

News Release

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CANADA-U.S. FREE TRADE AGREEMENT GOES INTO EFFECT

ON JANUARY 1, 1989

International Trade Minister, John C. Crosbie, today announced that with the Canada-United States Free Trade Agreement Implementation Act having received royal assent, Canada and the United States will proceed with an exchange of diplomatic notes in Washington and Ottawa on December 31, 1988, in order to bring the Free Trade Agreement into effect on January 1, 1989.

"The debate on Free Trade has stirred deep emotions in Canada," said Minister Crosbie. "It caused Canadians to examine themselves as a people and their place in the world."

"Years from now, I believe it will be said of this generation of Canadians that we made the right choice, that by choosing Free Trade we not only adopted better rules for trade with the U.S., we also affirmed our belief in a strong and sovereign Canada," said Mr. Crosbie.

"Free Trade yields clear advantages and creates new opportunities, but these of themselves do not guarantee greater success for enterprises in Canada," said Mr. Crosbie. "I hope and believe that Canadians will work together to build on these opportunities, to the benefit of our nation. That is the task now before us."

Attached is an outline of important changes that will occur when the Free Trade Agreement goes into effect.

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FTA IMPLEMENTATION - WHAT HAPPENS

When the Canada-U.S. Free Trade Agreement enters into force on January 1, 1989, a number of changes will immediately come into effect.

Tariffs

Tariffs will be completely removed on about 15 per cent of dutiable bilateral trade. Upon entry into force of the Agreement, such items as computers and equipment, fur and fur garments, fresh frozen fish, animal feed, skis and skates, and whisky will cross the border duty-free if they are of Canadian or U.S. origin. On the same date, tariffs will be reduced by 20 per cent on about one-third of dutiable traded goods. Such goods include machinery, paint, furniture, paper and paper products, hardwood plywood, petroleum and after-market auto parts. Each year on January 1, another 20 per cent of the tariff will be removed until these goods become duty-free on January 1, 1993. On the remaining goods, constituting about 50 per cent of dutiable bilateral trade and including such items as clothing and textiles, appliances, most processed foods, footwear, drugs and cosmetics, etc., tariffs will drop by 10 per cent on the date of entry into force, and 10 per cent each year thereafter until they become free of duty by January 1, 1998.

Removal of Embargos

Canada will lift its embargo on the importation of used or second-hand airplanes, and used cars eight years old or older may be imported into Canada. The age of used cars that may be imported will drop by two years each year until the embargo is eliminated on January 1, 1993. The U.S. will eliminate its embargo on the importation of lottery tickets and printed paper used as lottery tickets on the same date.

Cross-border Temporary Entry Procedures

New rules governing temporary entry to the United States covering business visitors, professionals, traders and investors and inter-company transferees will come into effect for Canadian citizens. The agreed rules are based on reciprocal access for Canadian and American business travellers to the other market. National laws and regulations governing their entry will be liberalized and entry procedures will be quick and simple.

Wine and Spirits

Discriminatory mark-ups for distilled spirits beyond a permissible cost-of-service charge shall be eliminated immediately upon entry into force of the Agreement and the discriminatory mark-ups on wine shall be reduced by 25 per cent on the same date. There will be a further 25 per cent reduction on January 1, 1990, and a 10 per cent reduction each following year until the differential is removed by January 1, 1995.

New Rules of Origin

New rules defining what constitutes a product of Canada or the U.S. will come into effect. For manufactured products which require assembly, for example, 50 per cent of the direct production costs of the final product must be incurred in Canada and the U.S. to qualify for duty-free treatment. Canadian consumers purchasing goods in the

U.S. will be able to tell whether a product qualifies as being of U.S. origin by the marking on the product.

Services and Investment

For services covered by the Agreement, new provisions governing access ensuring that no new discriminatory barriers are erected against service providers from the other country go into effect on the date of entry into force. The phasing-in of higher thresholds for review of acquisitions of Canada-based companies by U.S. investors also begins on that date, as do various provisions governing Canadian investments in the U.S. and U.S. investments in Canada. Canada retains existing foreign investment restrictions including, for example, those in the energy sector.

Free Trade Institutions

The entry into force of the Agreement will bring into existence the Canada-United States Trade Commission to supervise its implementation, to resolve any disputes that may arise over its interpretation, to oversee its further elaboration and to consider any other matters that may affect its operation. The principal representative for Canada is the Minister for International Trade.

The two countries will also be establishing a permanent secretariat, with offices in both Washington and Ottawa, to facilitate the work of dispute settlement panels.

In addition to these two structures, a number of *ad hoc* working groups and consultative groups will be established to develop further rules or to review operations of specific areas of the Agreement. For example, there will be eight working groups dealing with agricultural technical standards, a select panel to examine the auto industry and to propose measures to improve its competitiveness, regular consultations on rules of origin, semi-annual consultations on agricultural issues, periodic review and consultations on services, yearly consultations on temporary entry, etc.

One of the most important of the working groups deals with the issue of subsidies in the two countries. We will attempt in the next five to seven years to reach an agreement on new rules to govern antidumping and countervailing duties and trade-related subsidies. With respect to the subsidy issue, Canadian objectives in these negotiations will be to define what kinds of subsidy practices are trade-distorting and to develop rules in relation to those subsidy practices and to the use of trade remedy measures, such as countervail. In the absence of any agreement on this matter, Canada and the U.S. will continue to rely on the GATT rules and the special bilateral dispute settlement mechanism in the FTA for trade remedy cases.

Binational Dispute Settlement

Effective on the entry into force of the Agreement, there will be a new system under which the application of each country's antidumping and countervailing duty laws to goods of the other country can be reviewed, in specific cases, by a binational panel rather than by the domestic courts. Each government will choose two members of a review panel, with a fifth member to be chosen jointly. Panel decisions will be binding and will have to be rendered within strict time limits set out in the Agreement. The result will be fair, rapid, effective and objective resolution of disputes.

There are also provisions for the effective and fair resolution of disputes between Canada and the United States over the interpretation and application of the Agreement, including compulsory binding arbitration for disputes over the interpretation and application of the safeguards provisions, and binding arbitration in all other disputes, where both countries agree.

Relationship to GATT

The General Agreement on Tariffs and Trade (GATT) has for 40 years been the principal international trade law instrument governing commercial relations between Canada and the United States. The FTA was negotiated in conformity with GATT Article XXIV which permits the establishment of free trade area arrangements. The FTA has not diminished our GATT rights or obligations. Most importantly, Canada may avail itself of either the FTA or GATT dispute settlement procedures in relation to trade disputes with the United States.

Many articles in the FTA are based on the GATT (e.g. the provisions on national treatment, on import and export restrictions, on technical standards, on procurement and on exceptions). The FTA builds on and extends these GATT provisions in a manner that better reflects our specific bilateral trading interests. In other areas, such as dispute settlement, services and investment, the FTA goes significantly beyond existing GATT agreements and establishes useful models for the negotiation of these issues in the current Uruguay Round.

The FTA also permits Canada to focus its attention in the Uruguay Round on the trade barriers of our other trading partners. This will mean, for example, that third countries will need to make meaningful tariff concessions to Canada in return for Canadian concessions rather than as in past rounds merely piggybacking as "free riders" on the Canada-U.S. tariff arrangements.

The FTA has been widely supported by Canada's GATT partners and was "strongly welcomed" by the leaders of the Economic Summit. It provides a strong signal to the multilateral trade negotiations under the GATT that it is still possible to reach major trade liberalizing agreements between trading partners.