimes.

What does the NAFTA say about air transportation?

The NAFTA deals only with specialized air services, such as aerial mapping and aircraft repair services. The NAFTA does not include passenger and cargo services. Canada is holding separate "Open Skies" negotiations with the U.S. on transborder air service.

Did the U.S. agree to open the American maritime shipping transportation sector. Were we successful?

No. Canada aggressively pursued an opening of the maritime shipping sector. The U.S. did not agree to open this sector. However, in spite of the U.S. position, Canada did strike an agreement with Mexico for international shipping which excludes the U.S.

NAFTA AND THE URBAN TRANSIT AND RAIL EQUIPMENT INDUSTRIES

THE CANADIAN INDUSTRY

- Total employment in this industry sector is 8,000.
- In 1991, Canada exported $536-million worth of urban transit and rail products.
- Canada's major exports in this area include buses, locomotives and parts, urban rail equipment and railway rolling stock.

WHAT'S IN THE AGREEMENT

- Elimination of all Mexican and Canadian duties within 10 years for all urban transit and rail equipment.
- An integrated North American market for urban transit and rail products. This provides an advantage over European suppliers.
- Immediate elimination of Mexico's tariffs on urban rail equipment, freight cars, locomotives and rolling stock parts, which are export interests for Canadian manufacturers.
- Freedom for rail cars to exit the U.S. and Mexico at convenient points, instead of only at the point of entry.
- Extension of duty drawback for two years beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods shipped into other NAFTA countries.

BENEFITS FOR CANADA

- Canadian exporters to Mexico will have a competitive advantage over offshore suppliers.
- Mexico City plans to spend US$180 million on upgrading its metro system. Canadian railway equipment manufacturers will be interested in this and in other Mexican modernization programs that represent potential market opportunities.
- Mexican capability in this area is not strong. If the Mexican government continues to invest in the country's infrastructure, additional opportunities will arise for Canadian business.

THE MEXICAN MARKET

- Mexico currently imports products worth $130 million in this sector.
- It is estimated that the market for imported urban transit and rail equipment will grow by as much as 10-18% over the next five years, providing considerable opportunities for Canadian business.

CANADIAN EXPORT INTERESTS IN MEXICO

- Urban rail equipment
- Diesel-electric rail locomotives
- Locomotive parts
- Railway rolling stock and parts
- Steel rail
- Buses

COMMONLY ASKED QUESTIONS

Will the NAFTA enhance the Canadian ability to sell rail equipment in the Mexican market?

With the rapid urban growth of the Mexican population in all major centres, significant demand for reliable and environmentally clean urban transit services has developed. Current Mexican capability in this area is not strong. Mexico's demand for quantities of steel rail, locomotives and spares, rolling stock and track machinery is growing steadily and these products are in areas of Canadian strengths. The immediate elimination of duties on urban rail cars and most rail equipment will make it easier for Canadian companies to export to Mexico. Some Canadian rail equipment companies have already opened offices in Mexico to take advantage of the opportunities, and Bombardier has recently purchased the largest manufacturer of rail equipment.

NAFTA AND BRITISH COLUMBIA

WHAT'S IN THE AGREEMENT FOR THE BRITISH COLUMBIA ECONOMY

- Immediate elimination of Mexico's tariffs on coal, sulphur and some wood and paper including spruce-pine-fir (SPF) lumber for construction, softwood mouldings, shakes and shingles, log prefabricated houses, chemical pulp and some newsprint.
- Immediate elimination of Mexican tariffs on fish, including Pacific salmon.
- Import quotas for supply managed egg, poultry and dairy sectors maintained.
- Improved access for apples, raspberries and blueberries.
- Safeguards established to moderate sudden import surges of most sensitive fruits and vegetables.
- Immediate elimination of Mexican tariffs on most telecommunications equipment and future compatibility of telecommunications standards.
- Improved rules of origin for microelectronic components and products.
- Strong commitments to sustainable development, environmental protection and conservation. Recognition that NAFTA countries should not lower environmental standards to attract investment. Export opportunities for B.C. environmental equipment and services.
- Improved access to the developing Mexican market for professional services, including management, engineering, accounting and legal services.
- Provincially regulated professions encouraged but not forced to recognize credentials from other NAFTA countries.
- Rules to ease the temporary entry of business people and duty exemption for their accompanying tools and equipment.
- Access for specialty air services including aerial mapping, heli-logging and surveying to both the U.S. and Mexican markets.
- Better access to government procurement contracts including for construction materials, telecommunications equipment, high tech software, and consulting engineering. Procurement at the provincial and municipal level is unaffected by the NAFTA.
- Clearer rules for repairs of U.S. vessels in Canadian shipyards.
- Clearer disciplines on energy regulators to avoid discriminatory actions against contractual arrangements, benefitting Canadian gas exporters.
- Comprehensive provisions on intellectual property, including pharmaceuticals, in line with the recent extension of patent protection in Canada and consistent with General Agreement on Tariffs and Trade (GATT) proposals.
- Dispute settlement procedures have been strengthened and improved, including institutional provisions to limit the possibility of unilateral actions.

BRITISH COLUMBIA - KEY EXPORT SECTORS TO WORLD MARKETS

Wood, paper, fish, primary metals, mining products, food products, aluminum, chemicals, coal, electrical and electronics products, machinery, consulting services, and pharmaceuticals.

POTENTIAL BRITISH COLUMBIA EXPORT INTERESTS IN MEXICO

Lumber, veneer, plywood, pulp, paper, sulphur, coal, copper, aluminum, honey, raspberries, blueberries and apples, salmon, urea, parts for generating boilers, air or gas compressors, vacuum pumps, furnaces, freezers, heat-exchange units, mining, construction and agricultural equipment, poultry incubators, industrial freezers, furnaces and trucks.

NAFTA OPPORTUNITIES FOR BRITISH COLUMBIA

- **Forest Products and Equipment**
  Early elimination of Mexican tariffs on some wood, pulp and paper products will make B.C.'s forest product industry more competitive. It is expected that the Mexican demand for pulp will grow by about 50% over the next 10 years. The Mexican forestry equipment and services market is expected to be worth $55 million by 1994. Imports accounted for 84% of the market in 1989. With the NAFTA, B.C. companies will be positioned to expand their market share.

- **Fish**
  The Mexican market for fish and shellfish products is expected to increase at an average annual rate of 3.5% to reach $1.4 billion by 1994. Immediate elimination of duties on fresh and frozen Pacific salmon will result in greater opportunities for B.C.'s fish industry.

- **Mining Equipment and Services**
  It is estimated that a NAFTA would stimulate a 13.2% increase in Mexican mining production over its first 10 years, simply from increased economic growth and demand for basic minerals. B.C. companies stand to benefit from this increase.

- **Industrial Machinery and Technology**
  Mexico's capital goods market is expected to grow 8% a year during the next five years as Mexican manufacturers improve productivity to compete under a NAFTA. B.C. firms in this sector will be well positioned to take advantage of this opportunity.

NAFTA AND ALBERTA

WHAT'S IN THE AGREEMENT FOR THE ALBERTA ECONOMY

- Clearer disciplines on energy regulators to avoid discriminatory actions against contractual arrangements, benefitting Canadian gas exporters.
- Immediate elimination of Mexico's tariffs on many types of industrial equipment, such as well-displacement pumps and filtering and purifying equipment, all export interests for Alberta.
- Five-year elimination of Mexican tariffs on most oil field equipment.
- Immediate elimination of Mexican tariffs on most telecommunications equipment. Future compatibility of telecommunications equipment standards.
- Import quotas for supply managed egg, poultry and dairy sectors maintained.
- On sugar, Canada will match Mexican tariffs.
- Immediate elimination of Mexico's import licences on wheat, with progressive tariff removal over 10 years.
- Immediate elimination of Mexico's import licence for barley; immediate duty-free access for specified quantities with barrier-free access on barley after 10 years.
- Immediate elimination of Mexican tariffs on dried peas, mustard flour, millet, honey, lentils, rye, buckwheat and horses. Improved access for pork and canola products, with barrier-free access after 10 years.
- Improved access for oil and gas services in Mexico.
- Access for specialty air services including aerial mapping and surveying to both the U.S. and Mexican markets.
- Improved access to the developing Mexican market for professional services, including management, engineering, accounting and legal services.
- Provincially regulated professions encouraged but not forced to recognize credentials from other NAFTA countries.
- Rules to ease the temporary entry of business people and duty exemption for their accompanying tools and equipment.
- Comprehensive provisions on intellectual property, including pharmaceuticals, in line with the recent extension to patent protection in Canada and consistent with General Agreement on Tariffs and Trade (GATT) proposals.
- Strong commitment to sustainable development, environmental protection and conservation. Recognition that NAFTA countries should not lower environmental standards to attract investment. Export opportunities for Alberta environmental equipment and services.
- Better access to government procurement contracts including for oil and gas equipment, as well as drilling, exploration and production contracts; professional, consulting engineer, and architectural services; and telecommunications equipment. Procurement at the provincial and municipal levels is unaffected.
- Dispute settlement procedures have been strengthened and improved, including institutional provisions to limit the possibility of unilateral actions.

ALBERTA - EXPORT SECTORS TO WORLD MARKETS

Petroleum and natural gas products and bi-products such as sulphur, agriculture and food products, chemicals, paper, wood, mining products, and transportation and telecommunications equipment.

POTENTIAL ALBERTA EXPORT INTERESTS IN MEXICO

Natural gas, petrochemicals and sulphur, telecommunications equipment, potassium chloride, ammonium sulphate, softwood lumber, magnesium, environmental equipment, Canadian whiskey, wheat, barley, oats, canola, canary seed, peas, alfalfa meal, vegetable oils, pork, beef, processed food and horses.

NAFTA OPPORTUNITIES FOR ALBERTA

- **Oil and Gas Equipment and Services**
  The Mexican state-owned oil company Petroleos Mexicanos will be more open to foreign participation in service and drilling contracts. The Export Development Corporation has financing programs available to assist Canadian suppliers in taking advantage of these opportunities. A number of Alberta companies can expect to benefit.

- **Agricultural and Food Products**
  Mexican agri-food imports expected to grow by 30%-40% per year. Strong prospects for products such as wheat, barley, canola, specialty crops, red meats and breeding stock. With a rising Mexican standard of living, imports of bulk commodity and specialty food items is expected to increase. The Alberta food processing industry can expect to benefit from barrier-free entry.

- **Telecommunications Industry**
  Mexican demand in the telecommunications industry is expected to grow due to the privatization of TELMEX and the liberalization of the overall communications and computer markets. The Mexican market for telecommunications products is expected to grow 42% by the year 2000. Improved rules of origin for telecommunications products will be beneficial to this sector.

- **High Technology and Pollution Abatement**
  Alberta has spawned a thriving nucleus of small business, producing a range of products from heart valves to environmental monitoring and control equipment. These small, specialized, high-technology firms are ideally placed to offer innovative products to the Mexican market as tariffs are phased out.

NAFTA AND SASKATCHEWAN

WHAT'S IN THE AGREEMENT FOR THE SASKATCHEWAN ECONOMY

- Immediate elimination of Mexican tariffs on potash and other fertilizers, chemical pulp, some paper products, most agricultural equipment and a wide variety of industrial and electrical machinery and equipment -- all export interests to Saskatchewan.
- Immediate elimination of Mexican tariffs on most telecommunications equipment and future compatibility of telecommunications standards.
- Import quotas maintained on supply managed egg, poultry and dairy sectors.
- Immediate elimination of Mexican tariffs on dried peas, some dried beans, mustard flour, millet, honey, lentils, rye and buckwheat.
- Immediate elimination of Mexico's import licences on wheat, with progressive tariff removal over 10 years.
- Immediate elimination of Mexico's import licence for barley; immediate duty-free access for specified quantities with barrier-free access on barley after 10 years.
- Improved access for pork, with barrier-free access after 10 years.
- Strong commitment to sustainable development, environmental protection and conservation. Recognition that NAFTA countries should not lower environmental standards to attract investment.
- Improved access to the developing Mexican market for professional services. Provincially regulated professions encouraged but not forced to recognize credentials from other NAFTA countries.
- Rules to ease the temporary entry of business people and duty exemption for their accompanying tools and equipment.
- Better access to government procurement contracts for suppliers of goods, services and construction. Procurement at the provincial and municipal levels is unaffected by the NAFTA.
- Dispute settlement procedures have been strengthened and improved, including institutional provisions to limit the possibility of unilateral actions.

SASKATCHEWAN - KEY EXPORT SECTORS TO WORLD MARKETS

Agricultural and food products, mining products, fertilizers, petroleum, and agricultural and resource machinery.

POTENTIAL SASKATCHEWAN EXPORT INTERESTS IN MEXICO

Wheat, barley, oats, millet, canary seed, peas, lentils, alfalfa meal, honey, vegetable oils, pork, beef, milk powder, potash, potassium chloride and sulphate, telecommunications equipment and wire, construction and agricultural equipment, and printed circuits.

NAFTA OPPORTUNITIES FOR SASKATCHEWAN

- **Potash**
  During the last four years, Saskatchewan has exported an average of more than $5 million per year of potash. Under the NAFTA, Mexican tariffs will be eliminated immediately, resulting in opportunities for the province to increase its exports in this area.

- **Agricultural Industries**
  Traditionally, Saskatchewan has been Canada's largest exporter of wheat and canola oil seeds to Mexico. It is estimated that the Mexican market for these products is at least $100 million. Firms such as Newfield Seeds and Naber Seeds Inc. are currently working actively to increase their market shares in Mexico. Immediate phase-out of tariffs on dried peas, some dried beans, mustard flour, millet, honey, lentils, rye and buckwheat, as well as immediate conversion of Mexican import licences on wheat to a low tariff, will improve access for Saskatchewan companies and provide a competitive advantage.

- **Agricultural Equipment**
  Early phase-out of Mexican tariffs will provide greater access and a competitive advantage for Saskatchewan manufacturers of agricultural equipment.

- **Ferrous and Non-Ferrous Metals**
  Mexico's overall imports in this sector amount to almost $2 billion a year. This is expected to increase as much as 14% a year over the next five years. Exports of steel products from Saskatchewan have particular potential for growth in Mexico.

NAFTA AND MANITOBA

WHAT'S IN THE AGREEMENT FOR THE MANITOBA ECONOMY

- Immediate elimination of Mexico's import licence on wheat, with progressive tariff removal over 10 years.
- Immediate elimination of Mexico's import licence on barley; immediate duty-free access for specified quantities with barrier-free access after 10 years.
- Immediate elimination of Mexican tariffs on dried peas, some dried beans, mustard flour, millet, honey, lentils, rye and buckwheat.
- Import quotas maintained on supply managed poultry egg, and dairy sectors.
- On sugar, Canada will match Mexican tariffs.
- Safeguards established to moderate sudden import surges of most sensitive fruits and vegetables.
- Improved Mexican market opportunities for oilseed products and pork, with barrier-free access after 10 years.
- Early elimination of Mexican tariffs on most agricultural equipment including the immediate elimination of tariffs on tractors, medical equipment, industrial/electrical machinery and equipment, and on some forestry products -- all export interests for Manitoba.
- The inclusion of land transportation (trucking) and specialty air services such as aerial mapping and surveying.
- Increases in the apparel quotas giving preferential access to the U.S. market for Canadian goods that do not meet the new rules of origin.
- Ten-year tariff phase-out for apparel imports from Mexico; eight years for textiles.
- Comprehensive provisions on intellectual property, including pharmaceuticals, in line with the recent extension to patent protection in Canada and consistent with General Agreement on Tariffs and Trade (GATT) proposals.
- Strong commitment to sustainable development, environmental protection and conservation. Recognition that NAFTA countries should not lower environmental standards to attract investment.
- Improved rules of origin for many products, narrowing the scope for disputes.
- Improved access to the developing Mexican market for professional services. Provincially regulated professions encouraged but not forced to recognize credentials from other NAFTA countries.
- Rules to ease the temporary entry of business people and duty exemption for their accompanying tools and equipment.
- Better access to government procurement contracts for suppliers of goods, services and construction, including construction materials. Procurement at the provincial and municipal levels is unaffected by the NAFTA.
- Dispute settlement procedures have been strengthened and improved, including institutional provisions to limit the possibility of unilateral actions.

MANITOBA - KEY EXPORT SECTORS TO WORLD MARKETS

Agriculture and food products, transportation equipment, primary metals, machinery, pulp, paper and wood.

POTENTIAL MANITOBA EXPORT INTERESTS IN MEXICO

Wheat, barley, rye, millet, canary seed, dried peas, lentils, potatoes, vegetable oils, pork, beef, automotive parts, diesel-powered buses, nickel, copper, wire, mining, construction and agricultural equipment, paper, lumber and printed circuits.

NAFTA OPPORTUNITIES FOR MANITOBA

- **Agriculture/Food Products**
  Elimination of tariffs and/or import licence on wheat, barley, canola, dried peas, dried beans and pork will lead to increased opportunities for Manitoba exporters. A number of Manitoba producers in this area are already active in the Mexican market (i.e., Northern Sales Co. exports grain while XCAN Grain Ltd. is involved in the wheat and canola market). Special safeguards on the most sensitive fruits and vegetables will allow Manitoba producers of these products time to adjust to the changing marketplace.

- **Forestry Products**
  It is expected that the Mexican demand for pulp will grow by about 50% over the next 10 years. At the same time, Mexico's duties on wood and pulp and paper products are being eliminated. The pulp and paper industry in Manitoba will be able to benefit from this increase and take advantage of new market opportunities.

- **Transportation Equipment and Services**
  The Mexican market for imported urban transit and rail equipment is expected to grow by as much as 10%-18% over the next five years. An integrated North American market for these products will provide an advantage for Manitoba companies over non-NAFTA suppliers. One of the urban transit companies already active in Mexico is New Flyer Industries of Winnipeg. There will be greater freedom to provide trucking services into Mexico.

NAFTA AND ONTARIO

WHAT'S IN THE AGREEMENT FOR THE ONTARIO ECONOMY

- Elimination within five years of Mexican tariffs on key Ontario export interests, including most auto parts, nickel and nickel products, maple and beech lumber, pulp and a wide variety of industrial, electrical and telecommunications machinery and equipment.
- Clear and more precise rules of origin, particularly in calculating North American content for autos and auto parts, and for telecommunications equipment, electrical and industrial equipment, computers and other high tech equipment.
- Canada-U.S. Auto Pact remains intact.
- Extension for two years on duty drawback beyond the Canada-U.S. Free Trade Agreement (FTA) expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods shipped into other NAFTA countries.
- Immediate elimination of Mexican tariffs on all telecommunications equipment except for a five-year phase-out for central switching equipment apparatus and telephone sets. Future compatibility of telecommunications standards and opening of the Mexican market for enhanced telecommunications services.
- The inclusion of land transportation (trucking) and specialty air services such as aerial mapping and surveying.
- Improved access for financial institutions and consulting services in the developing Mexican market.
- Improved access to the developing Mexican market for professional services, including management, engineering, accounting and legal services.
- Provincially regulated professions encouraged but not forced to recognize credentials from other NAFTA countries.
- Rules to ease the temporary entry of business people and duty exemption for their accompanying tools and equipment.
- Strong commitment to sustainable development, environmental protection and conservation. Recognition that NAFTA countries should not lower environmental standards to attract investment. Export opportunities for Ontario environmental equipment and services.
- Import quotas on supply managed egg, poultry and dairy sectors maintained.
- Improved access to Mexico for agricultural products, including processed foods, pork, frozen corn and tobacco.
- Safeguards established to moderate sudden import surges of most sensitive fruits and vegetables.
- Increases in the apparel and textiles quotas, giving preferential access to the U.S. market for Canadian goods that do not meet the new rules of origin.
- 10-year tariff phase-out for apparel imports from Mexico; eight years for textiles.
- Comprehensive provisions on intellectual property, including pharmaceuticals, in line with the recent extension to patent protection in Canada and consistent with General Agreement on Tariffs and Trade (GATT) proposals.
- Better access to government procurement contracts for suppliers of a range of industrial and high technology goods; professional and business services, construction and construction materials. For the first time, Canadian contractors will have access to the U.S. Army Corp of Engineers for construction contracts worth $8.9 billion per year. Procurement at the provincial and municipal levels is unaffected by NAFTA.
- Dispute settlement procedures have been strengthened and improved, including institutional provisions to limit the possibility of unilateral actions.

ONTARIO - KEY EXPORT SECTORS TO WORLD MARKETS

Transportation equipment, primary and fabricated metal, machinery and electrical equipment, electronic products, industrial chemicals, food products, wood and paper, aerospace products, pharmaceuticals, consulting engineering, financial services, and computer and telecommunications services.

POTENTIAL ONTARIO EXPORT INTERESTS IN MEXICO

Cars, auto parts, railway cars and parts, radioactive isotopes, concrete pumps, freezers, centrifuges, nickel, gold, copper, aluminum products, iron ore, chlorine, urea, ammonium sulphate, synthetic rubber, textiles, lumber, paper, iron and steel product, wire, magnesium, poultry incubators, mining equipment, construction and agricultural equipment, pork, beef, honey, peas, lentils, tobacco, Canadian whiskey and beer, canary seed, trucks and buses, cathode-ray television picture tubes, and radio and television transmission apparatus.

NAFTA OPPORTUNITIES FOR ONTARIO

- **Autos**

  NAFTA improves and clarifies the Canada-U.S. Free Trade Agreement (FTA), preserves the Canada-U.S. Auto Pact and improves access to the Mexican market by removing barriers to Canadian exports. Mexico -- with the continent's fastest growing auto market -- will eliminate within 10 years its protectionist auto policy, which has restricted access for vehicles and has forced parts and assembly investment in Mexico. As the Mexican market continues to grow, significant opportunities will arise for the export of vehicles and parts.
- **Telecommunications Industry**

  Telecommunications is one of Ontario's largest export industries. Mexican demand is expected to grow due to the privatization of TELMEX and the liberalization of the overall communications and computers markets. The Mexican market for telecommunications products is expected to grow 42% by the year 2000. Ontario-based companies such as Northern Telecom and Telesat are already active in the Mexican market. Increased liberalization provides greater opportunities for these and other telecommunications firms. The opening of the Mexican market for enhanced telecommunications services will also provide expanded opportunity for Ontario- based computer services firms.
- **Industrial Machinery**

  Mexico has a strong need to import capital goods, and Canadian products are well-accepted. With phase-out within five years of Mexican duties on such products as filtering and purifying equipment, plastic-processing machinery, packaging and wrapping machinery, among others, opportunities for Canadian firms are expected to increase.
- **Food and Beverage Industry**

  With rising Mexican standards of living, imports of specialty food items will increase. Ontario is well-positioned to benefit from the increasingly affluent Mexican demand for packaged foods. Companies such as Dare Foods and Ault Foods are already exporting to Mexico. They and other such companies can expect continued growth in this particular sector. Mexico's markets for pork and frozen corn will expand.

NAFTA AND QUEBEC

WHAT'S IN THE AGREEMENT FOR THE QUEBEC ECONOMY

- Immediate elimination of Mexican tariffs on key Quebec exports such as some newsprint, some coated and uncoated paper, chemical pulp, softwood lumber for construction, aircraft, urban rail equipment, medical products and a variety of industrial equipment.
- Clear and more precise rules of origin, particularly in calculating North American content for autos and auto parts.
- Canada-U.S. Auto Pact remains intact.
- Extension for two years on duty drawback beyond the FTA expiry in 1994. This will be replaced in 1996 by a permanent duty refund system that will reduce input costs for Canadian manufacturers who still pay duties on goods shipped into other NAFTA countries.
- On telecommunications, immediate elimination of Mexican tariffs on all equipment except for central switching equipment and telephone sets, which will be phased out in five years. Future compatibility of standards, improved rules of origin and the opening of the Mexican market for enhanced telecommunications services.
- The inclusion of land transportation (trucking) and specialty air services such as aerial mapping and surveying.
- Increases in the apparel and textile quotas, giving preferential access to the U.S. market for Canadian goods that do not meet the new rules of origin.
- Ten-year tariff phase-out for apparel, most leather products and shoe imports from Mexico; eight years for textiles.
- Strong commitments to sustainable development, environmental protection and conservation. Recognition that NAFTA countries should not lower environmental standards to attract investment. Export opportunities for Quebec environmental equipment and services.
- Comprehensive provisions on intellectual property, including pharmaceuticals, in line with the recent extension of patent protection in Canada and consistent with General Agreement on Tariffs and Trade (GATT) proposals.
- Improved access for financial institutions in the developing Mexican market.
- Improved access to the developing Mexican market for professional services, including management, engineering, accounting, computer and legal services, and trucking.
- Provincially regulated professions encouraged but not forced to recognize credentials from other NAFTA countries.
- Rules to ease the temporary entry of business people and duty exemption for their accompanying tools and equipment.
- Import quotas on supply managed egg, poultry and dairy sectors maintained.
- Improved access to Mexico for agricultural products including pork and processed food products.
- Safeguards established to moderate sudden import surges of most sensitive fruits and vegetables.
- Immediate elimination on tariffs for maple syrup.
- Clearer rules for repairs of U.S. vessels in Canadian shipyards.
- Better access to government procurement contracts for a range of industrial and high technology goods; telecommunications equipment and computers; and professional services, including consulting engineering. For the first time, Canadian suppliers of telecom equipment, power distribution and electrical equipment will have access to previously excluded contracts under the Rural Electrification Act. Procurement at the provincial and municipal levels is unaffected by NAFTA.
- Dispute settlement procedures have been strengthened and improved, including institutional provisions to limit the possibility of unilateral actions.

QUEBEC - EXPORT SECTORS TO WORLD MARKETS

Wood and paper, primary metals, electrical and electronics products, transportation equipment, mining products, chemicals, food products and non-electrical machinery, consulting engineering, computer services, financial services and enhanced telecommunications services.

POTENTIAL QUEBEC EXPORT INTERESTS IN MEXICO

Lumber, plywood, veneer, pulp, paper, iron ore, aluminum, gold, pharmaceuticals, cars, automotive parts, buses and trucks, subway and railway cars and parts, textiles, synthetic rubber, pork, maple syrup, mining, construction and agricultural equipment, poultry incubators, aluminum hydroxide, ethanediol, diethylene glycol, concrete pumps, centrifuges, alcoholic beverages and printed circuits.

NAFTA OPPORTUNITIES FOR QUEBEC

- **Forestry Products**

  The pulp and paper industry is Quebec's largest exporter. There is an expected increase of 50% in Mexican demand for pulp over the next 10 years. With the early phase-out of duties for some pulp and some paper products, opportunities will likely result from the NAFTA for specialty papers and newsprint. With the gradual elimination of tariffs, other paper products, such as sanitary papers, will increase their market share.

- **Transportation Equipment and Services**

  Tariff reduction in this area will lead to increased opportunities for the rail and urban transportation and the aircraft and aircraft parts manufacturers in this province. Bell Helicopter has already made inroads into the market through the sale of helicopters to the Mexican government. Bombardier has established an office in Mexico. There will be greater freedom to provide trucking services to Mexico, and agreement between Mexico and Canada to maintain their relatively open international maritime shipping services.

- **Agriculture/Food Products Industry**

  With a rising Mexican standard of living, imports of specialty food items will increase. Quebec is well-positioned to benefit from the increasingly affluent Mexican demand for packaged foods. Mexican markets will be open to increased Canadian exports such as pork and processed foods. This will be of benefit to the Quebec industry.

- **Textiles and Apparel**

  Mexico currently imports $1.4-billion worth of products in this area. The NAFTA will provide improved access to the U.S. through larger quotas for apparel and textile products not meeting the rules of origin. Extension of duty drawback will reduce input costs for Quebec textile and apparel manufacturers.

- **Telecommunications Industry**

  The expected increase in Mexican demand in this area will provide opportunities for Quebec companies. The Mexican market for telecommunications products is expected to grow by 42% by the year 2000. Spar has already obtained contracts with PEMEX as well as other Mexican companies, predominantly in the areas of private satellite networks. The opening of the Mexican market for enhanced telecommunications services will also provide expanded opportunity for Quebec-based computer services firms.

NAFTA AND NEW BRUNSWICK

WHAT'S IN THE AGREEMENT FOR THE NEW BRUNSWICK ECONOMY

- Immediate elimination of Mexican tariffs on fish and shellfish, including Atlantic salmon, crab, and some dried and smoked fish.
- Five-year Mexican tariff phase-out for lobsters, scallops, mussels, oysters and prepared and processed fish.
- Elimination of the Mexican import licence on lobster.
- Early elimination of Mexican tariffs on some newsprint, veneer, maple lumber and pulp.
- Immediate elimination of Mexican tariffs on a wide variety of industrial/electrical machinery and equipment.
- Immediate elimination of Mexican tariffs on key metals.
- Import quotas maintained for supply managed egg, poultry and dairy sectors.
- Removal of Mexican tariffs and import licences for food and agricultural products, such as table potatoes, potato products and other processed foods.
- Clearer rules for repairs of U.S. vessels in Canadian shipyards.
- The inclusion of land transportation (trucking) and specialty air services such as aerial mapping and surveying.
- Improved access to the developing Mexican market for professional services, including management, engineering, accounting and legal services.
- Provincially regulated professions encouraged but not forced to recognize credentials from other NAFTA countries.
- Rules to ease the temporary entry of business people and duty exemption for their accompanying tools and equipment.
- Strong commitment to sustainable development, environmental protection and conservation. Recognition that NAFTA countries should not lower environmental standards to attract investment.
- Better access to government procurement contracts for suppliers of goods, services and construction such as building materials and professional services. Procurement at the provincial and municipal levels is unaffected by NAFTA.
- Dispute settlement procedures have been strengthened and improved, including institutional provisions to limit the possibility of unilateral actions.

NEW BRUNSWICK - EXPORT SECTORS TO WORLD MARKETS

Wood, paper, coal and mining products, agricultural and food products, fish, beverages and consulting services.

POTENTIAL NEW BRUNSWICK EXPORT INTERESTS IN MEXICO

Lumber, pulp, paper, potatoes, milk powder, pork, beef, honey, peas, lobster, crab, beer, potable water, copper, Atlantic salmon, herring, cod, scallops and haddock.

NAFTA OPPORTUNITIES FOR NEW BRUNSWICK

♦ **Forestry Products**
It is expected that the Mexican demand for pulp will grow by about 50% over the next 10 years. At the same time, Mexico's duties on wood and pulp and paper products are being eliminated. The pulp and paper industry, New Brunswick's top exporting industry, will be able to benefit from this increase and take advantage of new market opportunities.

♦ **Food Products Industry**
With a rising Mexican standard of living, imports of specialty food items is expected to increase. New Brunswick's McCain Foods has successfully developed a Mexican market for some of its packaged foods and frozen french fries, and they and other such companies can expect continued growth in this particular sector.

♦ **Fisheries Products**
The Mexican market for fish and shellfish products is expected to increase at an average annual rate of 3.5%, to reach $1.4 billion by 1994. In addition, early elimination of Mexican tariffs for most fish, including lobsters and other shellfish, as well as dried, prepared and smoked fish, will open doors for New Brunswick exports of these products. The elimination of the import licence for lobster, which was the major barrier to access the Mexican market, will also be beneficial to New Brunswick.

♦ **Non-Ferrous Metals**
Elimination of Mexico's duties on copper, lead, zinc and potash will make New Brunswick companies in this industry more competitive in Mexico. It is estimated that the market of Mexican import of ferrous, non-ferrous and fabricated materials will grow as much as 14% per year over the next five years. In 1990, this market was worth over $2 billion.

NAFTA AND NOVA SCOTIA

WHAT'S IN THE AGREEMENT FOR THE NOVA SCOTIA ECONOMY

- Immediate elimination of Mexican tariffs on fish and shellfish, including Atlantic salmon, crab, hake, haddock, and dried and smoked fish.
- Five-year Mexican tariff phase-out for lobster, scallops, mussels and oysters, and prepared and processed fish.
- Elimination of the Mexican import licence for lobster.
- Immediate elimination of Mexican tariffs on coal, railway rolling stock and parts, and a variety of industrial machinery and equipment -- all export interests for Nova Scotia.
- Import quotas maintained for supply managed egg, poultry and dairy sectors.
- Improved access to Mexico for apples, blueberries and processed food.
- Improved rules of origin for many types of electronic and electrical products.
- Clearer rules for ship repairs of U.S. vessels in Canadian shipyards.
- Increases in the apparel and textiles quotas, giving preferential access to the U.S. market for Canadian goods that do not meet the new rules of origin.
- Ten-year tariff phase-out for apparel imports from Mexico; eight years for textiles.
- Strong commitment to sustainable development, environmental protection and conservation. Recognition that NAFTA countries should not lower environmental standards to attract investment.
- Improved access to the developing Mexican market for professional services, including management, engineering, accounting and legal services.
- Provincially regulated professions encouraged but not forced to recognize credentials from other NAFTA countries.
- Rules to ease the temporary entry of business people and duty exemption for their accompanying products and equipment.
- Better access to government procurement contracts for suppliers of goods and industrial equipment, services and construction. Provincial and municipal procurement is not included in the NAFTA.
- Dispute settlement procedures have been strengthened and improved, including institutional provisions to limit the possibility of unilateral actions.

NOVA SCOTIA - EXPORT SECTORS TO WORLD MARKETS

Food products, paper, fish, mining products, coal, primary metal products, transportation equipment and consulting services.

POTENTIAL NOVA SCOTIA EXPORT INTERESTS IN MEXICO

Honey, lobster, salmon, scallops, haddock, crab, coal, railway cars and parts, and steel rails.

NAFTA OPPORTUNITIES FOR NOVA SCOTIA

- **Fisheries Products**
  The Mexican market for fish and shellfish products is expected to increase at an average annual rate of 3.5%, to reach $1.4 billion by 1994. In addition, the early removal of Mexican tariffs for fish, including lobsters and other shellfish, as well as dried, prepared and smoked fish, will open doors for Nova Scotia exports of these products. The elimination of the import licence for lobster, which was the major barrier to accessing the Mexican market, will also be beneficial to Nova Scotia.

- **Railway Equipment and Steel Rails**
  Mexico City alone is planning a $180-million upgrade to its subway system. Increased liberalization in this area will provide opportunities for Nova Scotia companies such as Trenton Works and Sydney Steel. Sydney Steel is already providing steel rails for the Mexican market. (At certain times this company has provided as much as 80% of Mexico's needs.)

- **Ferrous and Non-ferrous Metals**
  Mexico's overall imports in this sector amount to almost $2 billion a year. This is expected to increase by as much as 14% a year over the next five years. Tariffs on coal, the province's current top export, will be eliminated immediately with increased opportunities for Nova Scotia exports.

- **Forestry Industry**
  Early elimination of tariffs on some wood and pulp and paper products will make Nova Scotia's forest products industry more competitive in Mexico. It is estimated that the Mexican demand for pulp will grow by about 50% over the next 10 years.

- **Food Products**
  Mexican agri-food imports expected to grow by 30%-40% per year. With Mexico's rising standard of living, imports of both commodity and specialty food items are expected to increase. Provides new export opportunities for Nova Scotia agricultural producers and processors.

NAFTA AND PRINCE EDWARD ISLAND (P.E.I.)

WHAT'S IN THE AGREEMENT FOR THE P.E.I. ECONOMY

- Five-year phase-out of Mexican tariffs on lobsters, mussels, oysters, scallops, and prepared and processed fish.
- Immediate elimination of tariffs on most other fish and shellfish, including salmon, eels, hake, dried and smoked fish.
- Elimination of the Mexican import licence for lobster.
- Improved access for processed foods -- an export interest for P.E.I.
- Improved access to the Mexican market for table potatoes and potato products.
- Removal of the Mexican import licence for tobacco, elimination of duties within 10 years.
- Canadian import quotas maintained for supply managed egg, poultry and dairy sectors.
- Immediate elimination of tariffs on parts for agricultural equipment into Mexico.
- Strong commitment to sustainable development, environmental protection and conservation. Recognition that NAFTA countries should not lower environmental standards to attract investment.
- Improved access to the developing Mexican market for professional services. Provincially regulated professions encouraged but not forced to recognize credentials from other NAFTA countries.
- Rules to ease the temporary entry of business people and duty exemption for their accompanying tools and equipment.
- Dispute settlement procedures have been strengthened and improved, including institutional provisions to limit the possibility of unilateral actions.

P.E.I. - EXPORT SECTORS TO WORLD MARKETS

Food, agricultural products and fish.

POTENTIAL P.E.I. EXPORT INTERESTS IN MEXICO

Lobster, hake, scallops, haddock, crab, potatoes, breeding and dairy cattle, agricultural equipment parts, milk powder and tobacco.

NAFTA OPPORTUNITIES FOR P.E.I.

- **Agriculture**

  Mexican imports of agri-food products expected to increase by 30%-40% per year. Removal of Mexican tariffs and import licences on products such as table potatoes, potato products, and other processed foods are expected to increase opportunities in Mexico.

- **Fisheries Products**

  The Mexican market for fish and shellfish products is expected to increase at an average annual rate of 3.5%, to reach $1.4 billion by 1994. In addition, the early removal of Mexican tariffs for fish, including lobsters and other shellfish, as well as dried, prepared and smoked fish, will open doors for P.E.I. exports of these products. The elimination of the import licence for lobster, which was the major barrier to access the Mexican market, will also be beneficial to P.E.I.

- **Chemicals and Pharmaceuticals**

  The Mexican market in this sector is expected to grow by as much as 30% over the next five years. A number of island companies will be able to benefit as a result.

NAFTA AND NEWFOUNDLAND

WHAT'S IN THE AGREEMENT FOR THE NEWFOUNDLAND ECONOMY

- Improved access to the Mexican market for iron ore and harvesting and processing technologies for seafood and peat moss -- all Newfoundland export interests.

- Immediate elimination of Mexican tariffs on hake, salmon, herring, mackerel, haddock, dried and smoked fish. Tariffs on other fish, processed fish as well as lobsters, scallops and halibut, will be phased out over five years, except for tariffs on frozen fish fillets, which will be phased out over 10 years.

- Elimination of the Mexican import licence for lobsters and improved procedures for processing the importation of fish at the Mexican border.

- Canadian import quotas maintained for supply managed egg, poultry and dairy sectors.

- Immediate elimination of Mexican tariffs on some pulp and paper products, including chemical pulp and some newsprint.

- As in the Canada-U.S. Free Trade Agreement (FTA), provinces will retain restrictions on the export of unprocessed fish.

- Opening of the Mexican and U.S. market to specialty air services.

- Improved access to the developing Mexican market for professional services. Provincially regulated professions encouraged but not forced to recognize credentials from other NAFTA countries.

- Rules to ease the temporary entry of business people and duty exemption for their accompanying tools and equipment.

- Strong commitment to sustainable development, environmental protection and conservation. Recognition that NAFTA countries should not lower environmental standards to attract investment.

- Dispute settlement procedures have been strengthened and improved, including institutional provisions to limit the possibility of unilateral actions.

NEWFOUNDLAND - EXPORT SECTORS TO WORLD MARKETS

Wood and paper, fish products, mining products.

POTENTIAL NEWFOUNDLAND EXPORT INTERESTS IN MEXICO

Paper, salmon, herring, hake, lobster, scallops and haddock.

NAFTA OPPORTUNITIES FOR NEWFOUNDLAND

- **Forestry Products**

  It is expected that the Mexican demand for pulp will grow by about 50% over the next 10 years. The pulp and paper industry, Newfoundland's top exporting industry, will be able to benefit from this increase and take advantage of new market opportunities.

- **Fisheries Products**

  The Mexican market for fish and shellfish products is expected to increase at an average annual rate of 3.5%, to reach $1.4 billion by 1994. Increased liberalization of Mexican markets affecting this industry will eventually result in opportunities for Newfoundland and its fisheries.

NAFTA AND YUKON AND THE NORTHWEST TERRITORIES

WHAT'S IN THE AGREEMENT FOR THE YUKON AND THE NORTHWEST TERRITORIES ECONOMIES

- Immediate elimination of Mexican tariffs on dried and smoked fish.
- Immediate elimination of Mexico's duties on zinc, most ores, gold and copper.
- Immediate elimination of Mexican tariffs on furs, an export interest for Yukon and Northwest Territories.
- Opening of the Mexican and United States markets for specialty air services.
- Strong commitment to sustainable development, environmental protection and conservation. Recognition that NAFTA countries should not lower environmental standards to attract investment.
- Rules to ease the temporary entry of business people and duty exemption for their accompanying tools and equipment.
- Dispute settlement procedures have been strengthened and improved, including institutional provisions to limit the possibility of unilateral actions.

YUKON AND THE NORTHWEST TERRITORIES - POTENTIAL EXPORT INTERESTS IN MEXICO

Ferrous and non-ferrous metals, fish products, furs and fur products, Native art products and specialty air services.

North American Free Trade Agreement

An Overview and Description

Canada
Mexico
United States

August 1992

Canada

North American Free Trade Agreement

An Overview and Description

Canada
Mexico
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(Publié également en français)

Foreword

This document, *The North American Free Trade Agreement: Overview and Description*, has two parts.

The Overview, prepared by the Government of Canada, outlines the principles behind the Agreement, provides a brief history of the negotiations and presents in summary form the key issues addressed in the North American Free Trade Agreement (NAFTA). It also describes the Government's objectives and how they were achieved in these negotiations.

The second part is a description of the proposed agreement. It has been agreed upon by Canada, Mexico and the United States. While the description accurately reflects the contents of the NAFTA, it is important to note that it does not constitute a legal text. The legal text will be refined in the coming weeks and made public when detailed drafting is complete. The final Agreement will be signed later this year and will enter into force after the necessary implementing legislation is approved in all three countries.

Overview of the Proposed North American Free Trade Agreement

On June 12, 1991, the trade ministers of Canada, the United States and Mexico met in Toronto to open negotiations for a North American Free Trade Agreement (NAFTA). This was an historic occasion. For the first time ever, a developing country agreed to sit down with two industrialized countries to craft an agreement that would open its economy to full competition with the other two countries. If successful, the agreement promised to make the whole North American continent into one economic zone and set an important precedent for trade and economic co-operation between the wealthy countries of the North and the less developed countries of the South. The challenge before them was both exciting and daunting.

A little more than a year later, the three ministers met again in Washington, to put the finishing touches on a new North American Free Trade Agreement. In less than fourteen months, they and their negotiators had successfully met the challenge and put together a new trading framework for North America. The Agreement provides a new set of rules to cover investment and more than $300 billion in annual three-way trade. It will open the door to a vast new potential in trade and investment relations among the three countries.

The Agreement extends the benefits of the Canada-U.S. Free Trade Agreement (FTA) to include Mexico. It also strengthens and expands that accord to provide an even firmer foundation for trade and investment. It provides a framework of rules within which private entrepreneurs can seek to expand their market and investment activities. It is tailored for the demanding conditions of a large, open economy. It will make the three economies more capable of taking on broader competition on a global basis.

The Context: A More Competitive Global Economy

The NAFTA represents both a response and a challenge to the changing nature of international business. The past decade has seen the emergence of a truly global economy in which, for the first time, every country can participate by taking the steps to adjust to the challenge of global competition. The decades immediately following the Second World War saw a tremendous expansion in international economic exchanges. Trade in goods, for example, grew twice as fast as production, thanks in part to the liberating effect of the reductions in tariff and other barriers achieved under the auspices of the General Agreement on Tariffs and Trade (GATT). Some three trillion dollars in goods are now exchanged annually around the globe. The most impressive increase has been in intra-industry trade, and thus consumers around the world have benefited from increased specialization and choice.

Over the past few years, the internationalization of the economy has accelerated. Spurred on by improvements in communications and transportation, and the resulting advances in business organization and finance, the natural barriers to international trade have shrunk to relative insignificance. Flows of capital and knowledge are at least as important as the flow of goods in international exchange.

The international economy of which we are now an integral part is both complex and challenging. The competition for markets is keen and the number of players much greater than in the past. The game is played differently. In the past, tariffs and other border measures were the issue. Today, the competition is over domestic policies that attract both domestic and international investors. The competition for investment is tough to the point where many countries are opening their economies unilaterally, adopting more open and market-oriented fiscal and regulatory policies.

The Challenge: A More Prosperous Canada through Trade

Canada has not been immune to the process of globalization. Canadian firms have become increasingly integrated into the global economy, while Canadian consumers have been able to choose from an ever widening array of goods and services. Canadians have adapted well to these changes. One quarter of Canada's wealth is now generated by the exports of Canadian goods and services. Canada's future prosperity is critically dependent on our continuing capacity for change and adjustment.

Canada is a medium-sized, open and trade-dependent economy. It has always been at the forefront of those advocating that the internationalization of the economy must be on the basis of clear rules, mutually agreed and fairly administered. Even large economies, such as the United States and the European Community, recognize that it is to their advantage to ensure that there are clear rules to guide global economic integration.

The intricate world of the 1990s has led to a more complex approach to rule making. In addition to the multilateral framework of rules provided by the GATT, Canada must also be alert to opportunities that arise on a regional or bilateral basis. Regional responses to the internationalization of economic exchanges in Europe and Asia, as well as in the Americas, have presented Canada with a direct challenge. The Canada-U.S. Free Trade Agreement was the first response to that challenge. The Canada-U.S.-Mexico negotiations built on that achievement, but took account of developments and opportunities that have become clearer since then.

The Government's Strategy to Meet the Challenge

Eight years ago, when the Government took office, it concluded that Canada's past prosperity had made it complacent about the precarious position it faced as a trading nation. The Government determined to take the steps necessary to renew and strengthen the Canadian economy. Rather than resisting the forces of global change, Canada needed to harness them to its advantage. At the heart of the Government's approach was the determination to make the private sector the driving force of this economic renewal. Government policies would create an environment to encourage and reward entrepreneurship and facilitate adaptation to the changing international economic demands. By opening Canada's economy to greater competition and by encouraging Canadian-based firms to adopt global business strategies, Canada could remain one of the most prosperous societies on earth.

Three interrelated and mutually reinforcing goals were at the heart of the Government's economic strategy. It set out to:

- remove obstacles to growth;
- encourage entrepreneurship and risk taking; and
- support those in genuine need who could not adapt quickly enough to changing circumstances.

This strategy was based on domestic policies aimed at encouraging Canadian-based firms to produce products that the world would buy at prices the world is prepared to pay. Directly related to these policies were efforts to create a more open economy and promote more diversified trade and investment relations. As both markets and production were becoming global in scope and outlook, Canada was in danger of being pushed to the margins of the world economy if it did not participate in this trend. Not only were we not well equipped to expand our participation in global markets; we were in danger of losing our own market. Canada needed more companies able to take on the competition both at home and abroad. We had to change from a branch-plant to a world-class economy. And we needed rules of the game that would give firms and workers both the incentive and the reward for taking on the competition.

The FTA — Key to Our Strategy

To make Canada a good place in which to do business, we required stable prices, sufficient venture capital, a hospitable regulatory climate and a fair tax system. But, as a trading nation, the key to this strategy was getting our trade relationship with the United States right. The Canada-U.S. Free Trade Agreement proved a practical way to address that goal. It placed our economic relationship on a stronger, more open, rule-based footing. It allowed us to maintain our position as a strong and sovereign nation, while reaping the benefits of a closer trade and economic relationship with the largest economy in the world.

The FTA not only tackled the traditional barriers to trade in goods, but also made it possible for the many export-oriented service firms in Canada to take on U.S. competition on an equal footing. It put in place rules to govern bilateral investment flows and made business-related cross-border travel easier. It resolved a number of long-standing irritants and contained procedures to make it easier to address the inevitable disputes that arise in a $250-billion-a-year economic relationship.

A Broadly Based Strategy

The FTA was but one element in Canada's trade strategy. Concurrently, we were at the forefront in launching a new round of global trade talks at the GATT. We launched various trade promotion initiatives including Going Global, Pacific 2000 and Europe 1992. Each component is part of a strategy aimed at making Canada a good trading partner and a better place to do business, and promoting our international business activities. It will ensure that competitive Canadian companies are able to take advantage of opportunities around the globe. The Government has now succeeded, together with the United States and Mexico, in transforming the FTA into a broader agreement for all of North America, open to others prepared to accept its rules and obligations.

Canada's goal in each of these negotiations has been a simple one: gain as much access to world markets as possible for competitive Canadian producers, workers and investors; secure that access with balanced, mutually advantageous rules; and enshrine that access in an agreement that includes equitable and expeditious procedures for resolving any problems. In return, Canada should be prepared to open its own market to the same extent, to the benefit of Canadian firms and consumers who thus gain access to capital, goods and services in greater variety and at world prices. The details may vary as circumstances warrant, but the goal is constant.

Positioning Canada to Reap the Benefits

Implementing this strategy has not been without pain. To gain something of value, we have to be prepared to invest in ourselves. Trade agreements provide opportunities; results come when firms and workers take advantage of those opportunities. The object of the game is to promote change in an orderly manner so that we are better positioned to keep what we have and take advantage of new possibilities.

Over the past few years, the Government has taken steps to strengthen Canada's capacity to adjust to changes in the economy. It has streamlined unemployment insurance programs and made them more generous. It has placed greater emphasis on retraining and job counselling. It is working with the provinces to ensure that both federal and provincial programs are attuned to local circumstances. In 1992 alone, the Federal Government will spend $3.55 billion on training and adjustment programs for some 650,000 unemployed Canadians — in addition to the almost $19 billion in unemployment insurance benefits. Spending on adjustment programs represents a $1.53-billion (76 per cent) increase over the $2.02 billion spent in 1988, a year in which some 451,000 Canadians were helped.

Direct government assistance to workers and industry is only one factor in the adjustment equation. More important for Canada's future prosperity are the steps being taken to make the Canadian economy more competitive. It is evident that Canadians need to concentrate more energy on technological innovation; developing new partnerships between business, labour, educators, a variety of interest groups and government; reducing internal trade barriers; finding more effective ways to raise investment capital; and improving our education and training system. The government has focused attention on these issues during the last year through an extensive series of consultations with Canadians under the Prosperity Initiative. It will shortly announce how it plans to respond to the many ideas brought forward during these consultations. Canadians are recognizing their competitive strengths. They are also realizing that they must adapt to the demands of today's world economy.

In the next few years, as the combined effect of economic recovery and government cost cutting makes more funds available, the Federal Government will be able to strengthen further programs aimed at developing Canada's greatest asset in the economy of the future, a highly motivated, well-educated work force. But the key to these initiatives will be our capacity to generate the wealth to pay for them: we cannot spend what we have not earned.

The Strategy is Working

Canadian inflation now is the lowest among industrial countries. Inflation is lower than it has been for thirty years, and interest rates have also fallen significantly. With price stability comes new confidence among both investors and consumers, the kind of confidence that will underpin the development of a more vibrant, growing economy. During 1991, as Canada, along with most of the rest of the Organization for Economic Co-operation and Development (OECD) struggled with recession, we experienced a significant improvement in our manufacturing productivity performance.

Real manufacturing output per person in Canadian industry rose by 0.4 per cent in 1991, unprecedented in a recession. Because of the confidence many firms had in Canada and the adjustments they have made, Canada is now poised for a strong recovery led by the exports of manufactured products. Various think tanks suggest that our productivity performance may improve by as much as 8 to 10 per cent in 1992 and 1993. This will put Canadian manufacturers at the leading edge, willing and able to take on the competition at home and abroad, and strengthening the Canadian economy as a whole.

Canada's declining productivity performance in the 1980s was one of the more worrying signs that we were in danger of being left by the wayside. That is now changing. The Government's policies have helped it to take the lead in the economy's recovery. In 1984, when it took office, there were some 36,000 manufacturing establishments in Canada, many of them less than a dozen years old. Today, there are about 40,000, again with more than half newly established in the past ten or so years. New, dynamic, outward-looking companies are replacing older, inward-looking firms. They promise a brighter future.

Exports and Employment Up

The employment picture is also turning around. After hitting a low in March, 1992, manufacturing employment reached 1.8 million in June. The Canadian economy generated more than a million new jobs over the past eight years. The FTA was a critical component in ensuring that these jobs have a future. In the past three years alone, for example, employment in managerial, administrative, professional and technical occupations increased by nearly 200,000. We need more jobs, but the economy will not be able to sustain them unless we are prepared to become competitive on a world scale. Canada is meeting that challenge.

The fundamentals are coming together. Canada's economy is successfully restructuring and our trade performance is leading the way. Not only did Canadian merchandise trade with the United States increase by 10.7 per cent during the first three years of FTA implementation — from $292.5 billion in 1986-88 to $323.7 billion in 1989-91, but our trade is also becoming steadily more diversified and more competitive as new exporters, new products and new markets are added to our export profile.

To maintain the momentum developed by the FTA and other components of the Government's trade and economic strategy, we must be continually alert to new opportunities. The North American free trade negotiations represented one of those opportunities. To have missed this prospect would have meant turning our back on the recovering economies of Latin America. On the other hand, by participating, Canada was able to preserve, promote and expand the trade and economic gains made in the Canada-U.S. Free Trade Agreement.

The Road to Agreement

Preparations for Canadian involvement in trilateral negotiations began in early 1990 when informal discussions with U.S. and Mexican officials suggested a strong interest in considering the prospect of either a bilateral U.S.-Mexico free trade agreement or extending the Canada-U.S. Free Trade Agreement to Mexico. Soon after U.S. President Bush and Mexican President Salinas committed their governments to the negotiation of freer trade in June 1990, the Government consulted widely with parliamentary, provincial, private-sector, academic and other interested parties in Canada. It concluded that there was broad support for Canadian participation in the negotiations.

By the beginning of February 1991, preliminary discussions among United States, Mexican and Canadian officials had cleared the way for a formal decision that the negotiations would be pursued on a trilateral basis with a view to crafting the broadest possible North American Free Trade Agreement. By this time, the Government had already consulted widely with the provinces, industry, labour and other interested Canadians on the objectives Canada should pursue in the negotiations. These consultations, centered around the International Trade Advisory Committee and the 15 Sectoral Advisory Groups as well as the Federal-Provincial Committee on NAFTA, continued on a regular basis throughout the negotiations and provided the negotiators with a steady stream of pertinent and helpful advice.

Negotiations formally commenced on June 12, 1991 at a ministerial meeting in Toronto. Building on the progress already made in the preliminary discussions, ministers were able to set an ambitious agenda and request that the negotiators set themselves a demanding pace. Close supervision by the ministerial team, which met seven times over the course of the past fourteen months, ensured that the negotiators had the requisite support and will to maintain their exacting pace. With the help of large numbers of issue specialists and legal advisers, it proved possible to make the necessary compromises and fashion a comprehensive and extensive agreement satisfactory to all parties.

The Objective: Open and Secure Access throughout North America

Canada had three basic goals in the negotiations:

- to gain access for Canadian goods, services and capital to Mexico — one of the fastest growing and most promising economies in the world — on an equal footing with the United States;
- to resolve a number of specific irritants with the United States that occurred within the context of the more intense trade and investment relationship of the past few years while ensuring no reduction in the benefits and obligations of the FTA; and
- to ensure that Canada remained an attractive location for investors wishing to serve the whole North American market.

Fundamentally, Canada's participation in the negotiations was predicated on the desire to extend and strengthen the trade regime introduced by the FTA. That agreement sought to provide Canada with a more secure framework within which to pursue the program of economic renewal introduced by the Government in 1984. Together with the Uruguay Round of GATT negotiations (launched in 1986) and trade development programs such as Going Global, Europe 1992 and Pacific 2000, the FTA is successfully providing Canadian firms and workers with both the incentive and the reward to become more internationally competitive.

Results of the Negotiations

Canada's objectives were largely met in a NAFTA that marks a further refinement and enlargement of the trading regime introduced by the FTA. The architecture of the new agreement is similar to the FTA, but moves beyond it. In effect, Canada was able to gain a better insurance policy for its trade with the United States while gaining better access to the Mexican market.

The Agreement will eliminate Mexican tariffs and trade restrictive import licensing requirements: some immediately and the rest over the remainder of the transition period. Canadian firms will be able to participate in virtually the whole Mexican economy and significantly expand business opportunities in previously closed sectors such as autos and parts, financial services, trucking, energy and fisheries. At the same time, Canada was able to obtain *clearer and more predictable rules of origin*, an extension of *duty drawback provisions*, an improved mechanism for *consultation* and *dispute settlement* on *customs administration*, a strengthened *sideswipe exemption* from U.S. safeguards and a *reduced U.S. capacity to retaliate* in dispute settlement cases. These gains were achieved in an agreement that allows Canada to maintain the *Auto Pact safeguards*, *continue* quotas to support *supply management* for poultry and dairy products, *exempt the cultural industries* from the NAFTA as they were from the FTA and *maintain* the Government's freedom to act in the area of *social services*.

The principles of *transparency* and *due process* permeate the Agreement. Building on a GATT provision (Article X, which establishes that fair rules, openly administered, should be the basis of modern trade relations), the NAFTA strengthens the security and predictability of Canadian access, particularly to the Mexican market but also to the U.S. market. It provides business with sound rules as well as access to procedures to redress grievances. It thus further constrains the U.S. capacity to take arbitrary and capricious retaliation against our trade, strengthening the confidence and stability for traders and investors throughout the free trade area.

From the beginning, it was clear that all three countries wanted to conclude a trade agreement that would lead to a *more integrated North American market* for all goods as well as most services and capital, and provide for greater mobility for professional and business travellers. Differences existed over how best to reach that goal, but not about the goal itself. All three parties wanted to build on their GATT obligations, including the anticipated results of the Uruguay Round, and all three countries agreed that the starting point for negotiations was the Canada-U.S. Free Trade Agreement.

The NAFTA takes full account of progress in the multilateral trade negotiations. Several provisions draw inspiration from the increased disciplines emerging from the Uruguay Round. Consistent with the GATT and the FTA, the NAFTA *preserves* the *flexibility to address sensitive issues such as cultural industries, national security and constitutional exemptions*. The three countries remain committed to working toward an expeditious conclusion to the multilateral trade negotiations.

NAFTA is *sensitive to environmental concerns*. All three countries confirmed their commitment to sustainable development and have incorporated into the Agreement the GATT exemption that allows governments to protect the environment even when the necessary measures conflict with other provisions of the Agreement. This will allow both federal and provincial governments to determine an appropriate level of environmental protection. The NAFTA exempts measures necessary to meet obligations arising under certain international environmental agreements from most of its disciplines, while recognizing that governments should not establish 'pollution havens' by lowering standards to attract investment. Any conflicts that raise environmental issues will be adjudicated by panels with access to scientific expertise in environmental matters.

The *inclusion of the environmental dimension in the NAFTA represents a significant achievement.* It is a constructive response to legitimate concerns. Yet the closer relationships and economic growth created by the NAFTA are likely in themselves to promote improvements in environmental quality. The income generated in Mexico by freer trade will *assist the Mexican government in enforcement* of its standards, which are good on paper but have been difficult to police. Moreover, modern industrial planning places great emphasis on building plants that, through the most efficient use of resources, not only save money but are also more compatible with sustainable development. Companies know that adding the most up-to-date pollution abatement technology and energy-efficient equipment to their plants will add only two to three per cent to their total capital costs. In many cases, such investments will reap long-term financial rewards that offset the initial cost.

The Agreement is also *sensitive to the need for firms and workers to adjust to the new competitive opportunities.* The transition period, as well as the provisions allowing each country to introduce emergency safeguard and temporary snapback measures and to continue to regulate as necessary, gives each government the room to put in place measures that will allow orderly adjustment. For Canada, these adjustments should not be onerous, since Mexico now benefits from relatively low tariffs or tariff-free access to Canada for many products, and Canada's tariffs will be phased out over the NAFTA transition period. *In essence, the NAFTA does not greatly change the access for the United States or Mexico to the Canadian market, but it does fundamentally change Canadian and U.S. access to the Mexican market.* For example, most automotive products, by far the largest Mexican export to the Canadian market, entered Canada duty-free under the terms of the Canada-U.S. Auto Pact. At the same time, the Mexican Auto Decree virtually excluded Canadian companies from participating in the Mexican market. The NAFTA provides a set of balanced rights and obligations to create a level playing field.

The degree of adjustment required by Canadians to the NAFTA will be relatively modest. Indeed, *the biggest challenge for Canadians arising from the NAFTA will be to identify the means to seize opportunities* offered by the larger North American market. The fears raised in some quarters about the competitive advantage of Mexican wage levels are significantly overplayed. Canada's competitiveness is based on much more than labour costs. The strength of our private- and public-sector services — ranging from telecommunications and insurance to health care and roads, our level of technological development, the access to — and relatively low cost of — debt and investment capital and the skills and knowledge of Canadian workers all give Canada powerful advantages in the North American market.

NAFTA provides a solid foundation for the future. It includes provisions to broaden its coverage, both in terms of issues and in terms of membership. *An accession clause similar to the provisions for accession to the GATT* is included in the Agreement. It allows countries to negotiate their way in by accepting the same obligations as the other members. In future, expansion will no longer require that negotiations start again from scratch. Canada will not have to renegotiate its terms of access to the U.S. or Mexican markets every time a new country accedes to the NAFTA, and will have a full say in the admission of new members.

NAFTA thus provides a basis for rectifying an anomaly in Canadian policy and practice that had gradually developed over the years. As a result of various unilateral measures aimed at helping developing countries, including the General Preferential Tariff (GPT), producers in developing countries like Mexico enjoyed much better access to the Canadian market than Canadian producers enjoyed to their markets. In some sectors, they enjoyed virtually one-way free trade. The NAFTA provides a model for rectifying that situation within a framework of mutually beneficial rules. The inclusion of an accession clause will ensure that other countries, if prepared to accept its obligations, can negotiate the terms and conditions, if acceptable to Canada and its NAFTA partners, under which they will enjoy its benefits. For Canada, the United States and Mexico, such a clause will avoid the possibility of future erosion of the rights and obligations contained in the Agreement as a result of efforts to accommodate the interests of new participants. The *expansion* of the Agreement *to new members will be based on accession negotiation rather than renegotiation.*

NAFTA is thus *not only good trade and economic policy, but also good foreign and development policy.* By helping developing countries in the hemisphere to adopt the necessary tools to restructure and modernize, we will promote the development of new market opportunities for Canadian firms and workers. We will also create conditions for positive human, environmental and community development in a country less prosperous than our own.

NAFTA and the FTA

From the beginning, Canada insisted that it would not allow the NAFTA negotiations to erode what it had gained in the FTA nor provide a vehicle for undoing the delicate compromises achieved between Canada and the United States in that agreement. At the same time, the Government recognized that the combination of three years' experience, the addition of a new partner at the table and the progress made on some issues in the Uruguay Round of GATT negotiations provided a good basis for considering areas where improvements could be made. As a result, it was possible to make a significant number of improvements, ranging from adjustments in the drafting of complex rights and obligations to the introduction of new provisions and procedures that should contribute to making Canadian trade with the United States, as well as with Mexico, more open and more secure.

The drafting of a trilateral agreement capable of being extended to other potential partners, as well as the successful implementation of some of the specific obligations in the FTA over the past three years, necessitated some changes in the architecture of the FTA to transform it into a NAFTA. *All the rights and obligations of the FTA are reflected in one form or another in the new Agreement,* but not always in the same way or in the same place. Many of the changes in the text clarify and improve concepts and language in the FTA. *Specific improvements* of particular significance *include:*

- The *rules of origin* have been revamped to make their application both more transparent and more certain, narrowing the scope for disputes resulting from differences in interpretation and application.
- The market-access provisions include new *rules on duty drawback,* allowing Canadian manufacturers greater flexibility in using input from non-NAFTA sources and getting credit for duties paid when these are incorporated into exports of manufactured products to other NAFTA countries.
- Provisions also include greatly *improved disciplines on customs administration.* They set out clear rules on how the Agreement will be interpreted and administered by the customs authorities, with clear procedures for the redress of grievances.
- More stringent *obligations regarding energy regulation* will help to reduce the capacity of U.S. federal and state

regulators to interfere in Canadian sales of natural gas to the United States.

- *Standards provisions* build on the extensive progress made in the Uruguay Round of GATT negotiations. They provide clear rules aimed at reducing the scope for using standards as a disguised barrier to trade while at the same time preserving the sovereign right of governments to regulate, including standards that are more stringent than international standards. The three countries agreed that standards must not create unnecessary obstacles to trade. The aim is to ensure that governments can take the steps necessary to promote such important goals as protecting the environment within a framework of rules and procedures that allows abuses and disputes to be resolved on the basis of agreed principles.
- *Chapter 19* of the FTA, providing for bilateral review of *antidumping and countervailing duties*, has been made a *permanent feature of the NAFTA*. Both Canada and the United States were satisfied that these procedures have worked to their mutual benefit and have now extended them to Mexico, at the same time ensuring that Mexico will introduce a transparent regime based on Canadian and U.S. principles of due process.
- *The inclusion of land transport* in the Agreement will allow Canadian truckers to organize their international traffic more efficiently. The Agreement provides that truckers can carry cargo from one country to the other, but reserves local cargoes to truckers based in that country: e.g., Canadian truckers can pick up a load in Mexico and carry it to the U.S., then pick up another load in the U.S. and carry it to Canada or vice-versa, but cannot carry cargo from one part of the U.S. to another. Given the expected increase in trade, this should prove an important provision to help make the Agreement work.
- The extension of the cross-border services chapter to *specialty air services* should open interesting new opportunities in the U.S. and Mexico for high-tech companies specializing in aerial surveying and mapping, and similar export-oriented sectors.
- The cross-border services and investment chapters clearly spell out that *Canada maintains its ability to provide government services*, including social and health services.
- The *investment* chapter has been recast into more generic terms than in the FTA and now includes important provisions for resolving certain types of conflicts between governments and investors from other NAFTA countries along lines similar to Canada's foreign investment protection agreements.
- The *financial services* chapter — banking, securities and insurance — not only opens up the growing Mexican market, but does so on the basis of tighter rules of general application and subject to the dispute settlement provisions of the Agreement applicable to all three countries, including the U.S.
- The *addition of an intellectual property* chapter provides an agreed basis for addressing conflicts arising in this increasingly important area of international trade and provides greater protection for Canadian creators, inventors and researchers.
- The *dispute settlement* chapter includes strengthened mediation and conciliation provisions and builds upon the FTA in assuring a professional roster of panelists capable of providing non-partisan advice and rulings.
- The *institutional provisions* of the Agreement set out improved dispute settlement procedures and include the addition of a permanent secretariat to give more focused institutional support to the Commission of trade ministers and to ensure that it will be able to exercise more cohesive oversight of ongoing work.

The ability of the three governments to transform the bilateral Canada-U.S. Free Trade Agreement into *a more comprehensive trilateral trade agreement*, open to signature by other countries so inclined, and accepted by current NAFTA members, has obvious implications for the continuing application of the FTA. In 1987, when negotiating the FTA, Canada and the United States concluded that the combination of overlapping and duplicating rights and obligations in the FTA and the GATT could best be addressed by means of a precedence clause, which indicated that, in cases of conflict between the FTA and the GATT, the FTA would prevail unless specifically provided otherwise.

The degree of overlap between the FTA and the NAFTA is even more extensive and more complicated because much of the language has been adjusted to make it more suitable for accession by other countries. To address this matter, Canada and the United States have agreed to use a procedure similar to that used in 1947, when the multilateral GATT replaced the 1938 bilateral Canada-U.S. Reciprocal Trade Agreement. At the same time as they brought the GATT into force, the two governments exchanged letters agreeing to suspend the 1938 Agreement as long as the GATT was in force between them.

In effect, Canada and the United States have agreed that the NAFTA, with all of its improvements, takes priority over the FTA. Certain specific provisions of the FTA will be suspended where the NAFTA repeats or builds upon FTA obligations, as long as the NAFTA is in force between them. FTA provisions that Canada and the United States decided not to bring fully into the NAFTA will remain operational. The NAFTA preserves the gains that Canada made in the FTA, then expands and strengthens them. The aim of the NAFTA was to extend the provisions of the FTA to include Mexico. This has been done. And Canada's important achievement in negotiating better access to its largest trading partner has been secured and strengthened.

Implementing the NAFTA

The conclusion of negotiations on August 12, 1992 does not mark the end of the road. Over the next few weeks, the three legal teams will work around the clock to ensure that the legal text of the Agreement says what the negotiators mean it to say in clear, contractual language. The next stage will involve further work to translate the Agreement's rules into domestic legislative language for presentation to Parliament.

In Canada, the Government will give all interested Canadians an opportunity to express their views before the

Government signs the Agreement later this year or early next year and tables the legislation necessary to make the Agreement law. Once that legislation has been approved, Canada will be in a position to exchange instruments of ratification with Mexico and the United States. The aim of all three governments is to complete all domestic procedures in time for the Agreement to come into force on January 1, 1994.

Preliminary analysis suggests that few legislative changes will be required for Canada to meet its obligations under the Agreement. Most of the obligations in the Agreement parallel those of the FTA and are thus consistent with existing legislation. Some of the provisions of the 1988 Canada-U.S. Free Trade Implementation Act may need to be amended in order to add Mexico to the countries benefiting from its provisions. Many of the improvements in the Agreement are either consistent with Canadian law and practice or involve administrative practice rather than matters of law and regulation. In effect, since *the main purpose of the negotiations was to extend the FTA regime to Mexico, it is Mexico that will have to undertake the most extensive changes in its laws and practice.*

In the United States, the President is required to give Congress 90 calendar days notice before he signs the Agreement on behalf of the United States, in order to ensure that legislation implementing the Agreement will be eligible for congressional consideration under the so-called 'fast-track' procedures. In addition, the Administration will work closely with Congress to prepare implementing legislation. That legislation will be studied by various congressional committees and then debated by both Houses of Congress on the basis of the strict timetable laid out in the 'fast-track' procedures. Under these procedures, Congress cannot amend the implementing bill and thereby indirectly change the Agreement. A simple majority is required in both the House of Representatives and the Senate to enact the implementing bill, which, after it is signed into law by the President, will enable the United States to bring the Agreement into force. Canada will monitor developments in the United States closely to ensure that the U.S. government proceeds on a basis that faithfully translates the intentions of the three parties into law.

In Mexico, the Salinas administration will work with the Mexican Congress and its private-sector advisory committees to prepare the necessary legislation for Mexican ratification of the Agreement. Again, Canada will monitor developments in Mexico closely.

Benefits for all Canadians

In the next few years, as Canadian entrepreneurs begin to take advantage of the new trade and investment opportunities created by this Agreement, Canadians from coast to coast will benefit.

Improved Access to Mexico

The most important benefits will flow from increased access to the growing Mexican market. Mexico is Canada's largest trading partner in Latin America. Two-way trade totalled over $3 billion in 1991 (Canada imported $2.6 billion and exported $543 million). Total Mexican imports grew by 214 per cent from 1987 to 1991, making Mexico one of the fastest growing markets in the world with a huge appetite for capital goods, technology and investment, including sectors where Canadian firms are world class. During the first five months of 1992, Canadian exports to Mexico were 100 per cent higher than in the corresponding period in 1991. Canada is expected to export $850 million in goods to Mexico this year, up from $543 million in 1991. The NAFTA will further underline the need to modernize Mexico's industrial base and infrastructure. Growing per capita income, an increasing demand for imported consumer goods, and a need for services, capital and technology should fuel steady growth in demand. Canada's proximity to Mexico, the complementarity of our two economies, the excellent relations between the two peoples and the improved access to the Mexican market flowing from the NAFTA will provide Canadian exporters and investors with a unique comparative advantage in meeting this growing demand.

Trading with Mexico should also help Canadian firms meet the exigencies of international business, particularly price competition. As Eastern Europe and the European Community team up, and as Japan does the same with the burgeoning Asian economies, Canada will want to establish links with the developing economies of Latin America in order to maintain and increase its competitiveness in world markets.

Opportunities in Mexico

While there will be new business opportunities across the full range of Canadian expertise, the following sectors may offer the most immediate prospects for Canadian business in Mexico.

- **Agri-food products** – Mexico annually imports more than $5 billion in agricultural and food products. Given our complementary climatic conditions, Mexico will remain an important market for Canadian grains and oilseeds. Livestock inventory levels in Mexico reflect conditions of limited arable land, water supplies and an especially acute supply-demand imbalance in the grains and oilseeds sectors. Mexico is not likely to become self-sufficient in livestock or in meat in the near future and offers a growing demand for breeding livestock, pork and other meat products. Changes in the eating patterns of Mexicans, due to urbanization and higher incomes, have given Canadian specialty food products (such as cookies and biscuits, frozen potato products and other frozen and microwavable products, bottled water, and convenience and snack foods) a market niche in Mexico in competition with many American food products. Mexico's consumption of seafood products exceeds one million tons and is increasing at an average annual rate of 3.5 per cent. While the import market is small, improved access should allow Canadian seafood producers to do well. As well, good market prospects exist in fish harvesting and processing technology and equipment.
- **Transport Equipment** – During the last four years, Canada has steadily increased its share of Mexico's protected transportation equipment sector. Canadian

firms should do much better as a result of the preferential terms of access under the NAFTA. While automotive parts exports have grown from $52 million in 1988 to $83 million in 1991, vehicle exports have remained low and exports of parts below their potential because the Mexican market has been largely closed. Under the NAFTA, restraints on imports will be removed, providing opportunities for the export of parts and vehicles. The Mexican market is the fastest growing market for auto parts in North America and conservative estimates are that the annual growth will be over 7 per cent. With rapid urban growth in all major centres, demand for reliable and environmentally clean urban transit equipment and services should also increase. The Government has undertaken a major program of infrastructure modernization (airports, railways, roads and public transit) through the involvement of the private sector. This offers significant opportunities for steel rail, locomotives, rolling stock, track machinery, and the repair and overhaul of rolling stock, buses and trucks — all areas where Canada has internationally recognized expertise.

- **Petroleum Equipment and Services** - Mexico's petroleum production ranks third in the world, with reserves estimated at 45 to 60 billion barrels. Canada, with its leading technology and co-operative business style, is well-placed to seize new opportunities as the industry modernizes and looks outside Mexico for modern equipment, technology and services. The industry is fundamental to the Mexican economy. Petroleos Mexicanos (PEMEX), the state monopoly controlling the exploration, exploitation and distribution of these resources, is one of the largest companies in the world. During the 1980s, much of PEMEX's earning power went to servicing Mexico's crushing debt payments. PEMEX is now catching up after a decade of absolutely minimal purchasing, updating and maintenance, and plans to spend as much as $23 billion over the next four or five years on equipment and services. The NAFTA will open up much of this vast new market to North American competition and give Canadian energy specialists an opportunity to expand their markets significantly.

- **Mining Equipment and Services** - Canada's mining technology is second to none in the world. Mexico is, with some notable exceptions, years behind recent advances and badly needs to revitalize this sector. It is restructuring its mining regulations to allow foreign investment and to encourage the adoption of more effective, safe and environmentally sound practices. Foreign investment was more than $580 million in 1991 to match more than $650 million in Mexican investment. As a result of the improved business climate, Mexican companies have been spending an estimated 30 per cent more on parts and projects each year, totalling some $700 million in 1990. A study prepared by KPGM-Peat Marwick estimates that a NAFTA would stimulate a 13.2 per cent increase in mining production over its first ten years, simply from increased economic growth and demand for basic minerals.

- **Telecommunications** - Mexico relies on imported technology in its efforts to modernize and upgrade its infrastructure and develop a more sophisticated manufacturing capability. Canadian suppliers of electronic components, telecommunications equipment and systems, and computer software should thus find a ready market for their products. The Mexican telecommunications sector is being deregulated and privatized, opening private investment and service opportunities in areas such as cellular telephones, construction and administration of microwave earth stations, fax, electronic mail and data transmission services. Between 1990 and 1994, the telecommunications market is expected to increase at an average annual rate of 12 per cent per year to $1.5 billion, while the market for computers and computer software should grow at an even faster pace.

- **Environment Equipment and Services** - The Mexican government is demonstrating its strong commitment to a major reduction in pollution by implementing concrete measures to enforce its laws, including increased inspections and plant closures. The new focus on enforcing stricter environmental regulations, combined with increasing pressure from both domestic and foreign public opinion, has created a growing demand from the private sector for different sources of anti-pollution equipment and related services. Imports will supply most of the required equipment and services, particularly for industrial and municipal wastewater treatment, potable water treatment and air pollution control. Interest in Canadian expertise was amply demonstrated during the Canada Expo '92 trade show in Monterrey (where more than 200 Canadian exhibitors participated) and a recent Environment Mission that visited three cities in the north of Mexico.

- **Industrial Machinery and Technology** - This market is expected to grow steadily during the next five years as Mexican manufacturers strive to improve productivity in order to compete successfully in the domestic and international markets. Demand for machine tools, metalworking equipment, plastics production machinery and equipment, materials-handling equipment and similar production equipment and technology is expected to exceed $6 billion by 1994, with imports supplying the preponderance of total demand. Canadian products in this sector are well accepted in Mexico and the tremendous success of the Canadian industrial trade fair organized in January 1992 in Monterrey has given a foretaste of what NAFTA may offer to Canadian exporters in this sector.

- **Consumer Products** - Imports of consumer products are growing, concentrated in fashion, novelty, high-technology, promotional, specialty and/or low-volume items, leisure and sporting goods. Some 70 per cent of Mexico's 85 million inhabitants are under thirty years of age. This growing young urban population, enjoying higher incomes generated by enhanced economic conditions, has a marked preference for imported products, as a result of import restrictions and the favourable image of such products. Total imports of consumer products reached $7.5 billion in 1991, representing some 20 per cent of total consumption. Good prospects for Canadian business in this sector include soaps and toiletries, jewellery, furs, medicinal and pharmaceutical products, toys and games, sporting goods, books, stationery and related products, tableware, giftware and furniture.

- **Financial Services** – The modernization of the Mexican economy will require sophisticated banking, insurance and securities services. Both by privatizing much of the banking sector and by opening the market to foreign participation, Mexico recognizes the need for more modern and flexible financial services. The Canadian financial services industry, with its extensive experience in the region, is well placed to participate in the opportunities created by the NAFTA.

Other opportunities should exist in wood and paper products; tourism, hotel and restaurant equipment; medical instruments and equipment; safety and security-related products; apparel; laboratory and scientific instruments; management and financial consulting services; educational and manpower-training services; construction equipment and building products; and printing and graphic-arts equipment.

New Opportunities in Latin America

The NAFTA also provides *a solid platform upon which to pursue opportunities throughout Latin America* and build increased trade ties with the countries of the rest of the hemisphere. Exciting things are happening in Latin America as country after country jettisons the protectionist burden of the past. The determination to pursue economic renewal on both continents provides a basis for forging new business links with our southern neighbours. As Canadian business builds ties with the region, it will need new rules of the road to support modern trade and investment ties. The NAFTA provides a solid foundation upon which to build vibrant new trade and economic links throughout the region, bringing benefits and challenges to Canadians from coast to coast.

More Secure Access to the United States

Finally, improvements in the rules of the FTA will *strengthen the capacity of Canadian traders and investors to pursue opportunities in the United States.* The combination of clearer and more predictable rules of origin, an extension of duty drawback provisions, an improved mechanism for consultation and dispute settlement on customs administration, strengthened sideswipe exemption from U.S. safeguard measures and a reduced U.S. capacity to retaliate in dispute settlement cases will all help to strengthen the ability of Canadian entrepreneurs to expand their presence in the U.S. market and become more competitive on a global basis. Oil and gas producers in Alberta, for example, will benefit from the improved discipline on U.S. energy regulators. Automotive producers and workers in Ontario can be confident that sales to the U.S. market will not be undermined by differing interpretation of complex content rules by customs officials. Computer manufacturers throughout Canada will be able to develop more coherent production and marketing plans as a result of the adoption of a matching external tariff by the three countries.

Key Issues

While most of the provisions of the NAFTA reflect those of the FTA — or improve them — and thus will require few major changes in Canadian law and practice, public debate in Canada has raised a number of issues relating to the negotiations and to the Agreement, that are key to understanding both the extent and the limits of what was agreed.

- **Agriculture** – Constrained by the lack of substantive agreement on trade in agricultural products in the Uruguay Round, the three parties agreed to construct a series of bilateral arrangements. The provisions of Chapter 7 of the FTA will continue to be operative between Canada and the United States, while each has negotiated separate arrangements regarding market access between itself and Mexico. In Canada's case, we were able to expand market opportunities for red meat and grains, while fully retaining our existing system of national supply management for the dairy, poultry and egg sectors.
- **Autos** – The NAFTA safeguards Canada's largest manufacturing industry and adds new opportunities for Canadian firms and workers to expand production by adding a previously closed market of 85 million consumers. By removing, over time, existing Mexican restrictions, the NAFTA will ensure the development not only of a truly integrated North American auto industry, but also of a fully integrated market for autos and auto parts. All Mexican restrictions, including all tariffs on originating automotive goods, will be eliminated during a ten-year transition period. Improvements in the calculation of the rules of origin are designed to ensure the avoidance in the future of such disputes such as those involving Honda production in Alliston, Ontario, and the GM-CAMI plant in Ingersoll, Ontario. In addition, agreement to establish a North American content rule of 62.5 per cent for autos and major components will encourage manufacturers to increase their sourcing of original equipment parts from within the NAFTA region.
- **Cultural Industries** – The Agreement retains the exemptions for the cultural industries established in the FTA.
- **Dispute Settlement** – The unique panel review process established in the FTA to address the application of domestic antidumping and countervailing duties is retained and strengthened in the NAFTA and extended to Mexico.
- **Energy** – The energy provisions of the FTA are fully carried into the NAFTA. Some improvements were made, particularly with regard to regulatory measures.

- **Environment** – The NAFTA recognizes the increasing importance of ensuring that trade rules are consonant with domestic and international environmental objectives. The Agreement allows governments to take steps to protect the environment, even when these steps conflict with their trade obligations, as long as such steps do not involve unnecessary discrimination or introduce disguised restrictions on trade. It establishes that the obligations in certain international environmental agreements can override obligations in the NAFTA. It preserves the rights of governments to set high environmental standards. Any panel established to address an environmental issue will have access to environmental experts. Parallel to the trade negotiations, meetings between ministers responsible for the environment and their officials will set up a number of co-operative programs aimed at strengthening the enforcement of environmental standards.

- **Intellectual Property** – The inclusion of intellectual property provisions similar to those proposed in the GATT Uruguay Round and consistent with Canadian interests should boost innovation in Canada and increase the attractiveness of Canada as a site for world-class investments.

- **Investment** – Canadian investors gain greatly improved access to Mexico, while Canada retains its existing foreign-investment policy. The addition of investor-state arbitration similar to that in Canadian bilateral investment agreements will give Canadian investors in the United States and Mexico added confidence and security.

- **Labour Standards** – The Agreement confirms the rights of the three governments to set high labour standards and affirms their resolve to rigorously enforce workers' rights. Concurrent to the trade negotiations, Canada and Mexico as well as the United States and Mexico, signed bilateral accords aimed at achieving greater co-operation on labour matters.

- **Relationship to GATT** – Like the FTA, the NAFTA forms an integral part of the GATT-based multilateral trade relations system and is fully consistent with GATT requirements.

- **Social Charter** – The NAFTA does not contain a social charter similar to one adopted by the European Community. Unlike the EC, which is a more comprehensive association that seeks to achieve a high degree of political and social integration, the NAFTA is limited to trade issues. The three countries, therefore, have affirmed their commitment to work together to advance workers' rights and promote high labour and other standards through co-operation developed parallel to the NAFTA.

- **Social Issues** – Canada succeeded in ensuring that it is absolutely clear in the Agreement that social and health services provided by the federal and provincial governments remain unaffected by the Agreement. Canadians are free to design and implement whatever social services they want.

- **Tariff Removal** – Most Mexican tariffs will be removed in less than ten years. In many cases, the tariffs are eliminated more quickly. The faster phase-outs include such key Canadian export interests as fertilizers; sulphur; some aluminum; fish; agricultural, construction and resource machinery; rail and industrial equipment; selected wood pulp and paper items; telecommunications equipment; pre-fabricated housing; printed circuit boards; medical equipment; and most auto parts.

- **Textiles** – While the textile and apparel rules of origin are tougher in the NAFTA than the FTA, requiring yarn, fabric and garment to be made in North America to qualify for NAFTA preferential duties, quotas providing preferential access to the U.S. market for goods that were made in Canada but did not meet the rules have been substantially improved. The NAFTA, therefore, offers greater export opportunities for Canadians to both the U.S. and Mexican markets.

- **Trade Remedies** – The NAFTA preserves the right of each party to apply its antidumping law and countervailing duty law to goods imported from the other parties. However, Mexico has agreed to institute certain amendments to its legislation and procedures to ensure a generally consistent application of such legislation in all three countries. The NAFTA carries forward the provisions of FTA Chapter 19, which replaced the judicial review of final antidumping and countervailing duty determinations with a procedure allowing for a binding binational panel review. A new safeguard provision will help to ensure that Mexico and the United States do not frustrate the binational dispute settlement process. The integrity of the binational dispute settlement process is already enshrined in Canadian law. There is provision for further consultations on the possibility of developing a system of rules for dealing with transborder pricing practices and government subsidization ("competition policy").

- **Subsidies** – Governments in all three countries remain free to assist economic activity throughout the free trade area to promote important objectives such as regional development, but any goods that benefit from such assistance and cause material injury to producers in other markets may be subjected to countervailing duty proceedings. The special dispute settlement provisions for countervailing duty proceedings of the FTA have been incorporated into the NAFTA. A draft agreement on subsidies and countervailing duties was negotiated in the Uruguay Round of GATT negotiations and would achieve Canadian objectives. This draft agreement on subsidies and countervailing duties will not go into effect until the GATT negotiations are successfully concluded.

- **Water** – Inter-basin transfers or diversions of water are not covered by this or any other trade agreement. As in the FTA, the only water that is covered by the Agreement is drinking water available in commercial containers such as bottles or tanks. In 1987, the federal government established a policy prohibiting any inter-basin transfer or diversions of water. This policy remains in force and is not affected by the NAFTA.

Description of the Proposed
North American
Free Trade Agreement

Prepared by

The Governments of

Canada,

The United Mexican States

And

The United States of America

August 12, 1992

Introduction

This document provides a synopsis of the proposed North American Free Trade Agreement.

On August 12, 1992, Canadian Minister of Industry, Science and Technology and Minister for International Trade Michael Wilson, Mexican Secretary of Trade and Industrial Development Jaime Serra and United States Trade Representative Carla Hills completed negotiations on a proposed North American Free Trade Agreement (NAFTA). Officials of the three governments have been directed to complete work on the final text of the Agreement as soon as possible. The final text will be made public when completed. The following description does not itself constitute an agreement between the three countries and is not intended as an interpretation of the final text.

For ease of reference a summary of significant environmental provisions of the NAFTA is included at the end of this document.

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Preamble

The preamble to the NAFTA sets out the principles and aspirations on which the Agreement is based. It affirms the three countries' commitment to promoting employment and economic growth in each country through the expansion of trade and investment opportunities in the free trade area and by enhancing the competitiveness of Canadian, Mexican and U.S. firms in global markets, in a manner that protects the environment. The Preamble confirms the resolve of the NAFTA partners to promote sustainable development, to protect, enhance and enforce workers' rights and to improve working conditions in each country.

Objectives and Other Opening Provisions

The opening provisions of the NAFTA formally establish a free trade area between Canada, Mexico and the United States, consistent with the General Agreement on Tariffs and Trade (GATT). They set out the basic rules and principles that will govern the Agreement and the objectives that will serve as the basis for interpreting its provisions.

The objectives of the Agreement are to eliminate barriers to trade, promote conditions of fair competition, increase investment opportunities, provide adequate protection for intellectual property rights, establish effective procedures for the implementation and application of the Agreement and for the resolution of disputes and to further trilateral, regional and multilateral cooperation. The NAFTA countries will meet these objectives by observing the principles and rules of the Agreement, such as national treatment, most-favored-nation treatment and procedural "transparency".

Each country affirms its respective rights and obligations under the GATT and other international agreements. For purposes of interpretation, the Agreement establishes that the NAFTA takes priority over other agreements to the extent there is any conflict, but provides for exceptions to this general rule. For example, the trade provisions of certain environmental agreements take precedence over NAFTA, subject to a requirement to minimize inconsistencies with the Agreement.

The opening provisions also set out a general rule regarding the application of the Agreement to sub-federal levels of government in the three countries. In addition, this section defines terms that apply to the whole Agreement, to ensure uniform and consistent usage.

Rules of Origin

NAFTA eliminates all tariffs on goods originating in Canada, Mexico and the United States over a "transition period". Rules of origin are necessary to define which goods are eligible for this preferential tariff treatment.

This section of the Agreement is designed to:

- ensure that NAFTA benefits are accorded only to goods produced in the North American region — not goods made wholly or in large part in other countries;
- provide clear rules and predictable results; and
- minimize administrative burdens for exporters, importers and producers trading under NAFTA.

The rules of origin specify that goods originate in North America if they are wholly North American. Goods containing non-regional materials are also considered to be North American if the non-regional materials are sufficiently transformed in the NAFTA region so as to undergo a specified change in tariff classification. In some cases, goods must include a specified percentage of North American content in addition to meeting the tariff classification requirement. The rules of origin section also contains a provision similar to one in the Canada-United States Free Trade Agreement (FTA) that allows goods to be treated as originating when the finished good is specifically named in the same tariff subheading as its parts and it meets the required value content test.

Regional value content may be calculated using either the "transaction-value" or the "net-cost" method. The transaction-value method is based on the price paid or payable for a good; this avoids the need for complex cost accounting systems. The net-cost method is based on the total cost of the good less the costs of royalties, sales promotion, and packing and shipping. Additionally, the net-cost method sets a limitation on allowable interest. Although producers generally have the option to use either method, the net-cost method must be used where the transaction value is not acceptable under the GATT Customs Valuation Code, and must also be used for certain products, such as automotive goods.

In order to qualify for preferential tariff treatment, automotive goods must contain a specified percentage of North American content (rising to 62.5 percent for passenger automobiles and light trucks as well as engines and transmissions for such vehicles, and to 60 percent for other vehicles and automotive parts) based on the net-cost formula. In calculating the content level of automotive goods, the value of imports of automotive parts from outside the NAFTA region will be traced through the production chain to improve the accuracy of the content calculation. Regional content averaging provisions afford administrative flexibility for automotive parts producers and assemblers.

A *de minimis* rule prevents goods from losing eligibility for preference solely because they contain minimal amounts of "non-originating" material. Under this rule, a good that would otherwise fail to meet a specific rule of origin will nonetheless be considered to be North American if the value of non-NAFTA materials comprises no more than seven percent of the price or total cost of the good.

Customs Administration

In order to ensure that only goods satisfying the rules of origin are accorded preferential tariff treatment under the Agreement, and to provide certainty to and streamlined procedures for importers, exporters and producers of the three countries, the NAFTA includes a number of provisions on customs administration. Specifically, this section provides for:

- uniform regulations to ensure consistent interpretation, application and administration of the rules of origin;
- a uniform Certificate of Origin as well as certification requirements and procedures for importers and exporters that claim preferential tariff treatment;
- common record-keeping requirements in the three countries for such goods;
- rules for both traders and customs authorities with respect to verifying the origin of such goods;
- importers, exporters and producers to obtain advance rulings on the origin of goods from the customs authority of the country into which the goods are to be imported;
- the importing country to give exporters and producers in other NAFTA countries substantially the same rights of review and appeal of its origin determinations and advance rulings as it provides to importers in its territory;
- a trilateral working group to address future modifications of the rules of origin and the uniform regulations; and
- specific time periods to ensure the expeditious resolution of disputes regarding the rules of origin between NAFTA partners.

Trade in Goods

National Treatment

The NAFTA incorporates the fundamental national treatment obligation of the GATT. Once goods have been imported into one NAFTA country from another NAFTA country, they must not be the object of discrimination. This commitment extends to provincial and state measures.

Market Access

These provisions establish rules governing trade in goods with respect to customs duties and other charges, quantitative restrictions, such as quotas, licenses and permits, and import and export price requirements. They improve and make more secure the access for goods produced and traded within North America.

Elimination of Tariffs: The NAFTA provides for the progressive elimination of all tariffs on goods qualifying as North American under its rules of origin. For most goods, existing customs duties will either be eliminated immediately or phased out in five or 10 equal annual stages. For certain sensitive items, tariffs will be phased out over a period of up to 15 years. Tariffs will be phased out from the applied rates in effect on July 1, 1991, including the U.S. Generalized System of Preferences (GSP) and the Canadian General Preferential Tariff (GPT) rates. Tariff phase-outs under the Canada-U.S. FTA will continue as scheduled under that Agreement. The NAFTA provides that the three countries may consult and agree on a more rapid phase-out of tariffs.

Import and Export Restrictions: All three countries will eliminate prohibitions and quantitative restrictions applied at the border, such as quotas and import licenses. However, each NAFTA country maintains the right to impose border restrictions in limited circumstances, for example, to protect human, animal or plant life or health, or the environment. Special rules apply to trade in agriculture, autos, energy and textiles.

Drawback: NAFTA establishes rules on the use of "drawback" or similar programs that provide for the refund or waiver of customs duties on materials used in the production of goods subsequently exported to another NAFTA country.

Existing drawback programs will terminate by January 1, 2001, for Mexico-U.S. and Canada-Mexico trade; the Agreement will extend for two years the deadline established in the Canada-U.S. FTA for the elimination of drawback programs. At the time these programs are eliminated, each NAFTA country will adopt a procedure for goods still subject to duties in the free trade area to avoid the "double taxation" effects of the payment of duties in two countries.

Under these procedures, the amount of customs duties that a country may waive or refund under such programs will not exceed the lesser of:

- duties owed or paid on imported, non-North American materials used in the production of a good subsequently exported to another NAFTA country; or
- duties paid to that NAFTA country on the importation of such good.

Customs User Fees: The three countries have agreed not to impose new customs user fees similar to the U.S. merchandise processing fee or the Mexican customs processing fee ("derechos de trámite aduanero"). Mexico will eliminate by June 30, 1999, its existing customs processing fee on North American goods. The United States will eliminate its current merchandise processing fee on goods originating in Mexico by the same date. For goods originating in Canada, the United States currently is phasing down and will eliminate this fee by January 1, 1994, as provided in the Canada-U.S. FTA.

Waiver of Customs Duties: The NAFTA prohibits any new performance-based customs duty waiver or duty remission programs. Existing programs in Mexico will be eliminated by January 1, 2001. Consistent with the obligations of the Canada-U.S. FTA, Canada will end its existing duty remission programs by January 1, 1998.

Export Taxes: The NAFTA prohibits all three countries from applying export taxes unless such taxes are also applied on goods to be consumed domestically. Limited exceptions allow Mexico to impose export taxes in order to relieve critical shortages of foodstuffs and basic goods.

Other Export Measures: When a NAFTA country imposes an export restriction on a product, it must not reduce the proportion of total supply of that product made available to the other NAFTA countries below the level of the preceding three years or other agreed period, impose a higher price on exports to another NAFTA country than the domestic price or require the disruption of normal supply channels. Based on a reservation that Mexico has taken, these obligations do not apply as between Mexico and the other NAFTA countries.

Duty-Free Temporary Admission of Goods: The Agreement allows business persons covered by NAFTA's "temporary entry" provisions to bring into a NAFTA country professional equipment and "tools of the trade" on a duty-free, temporary basis. These rules also cover the importation of commercial samples, certain types of advertising films, and goods imported for sports purposes or for display and demonstration. Other rules provide that by 1998 all goods that are returned after repair or alteration in another NAFTA country will re-enter duty-free. The United States undertakes to clarify what ship repairs done in other NAFTA countries on U.S.-flagged vessels qualify for preferential duty treatment.

Country-of-Origin Marking: This section also provides principles and rules governing country-of-origin marking. These provisions are designed to minimize unnecessary costs and facilitate the flow of trade within the region, while ensuring that accurate information about the country of origin remains available to purchasers.

Alcoholic Beverages — Distinctive Products: The three countries have agreed to recognize Canadian Whiskey, Tequila, Mezcal, Bourbon Whiskey and Tennessee Whiskey as "distinctive products" and to prohibit the sale of products under these names unless they meet the requirements of their country of origin.

Textiles and Apparel

This section provides special rules for trade in fibers, yarns, textiles and clothing in the North American market. The NAFTA textiles and apparel provisions take precedence over those of the Multifiber Arrangement and other agreements between NAFTA countries applicable to textile products.

Elimination of Tariff and Non-Tariff Barriers

The three countries will eliminate immediately or phase out over a maximum period of 10 years their customs duties on textile and apparel goods manufactured in North America that meet the NAFTA rules of origin. In addition, the United States will immediately remove import quotas on such goods produced in Mexico, and will gradually phase out import quotas on Mexican textile and apparel goods that do not meet such rules. No NAFTA country may impose any new quota, except in accordance with specified "safeguards" provisions.

Safeguards

If textile or apparel producers face serious damage as a result of increased imports from another NAFTA country, the importing country may, during the "transition period", either increase tariffs or, with the exception of Canada-U.S. trade, impose quotas on the imports to provide temporary relief to that industry, subject to specific disciplines. In the case of goods that meet NAFTA's rules of origin, the importing country may take safeguard actions only in the form of tariff increases.

Rules of Origin

Specific rules of origin in the NAFTA define when imported textile or apparel goods qualify for preferential treatment. For most products, the rule of origin is "yarn forward", which means that textile and apparel goods must be produced from yarn made in a NAFTA country in order to benefit from such treatment. A "fiber forward" rule is provided for certain products such as cotton and man-made fiber yarns. Fiber forward means that goods must be produced from fiber made in a NAFTA country. In other cases, apparel cut and sewn from certain imported fabrics that the NAFTA countries agree are in short supply, such as silk, linen and certain shirting fabrics, can qualify for preferential treatment.

Additional provisions, responsive to the needs of North American industry, include "tariff rate quotas" (TRQ's), under which yarns, fabrics and apparel that are made in North America, but that do not meet the rules of origin, can still qualify for preferential duty treatment up to specified import levels. The TRQ's for Canada that were included in the Canada-U.S. FTA have been increased and provided an annual growth rate for at least the first five years.

The NAFTA countries will undertake a general review of the textile and apparel rules of origin prior to January 1, 1998. In the interim, they will consult on request on whether specific goods should be made subject to different rules of origin, taking into account availability of supply within the free trade area. In addition, the three countries have established a process to permit annual adjustments to TRQ levels.

Labelling Requirements

A joint government and private sector Committee on Labelling for Textile Products will recommend ways to eliminate unnecessary obstacles to textile trade resulting from different labelling requirements in the three countries through a work program to develop uniform labelling requirements, for example regarding pictograms and symbols, care instructions, fiber content information and methods for attachment of labels.

Automotive Goods

The NAFTA will eliminate barriers to trade in North American automobiles, trucks, buses and parts ("automotive goods") within the free trade area, and eliminate investment restrictions in this sector, over a 10-year transition period.

Tariff Elimination

Each NAFTA country will phase out all duties on its imports of North American automotive goods during the transition period. Most trade in automotive goods between Canada and the United States is conducted on a duty-free basis under the terms of either the Canada-U.S. FTA or the Canada-U.S. "Autopact".

Vehicles: Canada and the United States eliminated tariffs on their trade in vehicles under the Canada-U.S. FTA. Under the NAFTA, for its imports from Mexico, the United States will:

- eliminate immediately its tariffs on passenger automobiles;
- reduce immediately to 10 percent its tariffs on light trucks and phase out the remaining tariffs over five years; and
- phase out its tariffs on other vehicles over 10 years.

For imports from Canada and the United States, Mexico will:

- reduce immediately by 50 percent its tariffs on passenger automobiles and phase out the remaining tariffs over 10 years;
- reduce immediately by 50 percent its tariffs on light trucks and phase out the remaining tariffs over five years; and
- phase out its tariffs on all other vehicles over 10 years.

Canada will eliminate its tariffs on vehicles imported from Mexico on the same schedule as Mexico will follow for imports from Canada and the United States.

Parts: Each country will eliminate its remaining tariffs on certain automotive parts immediately and phase out duties on other parts over five years and a small portion over 10 years.

Rules of Origin

The NAFTA rules of origin section provides that in order to qualify for preferential tariff treatment, automotive goods must contain a specified percentage of North American content (rising to 62.5 percent for passenger automobiles and light trucks as well as engines and transmissions for such vehicles, and to 60 percent for other vehicles and automotive parts) based on the net-cost formula. In calculating the content level of automotive goods, the value of imports of automotive parts from outside the NAFTA region will be traced through the production chain to improve the accuracy of the content calculation.

Mexican Auto Decree

The Mexican Auto Decree will terminate at the end of the transition period. Over this period, the restrictions under the Auto Decree will be modified by:

- eliminating immediately the limitation on imports of vehicles based on sales in the Mexican market;
- amending its "trade balancing" requirements immediately to permit assemblers to reduce gradually the level of exports of vehicles and parts required to import such goods, and eliminating, at the end of the transition period, the requirement that only assemblers in Mexico may import vehicles;
- changing its "national value-added" rules by reducing gradually the percentage of parts required to be purchased from Mexican parts producers; by counting purchases from certain in-bond production facilities ("maquiladoras") toward this percentage; by ensuring that Canadian, Mexican and U.S. parts manufacturers may participate in the growing Mexican market on a competitive basis, while requiring assemblers in Mexico during the transition period to continue to purchase parts from Mexican parts producers; and by eliminating at the end of the transition period the national value added requirement.

Mexican Auto-Transportation Decree

The Mexican Auto-Transportation Decree covering trucks (other than light trucks) and buses will be eliminated immediately, and replaced with a transitional system of quotas in effect for five years.

Imports of Used Vehicles

Canada's remaining restrictions on the import of used motor vehicles from the United States will be eliminated on January 1, 1994, in accordance with the Canada-U.S. FTA. Beginning 15 years after the NAFTA goes into effect, Canada will phase out over 10 years its prohibition on imports of Mexican used motor vehicles. Mexico will phase out its prohibition on imports of North American used vehicles over the same period.

Investment Restrictions

In accordance with the NAFTA's investment provisions, Mexico will immediately permit "NAFTA investors" to make investments of up to 100 percent in Mexican "national suppliers" of parts, and up to 49 percent in other automotive parts enterprises, increasing to 100 percent after five years. Mexico's thresholds for the screening of takeovers in the automotive sector will be governed by NAFTA's investment provisions.

Corporate Average Fuel Economy Fleet Content

Under the NAFTA, the United States will modify the fleet content definition found in its Corporate Average Fuel Economy ("CAFE") rules, so that vehicle manufacturers may choose to have those Mexican-produced parts and vehicles they export to the United States classified as domestic. After 10 years, Mexican production exported to the United States will receive the same treatment as U.S. or Canadian production for purposes of CAFE. Canadian-produced automobiles currently may be classified as domestic for CAFE purposes. The NAFTA does not change the minimum fuel economy standards for vehicles sold in the United States.

Automotive Standards

The NAFTA creates a special intergovernmental group to review and make recommendations on federal automotive standards in the three countries, including recommendations to achieve greater compatibility in such standards.

Energy and Basic Petrochemicals

This section sets out the rights and obligations of the three countries regarding crude oil, gas, refined products, basic petrochemicals, coal, electricity and nuclear energy.

In the NAFTA, the three countries confirm their full respect for their constitutions. They also recognize the desirability of strengthening the important role that trade in energy and basic petrochemical goods plays in the North American region and of enhancing this role through sustained and gradual liberalization.

The NAFTA's energy provisions incorporate and build on GATT disciplines regarding quantitative restrictions on imports and exports as they apply to energy and basic petrochemical trade. The NAFTA provides that under these disciplines a country may not impose minimum or maximum import or export price requirements, subject to the same exceptions that apply to quantitative restrictions. The NAFTA also makes clear that each country may administer export and import licensing systems, provided that they are operated in a manner consistent with the provisions of the Agreement. In addition, no country may impose a tax, duty or charge on the export of energy or basic petrochemical goods unless the same tax, duty or charge is applied to such goods when consumed domestically.

This section also provides that import and export restrictions on energy trade will be limited to certain specific circumstances, such as to conserve exhaustible natural resources, deal with a short supply situation or implement a price stabilization plan.

Further, when a NAFTA country imposes any such restriction, it must not reduce the proportion of total supply made available to the other NAFTA countries below the level of the preceding three years or other agreed period, impose a higher price on exports to another NAFTA country than the domestic price or require the disruption of normal supply channels. Based on a reservation that Mexico has taken, these obligations do not apply as between Mexico and the other NAFTA countries.

This section also limits the grounds on which a NAFTA country may restrict exports or imports of energy or basic petrochemical goods for reasons of national security. However, based on a reservation that Mexico has taken, energy trade between Mexico and the other NAFTA countries will not be subject to this discipline, but will instead be governed by the Agreement's general national security provision, described in the "Exceptions" section below.

The NAFTA confirms that energy regulatory measures are subject to the Agreement's general rules regarding national treatment, import and export restrictions and export taxes. The three countries also agree that the implementation of regulatory measures should be undertaken in a manner that recognizes the importance of a stable regulatory environment.

In the NAFTA, Mexico reserves to the Mexican State goods, activities and investments in Mexico in the oil, gas, refining, basic petrochemicals, nuclear and electricity sectors.

The NAFTA energy provisions recognize new private investment opportunities in Mexico in non-basic petrochemical goods and in electricity generating facilities for "own use", co-generation and independent power production by allowing NAFTA investors to acquire, establish and operate facilities in these activities. Investment in non-basic petrochemical goods is governed by the general provisions of the Agreement.

To promote cross-border trade in natural gas and basic petrochemicals, NAFTA provides that state enterprises, end users and suppliers have the right to negotiate supply contracts. In addition, independent power producers, CFE (Mexico's state-owned electricity firm) and electric utilities in other NAFTA countries also have the right to negotiate power purchase and sale contracts.

Each country will also allow its state enterprises to negotiate performance clauses in their service contracts.

Certain specific commitments relating to special aspects of Canada-U.S. energy trade, set out in the Energy Chapter of the Canada-U.S. FTA, will continue to apply between the two countries.

Agriculture

The NAFTA sets out separate bilateral undertakings on cross-border trade in agricultural products, one between Canada and Mexico, and the other between Mexico and the United States. Both include a special transitional safeguard mechanism. As a general matter, the rules of the Canada-U.S. FTA on tariff and non-tariff barriers will continue to apply to agricultural trade between Canada and the United States. Trilateral provisions in the NAFTA address domestic support for agricultural goods and agricultural export subsidies.

Tariffs and Non-Tariff Barriers

Trade between Mexico and the United States: When the Agreement goes into effect, Mexico and the United States will eliminate immediately all non-tariff barriers to their agricultural trade, generally through their conversion to either "tariff-rate quotas" (TRQ's) or ordinary tariffs.

The TRQ's will facilitate the transition for producers of import-sensitive products in each country. No tariffs will be imposed on imports within the quota amount. The quantity eligible to enter duty-free under the TRQ will be based on recent average trade levels and will grow generally at three percent per year. The over-quota duty — initially established at a level designed to equal the existing tariff value of each non-tariff barrier — will progressively decline to zero during either a 10- or 15-year transition period, depending on the product.

Under the NAFTA, Mexico and the United States will eliminate immediately tariffs on a broad range of agricultural products. This means that roughly one-half of U.S.-Mexico bilateral agricultural trade will be duty-free when the Agreement goes into effect. All tariff barriers between Mexico and the United States will be eliminated no later than 10 years after the Agreement takes effect, with the exception of duties on certain highly sensitive products — including corn and dry beans for Mexico, and orange juice and sugar for the United States. Tariff phase-outs on these few remaining products will be completed after five more years.

Mexico and the United States will gradually liberalize bilateral trade in sugar. Both countries will apply TRQ's of equivalent effect on third country sugar by the sixth year after the Agreement goes into effect. All restrictions on trade in sugar between the two countries will be eliminated by the end of the 15-year transition period, except that sugar exported under the U.S. Sugar Re-Export Programs will remain subject to most-favored-nation (MFN) tariff rates.

Trade between Canada and Mexico: Canada and Mexico will eliminate all tariff and non-tariff barriers on their agricultural trade, with the exception of those in the dairy, poultry, egg and sugar sectors.

Canada will immediately exempt Mexico from import restrictions covering wheat, barley and their products, beef and veal, and margarine. Canada and Mexico will eliminate immediately or phase out within five years tariffs on many fruit and vegetable products, while tariffs on remaining fruit and vegetable products will be phased out over 10 years. A small number of these products will be subject to the special transitional safeguard described below.

Other than in the dairy, poultry and egg sectors, Mexico will replace its import licenses with tariffs, for example on wheat, or TRQ's, for example respecting corn and barley. These tariffs will generally be phased out over a 10-year period.

Special Safeguard Provision

During the first 10 years the Agreement is in effect, the NAFTA provides a special safeguard provision that applies to certain products within the scope of the bilateral undertakings described above. A NAFTA country may invoke the mechanism where imports of such products from the other country reach "trigger" levels set out in the Agreement. In such circumstances, the importing country may apply the tariff rate in effect at the time the Agreement went into effect or the then-current MFN rate, whichever is lower. This tariff rate may be applied for the remainder of the season or the calendar year, depending on the product. The trigger levels will increase over this 10-year period.

Domestic Support

Recognizing both the importance of domestic support measures to their respective agricultural sectors and the potential effect of such measures on trade, each of the NAFTA countries will endeavor to move toward domestic support policies that are not trade- distorting. In addition, the three countries recognize that a country may change its domestic support mechanisms so long as such change is in compliance with applicable GATT obligations.

Export Subsidies

Recognizing that the use of export subsidies within the free trade area is inappropriate except to counter subsidized imports from a non-NAFTA country, the Agreement provides that:

- a NAFTA exporting country must give three-days' notice of its intent to introduce a subsidy on agricultural exports to another NAFTA country;
- when an exporting NAFTA country believes that another NAFTA country is importing non-NAFTA agricultural goods that benefit from export subsidies, it may request consultations on measures the importing country could take against such subsidized imports; and
- if the importing country adopts mutually agreed measures to counter that subsidy, the NAFTA exporting country will not introduce its own export subsidy.

Building on the bilateral discipline on export subsidies in the Canada-U.S. FTA, the three countries will work toward the elimination of export subsidies in North American agricultural trade in pursuit of their objective of eliminating such subsidies worldwide.

Agricultural Marketing Standards

The NAFTA provides that when either Mexico or the United States applies a measure regarding the classification, grading or marketing of a domestic agricultural product, it will provide no less favorable treatment to like products imported from the other country for processing.

Resolution of Commercial Disputes

The three countries will work toward development of a mechanism for resolving private cross-border commercial disputes involving agricultural products.

Committee on Agricultural Trade

A trilateral committee on agricultural trade will monitor the implementation and administration of this section. In addition, a Mexico-U.S. working group and a Canada-Mexico working group will be established under the committee to review the operation of grade and quality standards.

Sanitary and Phytosanitary Measures

This section imposes disciplines on the development, adoption and enforcement of sanitary and phytosanitary (SPS) measures, namely those taken for the protection of human, animal or plant life or health from risks arising from animal or plant pests or diseases, food additives or contaminants. These disciplines are designed to prevent use of SPS measures as disguised restrictions on trade, while safeguarding each country's right to take SPS measures to protect human, animal or plant life or health.

Basic Rights and Obligations

The NAFTA confirms the right of each country to establish the level of SPS protection that it considers appropriate and provides that a NAFTA country may achieve that level of protection through SPS measures that:

- are based on scientific principles and a risk assessment;
- are applied only to the extent necessary to provide a country's chosen level of protection; and
- do not result in unfair discrimination or disguised restrictions on trade.

International Standards

To avoid creating unnecessary barriers to trade, the NAFTA encourages the three countries to use relevant international standards in the development of their SPS measures. However, it permits each country to adopt more stringent, science-based measures when necessary to achieve its chosen level of protection.

The NAFTA partners will promote the development and review of international SPS standards in such international and North American standardizing organizations as the Codex Alimentarius Commission, the International Office of Epizootics, the Tripartite Animal Health Commission, the International Plant Protection Convention and the North American Plant Protection Organization.

Harmonization and Equivalence

The three countries have agreed to work toward equivalent SPS measures without reducing any country's chosen level of protection of human, animal or plant life or health. Each NAFTA country will accept SPS measures of another NAFTA country as equivalent to its own, provided that the exporting country demonstrates that its measures achieve the importing country's chosen level of protection.

Risk Assessment

The NAFTA establishes disciplines on risk assessment, including for evaluating the likelihood of entry, establishment or spread of pests and diseases. SPS measures must be based on an assessment of risk to human, animal or plant life or health, taking into account risk assessment techniques developed by international or North American standardizing organizations. A NAFTA country may grant a phase-in period for compliance by goods from another NAFTA country where the phase-in would be consistent with ensuring the importing country's chosen level of SPS protection.

Adaptation to Regional Conditions

This section also establishes rules for the adaptation of SPS measures to regional conditions, in particular regarding pest- or disease-free areas and areas of low pest or disease prevalence. An exporting country must provide objective evidence whenever it claims that goods from its territory originate in a pest- or disease-free area or area of low pest or disease prevalence.

Procedural "Transparency"

The NAFTA requires public notice in most cases prior to the adoption or modification of any SPS measure that may affect trade in North America. The notice must identify the goods to be covered, and the objectives of and reasons for the measure. All SPS measures must be published promptly. Each NAFTA country will ensure that a designated inquiry point provides information regarding such measures.

Control, Inspection and Approval Procedures

The NAFTA also establishes rules governing procedures for ensuring the fulfillment of SPS measures. These rules allow for the continued operation of domestic control, inspection and approval procedures, including national systems for approving the use of additives or for establishing tolerances for contaminants in foods, beverages or feedstuffs, subject to such disciplines as national treatment, timeliness and procedural "transparency".

Technical Assistance

The three countries will facilitate the provision of technical assistance concerning SPS measures either directly or through appropriate international or North American standardizing organizations.

Committee on Sanitary and Phytosanitary Measures

A Committee on Sanitary and Phytosanitary Measures will facilitate the enhancement of food safety and sanitary conditions in the free trade area, promote the harmonization and equivalence of SPS measures and facilitate technical cooperation and consultations, including consultations regarding disputes involving SPS measures.

Technical Standards

This section applies to standards-related measures, namely standards, governmental technical regulations and the procedures used to determine that these standards and regulations are met. It recognizes the crucial role of these measures in promoting safety and protecting human, animal and plant life and health, the environment and consumers. The three countries have agreed not to use standards-related measures as unnecessary obstacles to trade, and will cooperate and work towards the enhancement and compatibility of these measures in the free trade area.

Basic Rights and Obligations

The NAFTA affirms that each country maintains the right to adopt, apply and enforce standards-related measures, to choose the level of protection it wishes to achieve through such measures and to conduct assessments of risk to ensure that those levels are achieved. In addition, the NAFTA affirms each country's rights and obligations under the GATT Agreement on Technical Barriers to Trade and other international agreements, including environmental and conservation agreements.

The NAFTA also sets out certain disciplines on the use of standards-related measures, with a view to facilitating trade between the NAFTA partners. For example, each country must ensure that its standards-related measures provide both national treatment and most-favored-nation treatment. That is, they must ensure that goods or specified services from the other two countries are treated no less favorably than like goods or services of national origin, and like goods or services from non-NAFTA countries.

International Standards

Each NAFTA country will use international standards as a basis for its standards-related measures if those standards are an effective and appropriate means to fulfill the country's objectives. However, each country retains the right to adopt, apply and enforce standards-related measures that result in a higher level of protection than would be achieved by measures based on international standards.

Compatibility

The NAFTA countries will work jointly to enhance safety, health and environmental and consumer protection. They will also seek to make their standards-related measures more compatible, taking into account international standard-setting activities, so as to facilitate trade and to reduce the additional costs that arise from having to meet different requirements in each country.

Conformity Assessment

Conformity assessment procedures are used to determine that the requirements set out in technical regulations or standards are fulfilled. The Agreement sets out a detailed list of rules governing these procedures to ensure that they do not create unnecessary obstacles to trade between the NAFTA countries.

Procedural "Transparency"

The NAFTA requires public notice in most cases prior to the adoption or modification of standards-related measures that may affect trade in North America. The notice must identify the goods or services to be covered and the objectives of and the reasons for the measure. Other NAFTA countries and anyone interested in a particular standards-related measure will be allowed to comment on it. Each NAFTA country will ensure that designated inquiry points are able to respond to questions and provide information regarding standards-related measures to other NAFTA countries and any interested person.

Technical Cooperation

Each country will, on request, provide to another NAFTA country technical advice, information and assistance on mutually agreed terms and conditions to enhance their standards-related measures. The Agreement encourages cooperation between the standardizing bodies of the NAFTA countries.

Committee on Standards-Related Measures

A Committee on Standards-Related Measures will monitor the implementation and administration of this section of the Agreement, facilitate the attainment of compatibility, enhance cooperation on developing, applying and enforcing standards-related measures and facilitate consultations regarding disputes in this area. Subcommittees and working groups will be created to deal with specific topics of interest. The Agreement provides that these subcommittees and working groups may invite the participation of scientists and representatives of interested non-governmental organizations from the three countries.

Emergency Action

This section of the Agreement establishes rules and procedures under which a NAFTA country may take "safeguard" actions to provide temporary relief to industries adversely affected by surges in imports. A transitional bilateral safeguard mechanism applies to emergency actions taken against import surges that result from tariff reductions under the NAFTA. A global safeguard applies to import surges from all countries.

The Agreement's procedures governing safeguard actions provide that relief may be imposed for only a limited period of time and require that the NAFTA country taking the action must compensate the NAFTA country against whose good the action is taken. If the countries are not able to agree on the appropriate compensation, the exporting country may take trade measures of equivalent effect to compensate for the trade effect of the safeguard.

Bilateral Safeguard

During the transition period, if increases in imports from another NAFTA country cause or threaten to cause serious injury to a domestic industry, a NAFTA country may take a safeguard action that temporarily suspends the agreed duty elimination or re-establishes the pre-NAFTA rate of duty. The injury must result from the elimination of duties under the NAFTA. Such a safeguard action may be taken only once, and for a maximum period of three years. In the case of certain extremely sensitive goods, a country may extend the safeguard action for a fourth year. Bilateral safeguard actions may be taken after the transition period only with the consent of the country whose good would be affected by such action.

Global Safeguard

The Agreement provides that where a NAFTA partner undertakes a safeguard action on a global or multilateral basis (in accordance with Article XIX of the GATT, which permits both tariff and quota-based safeguard measures), each NAFTA partner must be excluded from the action unless its exports:

- account for a substantial share of total imports of the good in question; and
- contribute importantly to the serious injury or the threat of injury.

The Agreement stipulates that a NAFTA country normally will not be considered to account for a substantial share of imports if it does not fall among the top five suppliers of the good. For a NAFTA country's goods to be deemed not to contribute importantly to injury, the rate of growth of imports of the goods entering from that country must be appreciably lower than that of total imports of those goods. Even if a NAFTA country is initially excluded from a safeguard action, the country taking the action has the right subsequently to include it in the action if a surge in imports from that country undermines the effectiveness of the action.

Procedural Requirements

This section also provides detailed procedures to guide the administration of safeguard measures, including:

- entrusting injury determinations to a specified administrative authority; and
- requirements for the form and content of petitions, the conduct of investigations, including public hearings to allow all interested parties an opportunity to present views, and notification and publication of investigations and decisions.

Review of Antidumping and Countervailing Duty Matters

The NAFTA establishes a mechanism for independent binational panels to review final antidumping (AD) and countervailing duty (CVD) determinations by administrative authorities in each country. Each country will make those changes to its law necessary to ensure effective panel review. This section also sets out procedures for panel review of future amendments to each country's antidumping and countervailing duty laws. In addition, it establishes an "extraordinary challenge" procedure to deal with allegations that certain actions may have affected a panel's decision and the panel review process. Finally, the NAFTA creates a safeguard mechanism designed to remedy instances in which application of a country's domestic law undermines the functioning of the panel process.

Panel Process

Binational panels will substitute for domestic judicial review in cases in which either the importing or exporting country seeks panel review of a determination based on a request by a person entitled to judicial review of that determination under the domestic law of the importing country.

Each panel will comprise five qualified individuals from the countries involved, drawn from a roster maintained by the three countries. Each country involved will select two panelists, with the fifth selected by agreement of those countries or, in the absence of agreement, by the agreement of the four designated panelists or by lot.

A panel must apply the domestic law of the importing country in reviewing a determination. The three countries will develop rules of procedure for panels. The panel will either uphold the determination or remand it to the administrative authority for action not inconsistent with the panel's decision. Panel decisions will be binding.

Retention of AD and CVD Laws

The NAFTA explicitly preserves the right of each country to retain its AD and CVD laws. Each country may amend its AD and CVD laws after the NAFTA takes effect. Any such amendment, to the extent it applies to imports from another NAFTA country, may be subject to panel review for inconsistency with the object and purpose of the Agreement, the GATT or the relevant GATT codes. If a panel finds such an inconsistency, and consultations fail to resolve the matter, the country that requested the review may take comparable legislative or administrative action or terminate the Agreement.

Extraordinary Challenge Procedure

The NAFTA also provides for an extraordinary challenge procedure and establishes certain grounds for invoking this procedure. Following a panel decision, either of the countries involved may request the establishment of a three-person extraordinary challenge committee, comprising judges or former judges from those countries. If it determines that one of the grounds for the extraordinary challenge has been met, it will vacate the original panel decision. In such event, a new panel will be established.

Special Committee to Safeguard the Panel Process

This section provides a safeguard mechanism to ensure that the panel process functions as intended. A NAFTA country may request a "special committee" to determine if the application of another country's domestic law has:

- prevented the establishment of a panel;
- prevented a panel from rendering a final decision;
- prevented the implementation of a panel's decision or denied it binding force and effect; or
- failed to provide opportunity for judicial review of the basis for the disputed administrative determination by an independent court applying the standards set out in the country's domestic law.

If a special committee makes an affirmative finding on any of these grounds, the countries involved will attempt to resolve the matter in the light of the special committee's finding. If they are unable to do so, the complaining country may suspend the binational panel system with respect to the other country or may suspend other benefits under the Agreement. If the complaining country suspends the panel system, the country complained against may take reciprocal action. Unless the countries involved resolve the matter, or unless the country complained against demonstrates to the special committee that it has taken the necessary corrective action, any suspension of benefits may remain in effect.

Government Procurement

The Agreement opens a significant portion of the government procurement market in each NAFTA country on a non-discriminatory basis to suppliers from the other NAFTA countries for goods, services and construction services.

Coverage

The NAFTA covers procurements by specified federal government departments and agencies and federal government enterprises in each NAFTA country.

The NAFTA applies to procurements by federal government departments and agencies of:

- over US$50,000 for goods and services; and
- over US$6.5 million for construction services.

For federal government enterprises, the NAFTA applies to procurements of:

- over US$250,000 for goods and services; and
- over US$8 million for construction services.

For procurements covered by the Canada-U.S. FTA, the dollar thresholds of that Agreement will continue to apply.

Mexico will phase in its coverage over a transition period.

This section does not apply to the procurement of arms, ammunition, weapons and other national security procurements. Each country reserves the right to favor national suppliers for procurements specified in the Agreement.

Procedural Obligations

In addition to requiring national and most-favored NAFTA country treatment, the Agreement imposes procedural disciplines on covered procurements that:

- promote transparency and predictability by providing rules for technical specifications, qualifications of suppliers, setting of time limits and other aspects of the procurement process;
- prohibit offset practices and other discriminatory buy-national requirements; and
- require each country to establish a bid protest system that allows suppliers to challenge procedures or awards.

Technical Cooperation

The three countries will exchange information regarding their procurement systems to assist suppliers in each country to take advantage of the opportunities created by this section.

A Committee on Small Business will assist NAFTA small businesses to identify procurement opportunities in NAFTA countries.

Future Negotiations

Recognizing that improvements to NAFTA's procurement section are desirable, the three countries will endeavor to extend the coverage of this section to state and provincial governments that, after consultations, voluntarily accept its commitments.

Cross-Border Trade In Services

The NAFTA expands on initiatives in the Canada-U.S. FTA and the Uruguay Round of multilateral trade negotiations to create internationally-agreed disciplines on government regulation of trade in services. The cross-border trade in services provisions establish a set of basic rules and obligations to facilitate trade in services between the three countries.

National Treatment

The Agreement extends to services the basic obligation of national treatment, which has long been applied to goods through the GATT and other trade agreements. Under NAFTA's national treatment rule, each NAFTA country must treat service providers of the other NAFTA countries no less favorably than it treats its own service providers in like circumstances.

With respect to measures of a state or province, national treatment means treatment no less favorable than the most favorable treatment that the state or province accords to the service providers of the country of which it forms a part.

Most-Favored-Nation Treatment

The Agreement also applies another basic GATT obligation to services: that of most-favored-nation treatment. This rule requires each NAFTA country to treat service providers of the other NAFTA countries no less favorably than it treats service providers of any other country in like circumstances.

Local Presence

Under the Agreement, a NAFTA country may not require a service provider of another NAFTA country to establish or maintain a residence, representative office, branch or any other form of enterprise in its territory as a condition for the provision of a service.

Reservations

Each NAFTA country will be able to keep certain current laws and other measures that do not comply with the rules and obligations described above. Such federal, state and provincial measures will be listed in the Agreement. Each NAFTA country will have up to two years to complete the list of state and provincial measures of this kind. All such measures currently in force at the municipal and other local government level may be retained.

Each NAFTA country may renew or amend its non-conforming measures provided that the renewal or amendment does not make a measure more inconsistent with the rules and obligations described above.

Non-Discriminatory Quantitative Restrictions

Each country will also list its existing non-discriminatory measures that limit the number of service providers or the operations of service providers in a particular sector. Any other NAFTA country will be able to request consultations on such measures with a view to negotiating their liberalization or removal.

Licensing and Certification

The NAFTA provisions related to professional licensing and certification are designed to avoid unnecessary barriers to trade. Specifically, each country must seek to ensure that its licensing and certification requirements and procedures are based on objective and transparent criteria such as professional competence, are no more burdensome than is necessary to ensure the quality of the service and are not in themselves a restriction on the provision of the service. This section also provides a mechanism for the mutual recognition of licenses and certifications, but does not require a NAFTA country automatically to recognize the credentials of service providers of another country. In particular, the three countries will undertake a work program with a view to liberalizing the licensing of foreign legal consultants and the temporary licensing of engineers.

Commencing two years after implementation of the Agreement, a NAFTA country will remove any citizenship or permanent residency requirement for the licensing and certification of professional service providers in its territory. Any failure to comply with this obligation will entitle the other NAFTA countries to maintain or reinstate equivalent requirements in the same service sector.

Denial of Benefits

A NAFTA country may deny the benefits of this section to a specific firm if the services involved are provided through an enterprise of another NAFTA country that is owned or controlled by persons of a non-NAFTA country and the enterprise has no substantive business activities in the free trade area. In addition, for transportation services, a NAFTA country may deny benefits to a firm if these services are provided with equipment that is not registered by any of the NAFTA countries.

Exclusions

The services section does not apply to a number of matters dealt with in other parts of the Agreement, including government procurement, subsidies, financial services and energy-related services. The rules described above also will not affect most air services, basic telecommunications, social services provided by the government of any NAFTA country, the maritime industry except for certain services between Canada and Mexico and sectors currently reserved by the Mexican Constitution to the Mexican State and Mexican nationals. Each NAFTA country maintains the right to take action necessary to enforce measures of general application that are consistent with the Agreement, such as regarding deceptive practices.

Land Transportation

The NAFTA provides a timetable for the removal of barriers to the provision of land transportation services between the NAFTA countries and for the establishment of compatible land transport technical and safety standards. It provides for the phase out of restrictions on cross-border land transportation services among the three countries in order to create equal opportunities in the North American international land transportation market. The provisions are designed to ensure that the land transportation services industries of the three countries will have a full opportunity to enhance their competitiveness without being placed at a disadvantage during the transition to liberalized trade.

Liberalization of Restrictions

Bus and Trucking Services: When the NAFTA goes into effect, the United States will amend its moratorium on grants of truck and bus operating authority by allowing full access for Mexican charter and tour bus operators to its cross-border market. Mexico will grant equivalent rights to U.S. and Canadian charter and tour bus operators. Canadian truck and bus companies are not subject to the U.S. moratorium. Canada will continue to permit U.S. and Mexican truck and bus operators to obtain operating authority in Canada on a national treatment basis.

Three years after signature of the Agreement, Mexico will allow U.S. and Canadian truck operators to make cross-border deliveries to, and pick up cargo in, Mexican border states, and the United States will allow Mexican truck operators to perform the same services in U.S. border states. At the same time, Mexico will allow 49 percent Canadian and U.S. investment in bus companies and in truck companies providing international cargo services (including point-to-point distribution of such cargo within Mexico). The United States and Canada will permit Mexican truck companies to distribute international cargo as well. The United States will maintain its moratorium on grants of operating authority for truck carriage of domestic cargo and for domestic passenger service, continuing to allow Mexicans to hold a non-controlling interest in U.S. companies.

Three years after the Agreement goes into effect, the United States will allow bus firms from Mexico to begin scheduled cross-border bus service to and from any part of the United States. At the same time, Mexico will provide the same treatment to bus firms from Canada and the United States.

Six years after the Agreement goes into effect, the United States will provide cross-border access to its entire territory to trucking firms from Mexico. Mexico will provide the same treatment to trucking firms from Canada and the United States.

Seven years after the Agreement goes into effect, Mexico will allow 51 percent Canadian and U.S. investment in Mexican bus companies and in Mexican truck companies providing international cargo services. At the same time, the United States will lift its moratorium on domestic operating authority for Mexican bus companies.

Ten years after the Agreement goes into effect, Mexico will permit 100 percent investment in truck and bus companies in Mexico. No NAFTA country will be required to remove restrictions on truck carriage of domestic cargo.

Rail Services: Under the Agreement and consistent with a Mexican reservation taken pursuant to its Constitution, Canadian and U.S. railroads will continue to be free to market their services in Mexico, operate unit trains with their own locomotives, construct and own terminals and finance rail infrastructure. Mexico will continue to enjoy full access to the Canadian and U.S. railroad systems. The Agreement does not affect each NAFTA country's immigration law requirements for crews to change at or near their borders.

Port Services: The Agreement also liberalizes land-side aspects of marine transport. Mexico will immediately allow 100 percent Canadian and U.S. investment in, and operation of, port facilities such as cranes, piers, terminals and stevedoring companies for enterprises that handle their own cargo. For enterprises handling other companies' cargo, 100 percent Canadian and U.S. ownership will be allowed after screening by the Mexican Foreign Investment Commission. Canada and the United States will continue to permit full Mexican participation in these activities.

Technical and Safety Standards

Consistent with their commitment to enhance safety, health and environmental and consumer protection, the NAFTA partners will endeavor to make compatible, over a period of six years, their standards-related measures with respect to motor carrier and rail operations, including:

- vehicles, including equipment such as tires and brakes, weights and dimensions, maintenance and repair and certain aspects of emission levels;
- non-medical testing and licensing of truck drivers;
- medical standards for truck drivers;
- locomotives and other rail equipment and operating personnel standards relevant to cross-border operations;
- standards relating to the transportation of dangerous goods; and
- road signs and supervision of motor carrier safety compliance.

Access to Information

Each NAFTA country will designate contact points to provide information regarding land transportation matters such as those related to operating authorizations and safety requirements.

Review Process

Beginning five years after the Agreement goes into effect, a committee of government officials will consider the effectiveness of liberalization in the land transportation sector, including any specific problems or unanticipated effects liberalization might have on each country's motor carrier industry. No later than seven years after the Agreement goes into effect, consultations will also address possible further liberalization. The results of these consultations will be forwarded to the NAFTA Trade Commission for appropriate action.

Telecommunications

NAFTA provides that public telecommunications transport networks ("public networks") and services are to be available on reasonable and non-discriminatory terms and conditions for firms or individuals who use those networks for the conduct of their business. These uses include the provision of enhanced or value-added telecommunications services and intracorporate communications. However, the operation and provision of public networks and services have not been made subject to the NAFTA.

Access to and Use of Public Networks

The three countries will ensure that reasonable conditions of access and use include the ability to:

- lease private lines;
- attach terminal or other equipment to public networks;
- interconnect private circuits to public networks;
- perform switching, signalling and processing functions; and
- use operating protocols of the user's choice.

Moreover, conditions on access and use may be imposed only if necessary to safeguard the public service responsibilities of network operators or to protect the technical integrity of public networks. Provided that these criteria are met, such conditions on access and use may include restrictions on resale or shared use of public telecommunications transport services, requirements to use specified technical interfaces with public networks or services and restrictions on the interconnection of private circuits to provide public networks or services.

Rates for public telecommunications transport services must reflect economic costs, and private leased circuits must be available on a flat-rate pricing basis. However, NAFTA does not prohibit cross-subsidization between public telecommunications transport services. In addition, firms or individuals may use public networks and services to move information within a country and across NAFTA borders.

The provisions in this section do not apply to measures affecting the distribution of radio or television programming by broadcast stations or cable systems, which will have continued access to and use of public networks and services.

Exclusions and Limitations

The three countries are not required to authorize a person of another NAFTA country to provide or operate telecommunications transport networks or services and may prohibit operators of private networks from providing public networks and services.

Enhanced Telecommunications

The NAFTA provides that each country will ensure that its licensing or other authorization procedures for the provision of enhanced or value-added telecommunications services are transparent, non-discriminatory and applied expeditiously. Enhanced providers of the three countries will not be subject to obligations that are normally imposed on providers of public networks and services, such as providing services to the public generally or cost-justifying their rates.

Standards-Related Measures

The NAFTA limits the types of standards-related measures that may be imposed on the attachment of telecommunications equipment to public networks. Such measures must be necessary to prevent technical damage to, and interference with, public networks and services, to prevent billing equipment malfunctions and to ensure user safety and access. In addition, any technically qualified entity will be permitted to test equipment to be attached to public networks. This section also establishes procedures in each country to permit the acceptance of equipment test results conducted in the other NAFTA countries.

Monopoly Provision of Services

The NAFTA recognizes that a country may maintain or designate a monopoly provider of public networks or services. Each country will ensure that any such monopoly does not abuse its monopoly position by engaging in anti-competitive conduct outside its monopoly that adversely affects a person of another NAFTA country.

Provision of Information

Information affecting access to and use of public networks and services must be made publicly available, including:

- tariffs and other terms and conditions of service;
- specification of network and service technical interfaces;
- information on standardizing organizations;
- conditions for the attachment of terminal or other equipment; and
- notification, permit, registration or licensing requirements.

Technical Cooperation

The NAFTA countries will cooperate in the exchange of technical information and in the development of government-to-government training programs. Recognizing the importance to global telecommunications of international standards, they will also promote such standards through the work of the International Telecommunications Union, the International Organization for Standardization and other relevant international organizations.

Investment

The NAFTA removes significant investment barriers, ensures basic protections for NAFTA investors and provides a mechanism for the settlement of disputes between such investors and a NAFTA country.

Coverage

This section covers investments in one country by NAFTA investors from another NAFTA country. NAFTA investors include all enterprises with substantial business activities in a NAFTA country. Investment covers all forms of ownership and interests in a business enterprise, tangible and intangible property and contractual investment interests.

Non-Discriminatory and Minimum Standards of Treatment

Each country will treat NAFTA investors and their investments no less favorably than its own investors — national treatment — and investors of other countries — most-favored-nation treatment. With respect to measures of a state, provincial or local government, national treatment is defined to mean treatment no less favorable than the most favorable treatment accorded to investors of the country of which it forms a part. In addition, each country must provide investments of NAFTA investors treatment in accordance with international law, including fair and equitable treatment and full protection and security.

Performance Requirements

No NAFTA country may impose specified "performance requirements" in connection with any investments in its territory, namely specified export levels, minimum domestic content, preferences for domestic sourcing, trade balancing, technology transfer or product mandating. However, these disciplines do not apply to any NAFTA country's government procurement, export promotion or foreign aid activities.

Transfers

NAFTA investors will be able to convert local currency into foreign currency at the prevailing market rate of exchange for earnings, proceeds of a sale, loan repayments or other transactions associated with an investment. Each NAFTA country will ensure that such foreign currency may be freely transferred.

Expropriation

No NAFTA country may directly or indirectly expropriate investments of NAFTA investors except for a public purpose, on a non-discriminatory basis and in accordance with principles of due process of law. Compensation to the investor must be paid without delay at the fair market value of the expropriated investment, plus any applicable interest.

Dispute Settlement

This section sets out a detailed mechanism for the resolution of investment disputes involving a breach of the NAFTA investment rules by the host country. A NAFTA investor, at its option, may seek either monetary damages through binding investor-state arbitration or the remedies that are available in the host country's domestic courts.

Country-Specific Commitments and Exceptions

The NAFTA includes explicit country-specific liberalization commitments and exceptions to the national treatment, MFN and performance requirement rules. In the case of Mexico, these exceptions take into account constitutional requirements reserving certain activities to the Mexican State. Each country will specify exceptions for state and provincial measures within two years. Exceptions may not be made more restrictive and, if liberalized, may not subsequently be made more restrictive. However, a few sectors, such as basic telecommunications, social services and maritime services, are not subject to this constraint.

Canada may review acquisitions as provided in the Canada-U.S. FTA. Mexico may review acquisitions with an initial threshold of $25 million phased up to $150 million in the tenth year after the Agreement goes into effect. Threshold levels will be indexed.

Exceptions

The investment provisions do not apply to government procurement and subsidies. Other provisions of the Agreement address exceptions related to national security and to Canada's cultural industries.

Investment and the Environment

The NAFTA provides that no country should lower its environmental standards to attract an investment and that the countries will consult on the observance of this provision.

The Agreement also specifies that a country may take action consistent with the NAFTA's investment provisions to protect its environment.

Competition Policy, Monopolies and State Enterprises

The NAFTA includes provisions on anticompetitive government and private business practices, in recognition that disciplines in this area will help fulfill the objectives of the Agreement.

Competition Policy

Each NAFTA country will adopt or maintain measures against anticompetitive business practices and will cooperate on issues of competition law enforcement and other competition issues.

Monopolies and State Enterprises

State Enterprises: The Agreement requires any enterprise owned or controlled by a federal, provincial or state government to act in a manner consistent with that country's NAFTA obligations when exercising regulatory, administrative or other governmental authority, such as the granting of licenses.

Monopolies: The NAFTA imposes certain additional disciplines on current and future federal government-owned monopolies and on any privately-owned monopoly that a NAFTA country may designate in the future. When buying or selling a monopoly good or service, the monopoly must follow commercial considerations, consistent with the terms of its government mandate, and must not discriminate against goods or businesses of the other NAFTA countries. NAFTA provides that each country must ensure that such monopolies do not use their monopoly positions to engage in anticompetitive practices in non-monopoly markets in that country's territory.

Trade and Competition Committee

A trilateral committee will consider issues concerning the relationship between competition laws and policies and trade in the free trade area.

Financial Services

The NAFTA establishes a comprehensive principles-based approach to disciplining government measures regulating financial services. This section covers measures affecting the provision of financial services by financial institutions in the banking, insurance and securities sectors as well as other financial services. The section also sets out certain country-specific liberalization commitments, transition periods for compliance with the agreed principles and certain reservations listed by each country.

Principles

Commercial Presence and Cross-Border Services: Under the Agreement, financial service providers of a NAFTA country may establish in any other NAFTA country banking, insurance and securities operations as well as other types of financial services. Each country must permit its residents to purchase financial services in the territory of another NAFTA country. In addition, a country may not impose new restrictions on the cross-border provision of financial services in a sector, unless the country has exempted that sector from this obligation.

Non-Discriminatory Treatment: Each country will provide both national treatment, including treatment respecting competitive opportunities, and most-favored-nation treatment to other NAFTA financial service providers operating in its territory. Under the Agreement, any measure that does not disadvantage financial service providers of another NAFTA country in their ability to provide financial services, by comparison to domestic providers, is deemed to provide equality of competitive opportunity.

Procedural "Transparency": In processing applications for entry into its financial services markets, each country will:

- inform interested persons of its requirements for completing applications;
- provide information on the status of an application on request;
- make an administrative determination on a completed application within 120 days, where possible;
- publish measures of general application no later than their effective date and, where practicable, allow interested persons the opportunity to comment on proposed measures; and
- establish one or more inquiry points to answer questions about its financial services measures.

Prudential and Balance of Payments Measures: The NAFTA ensures that each country retains the right to take reasonable prudential measures notwithstanding any other provision of the Agreement. It also provides that a country may take measures for balance-of-payment purposes under limited circumstances.

Consultations

The Agreement provides specific procedures for NAFTA countries to consult on financial services matters.

Country-Specific Commitments

Canada: Under the Canada-U.S. FTA, U.S. firms and individuals are exempt from the non-resident provisions of Canada's "10/25" rules. Under the NAFTA, Canada will extend this exemption to Mexican firms and individuals who will thus be exempt from Canada's prohibition against non-residents collectively acquiring more than 25 percent of the shares of a federally-regulated Canadian financial institution. Mexican banks will also not be subject to the combined 12 percent asset ceiling that applies to non-NAFTA banks, nor will they be required to seek the approval of the Minister of Finance as a condition of opening multiple branches in Canada.

Mexico: Mexico will permit financial firms organized under the laws of another NAFTA country to establish financial institutions in Mexico, subject to certain market share limits that will apply during a transition period ending by the year 2000. Thereafter, temporary safeguard provisions may be applicable in the banking and securities sectors.

Banking and Securities: During the transition period, Mexico will gradually increase the aggregate market share limit in banking from eight percent to 15 percent. For securities firms, the limit will increase from 10 percent to 20 percent over the same period. Mexico will apply individual market share caps of 1.5 percent for banks and four percent for securities dealers during the transition period. After the transition period, bank acquisitions will remain subject to reasonable prudential considerations and a four percent market share limit on the resulting institution.

Insurance: Under the NAFTA, Canadian and U.S. insurers may gain access to the Mexican market in two ways. First, firms that form joint ventures with Mexican insurers may increase their foreign equity participation in such ventures in steps from 30 percent in 1994 to 51 percent by 1998, and to 100 percent by the year 2000. These firms will not be subject to aggregate or individual market share limits. Second, foreign insurers may establish subsidiaries, subject to aggregate limits of six percent of market share, gradually increasing to 12 percent in 1999, and subject to individual market share caps of 1.5 percent. These limits will be eliminated on January 1, 2000. Canadian and U.S. firms that currently have an ownership interest in Mexican insurers may increase their equity participation to 100 percent by January 1, 1996. Intermediary and auxiliary insurance services companies will be permitted to establish subsidiaries with no ownership or market share limits when the Agreement goes into effect.

Finance Companies: Mexico will permit Canadian and U.S. finance companies, on terms no less favorable than those accorded to Mexican institutions, to establish separate subsidiaries in Mexico to provide consumer lending, commercial lending, mortgage lending or credit card services. However, during the transition period, the aggregate assets of such subsidiaries may not exceed three percent of the sum of the aggregate assets of all banks in Mexico plus the aggregate assets of all types of limited-scope financial institutions in Mexico. Lending by affiliates of automotive companies with respect to the vehicles such companies produce will not be subject to, or taken into account in, the three percent limit.

Other Firms: NAFTA factoring and leasing companies will be subject to transition limits on aggregate market share in Mexico of the same duration and magnitude as those applying to securities firms, except that they will not be subject to individual market share limits. NAFTA warehousing and bonding companies, foreign exchange houses and mutual fund management companies will be permitted to establish subsidiaries with no ownership or market share limits when the Agreement goes into effect.

United States: The United States will permit any Mexican financial group that has lawfully acquired a Mexican bank with operations in the United States to continue to operate a securities firm in the United States for five years after the acquisition. The acquisition must occur before the NAFTA goes into effect and the bank and securities firm involved must have been operating in the U.S. market on January 1, 1992 and June 30, 1992, respectively. The securities firm may not expand the scope of its activities or acquire other securities firms in the United States, and will be subject to nondiscriminatory restrictions on transactions between it and its affiliates. Other than these provisions, nothing in this commitment will affect the U.S. banking operations of a Mexican financial group.

Canada-United States: Financial services commitments of Canada and the United States to each other under the Canada-U.S. FTA will be incorporated into the NAFTA.

Intellectual Property

Building on the work done in the GATT and various international intellectual property treaties, NAFTA establishes a high level of obligations respecting intellectual property. Each country will provide adequate and effective protection of intellectual property rights on the basis of national treatment and will provide effective enforcement of these rights against infringement, both internally and at the border.

The Agreement sets out specific commitments regarding the protection of:

- copyrights, including sound recordings;
- patents;
- trademarks;
- plant breeders' rights;
- industrial designs;
- trade secrets;
- integrated circuits (semiconductor chips); and
- geographical indications.

Copyright

For copyright, the Agreement's obligations include requirements to:

- protect computer programs as literary works and databases as compilations;
- provide rental rights for computer programs and sound recordings; and
- provide a term of protection of at least 50 years for sound recordings.

Patents

The NAFTA provides protection for inventions by requiring each country to:

- provide product and process patents for virtually all types of inventions, including pharmaceuticals and agricultural chemicals;
- eliminate any special regimes for particular product categories, any special provisions for acquisition of patent rights and any discrimination in the availability and enjoyment of patent rights made available locally and abroad; and
- provide patent owners the opportunity to obtain product patent protection for pharmaceutical and agricultural chemical inventions for which product patents were previously unavailable.

Other Intellectual Property Rights

This section also provides rules for protecting:

- service marks to the same extent as trademarks;
- encrypted satellite signals against illegal use;
- trade secrets generally, as well as for protecting from disclosure by the government test data submitted by firms regarding the safety and efficacy of pharmaceutical and agri-chemical products;
- integrated circuits, both directly and in goods that incorporate them; and
- geographical indications so as to avoid misleading the public, while protecting trademark owners.

Enforcement Procedures

The NAFTA also includes detailed obligations regarding:

- procedures for the enforcement of intellectual property rights, including provisions on damages, injunctive relief and general due process issues; and
- enforcement of intellectual property rights at the border, including safeguards to prevent abuse.

Temporary Entry for Business Persons

Taking account of the preferential trading relationship between the NAFTA countries, this section sets out commitments by the three countries to facilitate on a reciprocal basis temporary entry into their respective territories of business persons who are citizens of Canada, Mexico or the United States.

The NAFTA does not create a common market for the movement of labor. Each NAFTA country maintains its rights to protect the permanent employment base of its domestic labor force, to implement its own immigration policies and to protect the security of its borders.

This section's rules governing entry of business persons, constructed along the lines of similar provisions of the Canada-U.S. FTA, are tailored to meet the needs of all NAFTA partners.

Each country will grant temporary entry to four categories of business persons:

- *business visitors* engaged in international business activities for the purpose of conducting activities related to research and design, growth, manufacture and production, marketing, sales, distribution, after-sales service and other general services;
- *traders* who carry on substantial trade in goods or services between their own country and the country they wish to enter, as well as *investors* seeking to commit a substantial amount of capital in that country, provided that such persons are employed or operate in a supervisory or executive capacity or one that involves essential skills;
- *intra-company transferees* employed by a company in a managerial or executive capacity or one that involves specialized knowledge and who are transferred within that company to another NAFTA country; and
- *certain categories of professionals* who meet minimum educational requirements or who possess alternative credentials and who seek to engage in business activities at a professional level in that country.

Mexico and the United States have agreed to an annual numerical limit of 5,500 Mexican professionals entering the United States. This number is in addition to those admitted under a similar category in U.S. law that is subject to a global limitation of 65,000 professionals, but which remains unaffected by the NAFTA. The numerical limit of 5,500 may be increased by agreement between the United States and Mexico, and will expire 10 years after the Agreement goes into effect unless the two countries decide to remove the limit earlier. Canada has not set a numerical limit with respect to Mexico.

Consultations

The three countries will consult through a specialized working group on temporary entry matters. As part of its work, the group will consider providing temporary entry to spouses of business persons granted entry under NAFTA for periods of one year or more as traders and investors, intra-company transferees and professionals.

Provision of Information

Each country will publish clear explanatory material on procedures that business persons must follow to take advantage of the NAFTA temporary entry provisions.

Non-Compliance

The dispute settlement provisions of the Agreement may be invoked only if a country claims, on the basis of repeated practices, that another country has not complied with the temporary entry provisions.

Institutional Arrangements and Dispute Settlement Procedures

Institutional Arrangements

This section establishes the institutions responsible for implementing the Agreement, ensuring its joint management and for avoiding and settling any disputes between the NAFTA countries regarding its interpretation and application.

Trade Commission: The central institution of the Agreement is the Trade Commission, comprising Ministers or cabinet-level officers designated by each country. Regular meetings are to be held annually, although the day-to-day work of the Commission will be carried out by officials of the three governments participating in the various committees and working groups mandated by the Agreement, operating on the basis of consensus.

Secretariat: The NAFTA establishes a Secretariat to serve the Commission as well as other subsidiary bodies and dispute settlement panels. The administrative and technical support that the Secretariat will provide is designed to assist the Commission to ensure effective and joint management of the free trade area.

Dispute Settlement Procedures

The dispute settlement procedures of the NAFTA provide expeditious and effective means for the resolution of disputes.

Consultations: Whenever any matter arises that could affect a country's rights under the Agreement, it may request consultations and the countries concerned will promptly consult on the matter. The NAFTA places priority on reaching an amicable settlement. The third country may participate, or may seek its own consultations.

The Role of the Commission: Should the consultations fail to resolve the matter within 30 to 45 days, any country may call a meeting of the Trade Commission with all three countries present. The NAFTA directs the Commission to seek to settle the dispute promptly. The Commission may use good offices, mediation, conciliation or other means of alternative dispute resolution to this end.

Initiation of Panel Proceedings: If the countries concerned are unable to reach a mutually satisfactory resolution through the Commission, any consulting country may initiate panel proceedings.

Forum Selection

If a dispute could be brought under both the GATT and the NAFTA, the complaining country may choose either forum. If the third NAFTA country wants to bring the same case in the other forum, the two complaining countries will consult, with a view to agreement on a single forum. If those countries cannot agree, the dispute settlement proceeding normally will be heard by a NAFTA panel. Once selected, the chosen forum must be used to the exclusion of the other.

If a dispute involves factual issues regarding certain standards-related environmental, safety, health or conservation measures or if the dispute arises under specific environmental agreements, the responding country may elect to have the dispute considered by a NAFTA panel. The rules also set out procedures for addressing disputes relating to matters covered by the Canada-U.S. FTA.

Panel Procedures

If the complaining country elects to have the matter heard through NAFTA procedures, it may request the establishment of an arbitral panel. The third country may either join as a complaining country or limit its participation to oral and written submissions. The panel will typically be charged with making findings of fact and determining whether the action taken by the defending country is inconsistent with its obligations under the NAFTA, and may make recommendations for resolution of the dispute.

Panels will be composed of five members, who will normally be chosen from a trilaterally agreed roster of eminent trade, legal and other experts, including from countries outside the NAFTA. The NAFTA provides for a special roster of experts for disputes involving financial services.

The panel will be chosen through a process of "reverse selection" to ensure impartiality: the chair of the panel will be selected first, either by agreement of the disputing countries or, failing agreement, by designation of one disputing side, chosen by lot. The chair may not be a citizen of the side making the selection, and may be a non-NAFTA national. Each side will then select two additional panelists who are citizens of the country or countries on the other side. Whenever an individual not on the roster of panelists is nominated, any other disputing NAFTA country may exercise a peremptory challenge against that individual.

Rules of procedure, to be more fully elaborated by the Commission, provide for written submissions, rebuttals and at least one oral hearing. There are strict time limits to ensure prompt resolution. A special procedure permits scientific boards to provide expert advice to panels on factual questions related to the environment and other scientific matters.

Unless the disputing countries decide otherwise, within 90 days of a panel's selection, it will present to them a confidential initial report. They will then have 14 days in which to provide comments to the panel. Within 30 days of the presentation of its initial report, the panel will present its final report to the countries concerned. The report will then be transmitted to the Commission, which will normally publish it.

Implementation and Non-Compliance

Upon receiving the panel's report, the disputing countries are to agree on the resolution of the dispute, which will normally conform to the recommendations of the panel. If a panel determines that the responding country has acted in a manner inconsistent with its NAFTA obligations, and the disputing countries do not reach agreement within 30 days or other mutually agreed period after receipt of the report, the complaining country may suspend the application of equivalent benefits until the issue is resolved. Any country that considers the retaliation to be excessive may obtain a panel ruling on this question.

Alternate Dispute Resolution of Private Commercial Disputes

Special provisions, described in the investment section, set out procedures for international arbitration of disputes between investors and NAFTA governments. The NAFTA countries will also encourage and facilitate the use of alternative dispute resolution as a means of settling international commercial disputes between private parties in the NAFTA region. The three countries will provide for the enforcement of arbitral agreements and arbitral awards. The Agreement establishes an advisory committee concerning the use of alternative dispute resolution for such disputes.

Administration of Laws

Procedural "Transparency"

This section provides rules designed to ensure that laws, regulations and other measures affecting traders and investors will be accessible and will be administered fairly and in accordance with notions of due process by officials in all three countries. Each country will also ensure, under its domestic laws, independent administrative or judicial review of government action relating to matters covered by the NAFTA.

The NAFTA's notification and exchange of information provisions will allow each government the opportunity to consult on any action taken by another country that could affect the operation of the Agreement. These provisions are designed to assist the three countries to avoid or minimize potential disputes.

Contact Points

Each country will designate a contact point to facilitate communications between NAFTA countries.

Exceptions

The NAFTA includes provisions that ensure that the Agreement does not constrain a country's ability to protect its national interests.

General Exceptions

This provision permits a country to take measures otherwise inconsistent with its obligations affecting trade in goods to protect such interests as public morals, human, animal or plant life or health or national treasures, to conserve exhaustible natural resources or to take enforcement measures regarding such matters as deceptive practices or anticompetitive behavior. However, such measures must not result in arbitrary discrimination or disguised restrictions on trade between NAFTA countries.

National Security

Nothing in the Agreement will affect a NAFTA country's ability to take measures it considers necessary for the protection of its essential security interests.

Taxation

The NAFTA provides that, as a general matter, taxation questions will be governed by applicable double taxation agreements between the NAFTA countries.

Balance of Payments

Under the Agreement, a NAFTA country may take trade-restrictive measures to protect its balance of payments only in limited circumstances and in accordance with the rules of the International Monetary Fund.

Cultural Industries

The rights of Canada and the United States with respect to cultural industries will be governed by the Canada-U.S. FTA. Each country reserves the right to take measures of equivalent commercial effect in response to any action regarding cultural industries that would have been a violation of the Canada-U.S. FTA but for the cultural industries provisions. Such compensatory measures will not be limited by the obligations imposed by the NAFTA.

The rights and obligations between Canada and Mexico regarding cultural industries will be identical to those applying between Canada and the United States.

Final Provisions

Entry into Force

This section provides that the Agreement will enter into force on January 1, 1994, upon completion of domestic approval procedures.

Accession

The NAFTA provides that other countries or groups of countries may be admitted into the Agreement if the NAFTA countries agree, and subject to terms and conditions that they require and to the completion of domestic approval procedures in each country.

Amendments and Withdrawal

This section also provides for amendments to the Agreement, subject to domestic approval procedures. Any country may withdraw from the Agreement on six-months' notice.

Summary of Environmental Provisions

The three NAFTA countries have committed in the NAFTA to implementing the Agreement in a manner consistent with environmental protection and to promoting sustainable development. Specific provisions throughout the Agreement build upon these commitments. For example:

- The trade obligations of the NAFTA countries under specified international environmental agreements regarding endangered species, ozone-depleting substances and hazardous wastes will take precedence over NAFTA provisions, subject to a requirement to minimize inconsistency with the NAFTA. This ensures that the NAFTA will not diminish a country's right to take action under these environmental agreements.
- The Agreement affirms the right of each country to choose the level of protection of human, animal or plant life or health or of environmental protection that it considers appropriate.
- NAFTA also makes clear that each country may maintain and adopt standards and sanitary and phytosanitary measures, including those more stringent than international standards, to secure its chosen level of protection.
- The NAFTA countries will work jointly to enhance the protection of human, animal and plant life and health and the environment.
- The Agreement provides that no NAFTA country should lower its health, safety or environmental standards for the purpose of attracting investment.
- When a dispute regarding a country's standards raises factual issues concerning the environment, that country may choose to have the dispute submitted to NAFTA dispute settlement procedures rather than under the procedures of other trade agreements. This same option is available for disputes concerning trade measures taken under specified international environmental agreements.
- NAFTA dispute settlement panels may call on scientific experts, including environmental experts, to provide advice on factual questions related to the environment and other scientific matters.
- In dispute settlement, the complaining country bears the burden of proving that another NAFTA country's environmental or health measure is inconsistent with the NAFTA.

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Government of Canada
Gouvernement du Canada