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North American Free Trade Negotiations

A Situation Report

On February 5, 1991 the Prime Minister of Canada and the Presidents of the United States and Mexico announced their intention to pursue a North American Free Trade Agreement (NAFTA). The three national leaders charged their respective trade ministers with the goal of negotiating a comprehensive, trade-liberalizing agreement. The Canadian approach to the NAFTA negotiations builds on the Canada-U.S. FTA implemented two-and-a-half years ago. It is being closely coordinated with our positions in the as yet incompleted Uruguay Round of Multilateral Trade Negotiations (MTN). For a number of areas such as subsidy/countervail and intellectual property issues, the Canadian view is that the best forum at present for seeking progress lies in a successful conclusion to the Uruguay Round.

Canada's broad objectives in the NAFTA negotiations are:

a) barrier-free access to Mexico for Canadian goods and services, while developing tariff phase-out provisions and safeguard mechanisms which reflect Canadian import sensitivities;

b) improved access to the U.S. market in such areas as financial services and government procurement;

c) improved conditions under which Canadian businesses can make strategic alliances within North America to better compete with the Pacific Rim and the European Community, as well as other parts of the world;

d) ensuring that Canada remains an attractive site for foreign and domestic investment; and

e) the establishment of a fair and expeditious dispute settlement mechanism.

Fast-track negotiating authority.

Before the negotiation could begin, the U.S. required special legislative action because of its particular constitutional arrangements. In March of this year, President

Bush requested a two year extension of the "fast-track" implementing legislation (a detailed explanation of "fast-track" can be found in the Annexes), citing the need to facilitate the work of U.S. trade negotiators engaged in the Multilateral Trade Negotiations and the NAFTA negotiations with Mexico and Canada. Both the Senate Finance Committee and the House Ways and Means Committee reported to the full Senate and House on May 14, 1991 their recommendations that resolutions denying this authority be defeated. The House of Representatives approved this recommendation by a vote of 231 to 192 on May 23, 1991. Senate approval followed on May 24 by a vote of 59 to 36.

Ministerial launch

With the U.S. Administration having secured its necessary "fast-track" authority, Ministers in the three countries turned their attention to the substantive launch of the negotiations. Mexico's Commerce and Industrial Development Minister, Dr. Jaime Serra Puche, and United States Trade Representative Carla Hills accepted the invitation of International Trade Minister Michael Wilson to host the inaugural ministerial meeting in Toronto, Ontario on June 12, 1991.

The Toronto meeting afforded the three ministers the opportunity to discuss in detail many of the procedural and substantive issues necessary to ensure an effective launch of the negotiations. Ministers agreed to a general timetable for the NAFTA negotiations. They noted that their priority was to achieve a comprehensive agreement, broad in scope, that would confer real benefits to its participants. The negotiations, they stressed, will take as long as is required to achieve a balanced, mutually beneficial result. In order to achieve this, ministers agreed that it is necessary to maintain close and continuing political "oversight" of the negotiations. To this end, they agreed to be in frequent telephone contact and to meet face-to-face as often as necessary.

In order to organize the negotiations, ministers agreed to establish six major negotiating groups: market access; trade rules; services; investment; intellectual property; and dispute settlement. It was further agreed that a number of specific sub-groups would be established under the aegis of the major negotiating groups. The sub-groups would afford the three countries the opportunity to examine individual issues in depth. A listing of the groups and sub-groups is found below.

Negotiating Groups

I Market Access
- a) tariffs/non tariff barriers
- b) rules of origin
- c) government procurement
- d) agriculture

e) automobiles
f) other industrial sectors (including energy, and textiles and apparel)

II Trade Rules
a) safeguards
b) subsidies and trade remedies
c) standards (including sanitary and phytosanitary, food safety, and norms for industrial products)

III Services
a) principles
b) financial
c) insurance
d) land transportation
e) telecommunications
f) other services

IV Investment

V Intellectual Property

VI Dispute Settlement

Ministers also agreed to accept the offer of the United States to host the next meeting on August 18-20, 1991 in Seattle, Washington. They established a work program to guide officials in the interval between the Toronto and Seattle ministerial meetings. During this period, Chief Negotiators met twice (Washington, July 8-9, and Mexico City, August 6-7) in order to take stock of negotiations and to develop advice for their respective Ministers. Ministers will hold their next scheduled meeting in Zacatecas, Mexico on October 26-28, 1991.

To date, most negotiating groups have met three times and a number have met as often as four times. Meetings of the working groups are rotated between the three countries with the order of rotation being established by mutual agreement at the working group level. The host country for each meeting is responsible for the preparation of the meeting agenda, including the distribution of any related documentation.

The detailed negotiations have made important progress during the summer. In their preliminary meetings, the working groups endeavoured to establish the ground rules that would guide their efforts in the negotiations proper. This involved establishing mechanisms for the exchange of information, either of a statistical or a regulatory nature, as well as early discussions focused on defining the parameters of the negotiations. In a complex negotiation such as this, care is taken to ensure that a high degree of consultation exists among working groups so that areas of responsibility are properly demarcated. This coordination process also ensures that those issues that could possibly span the responsibilities of two or more groups are properly dealt with.

The work on tariffs and non-tariffs barriers, the traditional core of any trade agreement, has made good progress. There is agreement to exchange initial tariff reduction proposals and non-tariff barrier request lists by September 18, with tariff phase-outs structured in terms of immediate, intermediate, and long-term (the length of the phase-out stages is not yet determined). Negotiators have also initiated a chapter by chapter review of the rules of origin in the Canada-U.S. FTA to determine if changes are required to meet the specific conditions of a trilateral agreement. Effective rules of origin are central to ensuring that the benefits of the free trade agreement flow primarily to the NAFTA partners.

The three parties have agreed to seek an important liberalization of their government procurement regimes, using the GATT Procurement Code plus the Canada-U.S. FTA commitments as the starting point for further improvements. With respect to agriculture, good progress has been made with respect to rules of origin and structuring a balanced approach to tariff reductions, with agreement to explore subsidies (especially export subsidies), sanitary and phytosanitary measures, non-tariff measures, and a special agricultural safeguard provision.

During the initial stage of the negotiation, Mexico has emphasized, as a central NAFTA objective, the reform of the U.S. anti-dumping regime and the establishment of a dispute settlement mechanism which addresses both subsidy/countervail and anti-dumping issues. The U.S. has emphasized the importance of tackling these matters in the MTN context first. Canada has signalled that it seeks the reform of U.S. trade remedy procedures and that it believes this is most likely through the MTN. On safeguards, a useful work programme is off to a good start, with the focus on the predictability and transparency of safeguard institutions and procedures in the three countries.

The negotiators responsible for intellectual property and investment are completing the necessary initial step of exchanging information on each other's legislation and regulations. The cross-walk to work in the MTN will continue to be a determining factor with respect to intellectual property. There is agreement that the investment group will cover most investment-related issues (including those related to energy and services, except financial services).

With respect to financial services, there is agreement to discuss general rules and specific market barrier issues in tandem. Negotiating teams have made a preliminary identification of barriers, while the work on principles (e.g., non-discrimination) is underway. In the other services groups, the initial discussion of principles is completed and the identification of barriers has begun. There is agreement to make a preliminary exchange of lists of barriers by September 18.

Initial work on dispute settlement has begun, including a review of how such mechanisms are structured in a variety of trade agreements.

The next stage of the negotiations will see the development of texts which may be exchanged by the end of October. These would be very preliminary documents, but they should help to focus and coordinate the discussions in the more specific negotiating groups.

On the Canadian side, individual working group leaders are also involved in the process of consulting with provincial governments, industry, academia and the general public. The activities of working groups have been incorporated into the already well developed mechanism of federal-provincial consultation on issues of international trade policy that was first established during the Canada-U.S. FTA negotiations and which has continued through the MTN. Consultations with industry and labour representatives will be primarily through the International Trade Advisory Committee (ITAC) as well as in the Sectorial Advisory Groups on International Trade (SAGITS). Individual working groups are also in close touch with other industry, labour and consumer interest associations in order to allow as wide a degree of consultation on the NAFTA negotiations as possible. Private sector input into the negotiations has been solicited by the Canadian negotiators. [1]

[1]. Correspondence should be directed to:
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Background Information:

Statements and Speeches:

Fast-Track Negotiating Authority

In order for negotiations on a North American Free Trade Agreement to proceed, it was first necessary for the U.S. Adminstration to obtain from the U.S. Congress (House of Representatives and the Senate) the necessary authority to conduct the negotiations on the basis of "fast-track" legislative approval.

Under the U.S. Constitution there are three possible bases of authority permitting the U.S. government to negotiate international agreements dealing with trade. First, under the general treaty making power, the President may negotiate and sign any treaty, virtually without limitation as to subject matter. Such treaties, however, must be ratified by the consent of two-thirds of the Senate. Secondly, under the President's inherent foreign affairs power, it is recognized that the President may negotiate and enter into "executive agreements" on matters within his independent constitutional powers. Thirdly, the President with the authorization and approval of Congress, may make an international agreement dealing with any matter that falls within the powers of Congress and of the President.

With respect to trade matters, the power to regulate inter-state and international commerce constitutionally rests with Congress and any "Congressional-executive agreements" must be "imported" into domestic law by legislation. Therefore, the Presidential and Congressional authority exist side by side; the judgement as to which procedure should be used is a political one, made in the first instance by the President.

Practical

The trade agreement negotiating authority of the U.S. President is contained in the 1988 Trade and Competitiveness Act. Specifically, Section 1102 of the Act empowers the President to conduct negotiations under the following conditions. The President has general negotiating authority under current law until June 1, 1993. The President may enter into a bilateral agreement provided that:

1) a foreign country requests such negotiations of the U.S.;

2) the President provides written notice to the Senate Finance Committee and to the House Ways & Means Committee; and

3) the President undertakes consultations with the two committees noted above as well as with any other committees that might have jurisdiction.

The appropriate written notice from the President must provide: 60 legislative sitting days of notice of the intention to negotiate an agreement and must provide 90 legislative days of notice prior to entering into an agreement.

After entering into an agreement, the President must submit the following:

1) the legal text of the agreement;

2) a draft implementing bill; and

3) a Statement of Administrative Action that describes the necessary steps to implement the agreement.

4) a Statement of the reasons why he believes the agreement serves the interests of U.S. commerce.

The implementing bill is then enacted into law through the appropriate legislative framework. To do this, the appropriate Congressional committees then have 45 days to report on the proposed legislation. Both Houses must subsequently vote on the bill within 15 days. Under "fast-track" authority, no amendments are permitted and a simple majority is sufficient for approval.

On March 1, 1991, the President requested of Congress an extension of the "fast-track" procedure under the terms of the 1988 Act. Neither Chamber of Congress passed a resolution disapproving the extension before June 1. As a result, the "fast-track" was extended for a further two years, lapsing on June 1, 1993 along with the President's general negotiating authority.

CHRONOLOGY

1990

March 16-19

During an official visit to Mexico, Prime Minister Brian Mulroney signs 10 joint co-operation agreements with Mexico:

- Memorandum of Understanding regarding the framework for trade and investment consultation
- 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 cooperation between customs administrations
- Memorandum of Understanding on forestry cooperation
- Agreement tourism
- Agreement on environmental co-operation
- Arrangement on agricultural and livestock co-operation
- 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 Minster 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 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.

1991

January 21
Acapulco, Mexico -- Ministerial meeting

February 5
Prime Minister Mulroney and Presidents Salinas and Bush announce their decision to pursue NAFTA. It is envisioned 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 Salinas, 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 (EDC)-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 environmental and labour cooperation. This resolution is sponsored by Richard Gephardt (D-Mo.) and Dan Rostenkowski (D-III.)
May 24	Washington, D.C. -- The Senate votes (59 to 36) to give the U.S. Adminstration 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.
July 8-9	Washington, D.C. -- Meeting of Chief Negotiators
August 6-7	Mexico City -- Meeting of Chief Negotiators
August 18-20	Seattle, Washington -- Trilateral Ministerial meeting.

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Canada, Department of Labour, **Comparison of Labour Legislation of General Application in Canada, the United States and Mexico**, March, 1991

CANADIAN NEGOTIATING GROUP LEADERS

I.	MARKET ACCESS	Kevin Gore/Sandy Moroz
	a) Tariffs/NTB's	Patricia Close
	b) Rules of Origin	Sandy Moroz
	c) Government Procurement	Victor Lonmo
	d) Agriculture	Mike Gifford/Phil Stone
	e) Autos	Slawek Skorupinski
	f) Other Industrial Sectors	
	i) Textiles	Jean Saint-Jacques
	ii) Energy	Mike Cleland
II.	TRADE RULES	Doug Waddell
	a) Safeguards	Keith Christie
	b) Subsidies/Trade Remedies	Terry Collins-William/ David Iwaasa
	c) Standards	
	i) Industrial	Paul Lau
	ii) Food Safety	Randy Benoit
III.	SERVICES	Meriel Bradford/Pierre Sauvé
	a) Principles	Meriel Bradford/Pierre Sauvé
	b) Financial	Frank Swedlove
	c) Insurance	Frank Swedlove
	d) Land Transportation	Jack Campbell
	e) Telecommunications	Robert Tritt
	f) Other Services	Nevin Shaw
IV.	INVESTMENT	Alan Nymark
V.	INTELLECTUAL PROPERTY	John Gero/Jim Keon
VI.	DISPUTE SETTLEMENT	Jon Fried

Ottawa/September 1991

Statement

Minister for
International
Trade

Déclaration

Ministre du
Commerce
extérieur

External Affairs and International Trade Canada
Affaires extérieures et Commerce extérieur Canada

91/22

CHECK AGAINST DELIVERY

NOTES FOR A SPEECH BY

THE HONOURABLE MICHAEL H. WILSON,

MINISTER FOR INTERNATIONAL TRADE,

AND MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY,

AT THE FINANCIAL POST CONFERENCE

ON NORTH AMERICAN FREE TRADE

MONTREAL, Quebec
April 25, 1991

Canada

It is a great pleasure for me to be able to be here today and to share this platform with Mr. Jaime Serra, Mexico's Minister of Commerce and Industrial Development, and Jules Katz, Deputy United States Trade Representative. This happens to be my first speech in my new job. I can think of no better place to begin than here in Montreal at a conference on this issue. Canada is a country which counts on trade; Quebec is a province which prospers through trade; and Montreal is a city built on trade. And the issue which this conference is considering is a very important economic challenge facing this country today -- a North American free trade agreement. The negotiation of that agreement is integral to the approach this Government has taken to trade for the last six and a half years. It, along with the Free Trade Agreement (FTA) and the ongoing multilateral trade negotiations (MTN), form the core of our strategy for building prosperity at home through trade abroad. The stakes at issue in these trade agreements are nothing less than the future prosperity of Canada, from coast to coast.

I have referred to my new job. And indeed there is much about that job which is new for me -- different responsibilities, distinct areas of concern. But while the detail is different, the fundamentals are the same. Much of what I did as Finance Minister was designed to make this country more competitive. A country mired in debt is a country debilitated. A country gripped by inflation is a country inflicted. A country made unattractive to foreign investors is a country made poor. And a country burdened with a sales tax which rewards foreign competition and an income tax which is unfair or outmoded is a country which prejudices its own progress.

People abroad watch how we manage ourselves at home. How well we manage ourselves at home determines how competitive we are abroad -- as an exporter and as a place to invest. The key is competitiveness. Competitiveness lets us trade. Trade makes us competitive. Competitiveness and trade are not add-ons or optional extras for a modern economy. Competitiveness and trade are what make an economy modern and make it succeed. That is not argument or ideology. That is reality. And it is not a new reality for Canada.

The Canadian market is small in comparison with others. Twenty-six million people cannot sustain a prosperous economy. The economies of scale are absent. The customers are too few. A Canadian economy which relied only on its own market would produce goods at high cost resulting in high prices. People would buy elsewhere -- in Europe, in Asia or in the United States, larger economies which have the economies of scale we lack. Canada would be condemned to an inferiority from which it could never recover.

Knowing that fact of life has made Canada into one of the world's great trading nations. Our industry knows it must compete abroad if it is to be successful at home. That's where the economies of scale lie. That's what generates revenue -- revenue which can be used for modernization, for research and development, for expansion and training. And that revenue creates jobs and sustains them.

In 1984, this Government produced a policy paper called "Competitiveness and Security." That paper concluded: "... secure access to a larger market is a necessary precondition of competitiveness." Protectionism -- the greatest threat to that secure market access -- was a problem we knew then had to be addressed. That policy paper noted that "the rise of protectionism abroad threatens to reduce our access to foreign markets ... with potentially damaging consequences for our industrial structure and national prosperity."

The FTA, the MTN, and the North American free trade talks are complementary, not competitive. They flow from the same reality, the same logic, the identical requirements for access to larger markets which sustain our competitiveness and build our prosperity. The Canadian requirement for secure market access and the need to guard against protectionism led us to negotiate the Free Trade Agreement with the United States. It lies behind our ongoing push for a successful conclusion to the multilateral trade negotiations. And it has driven our decision to join with the United States and Mexico in trilateral free trade talks.

I want to outline today in as clear a fashion as I can the reasons this Government decided to enter into free trade talks with the United States and Mexico. I want to explain what we seek. And I want to make clear what we will not accept.

First, a North American free trade agreement will equip Canadian industry to be more competitive on this continent and beyond. This is a market of 360 million people with an economic product of $6 trillion. That's bigger than Europe, bigger than any other market. Canadian industry which can compete on this continent will be able to compete around the globe. As with the FTA, that market will allow us to achieve new economies of scale and specialization. Our firms can become more efficient and more productive. That will create wealth and create jobs. And it will do so for all three countries as each exercises its comparative advantage.

Second, with free trade, the Mexican market itself will be open to Canadian industry. That market is at present relatively small -- accounting for just over $2 billion in two-way trade, less than half of 1 per cent of our exports and just over 1 per cent of our imports. But Mexico is a market poised for expansion. It is open for business as never before. President Salinas has taken brave steps to liberate his economy from protection, regulation and bureaucracy. The President of the World Bank has described his reforms as "one of the most ambitious, courageous and determined programs of economic reform and institutional change recently undertaken in any country." Mexico is becoming a market in fact, not just theory, a market of 85 million people which could be the springboard to a Latin American market of 600 million.

A Mexico which is poor will not buy our products. But a Mexico which is prospering -- prospering through trade -- is a market worthy of attention. Mexico needs what we produce. It needs transportation equipment and infrastructure, and telecommunications systems. It needs oil and gas technology, agricultural expertise and systems. Those are all areas where we are successful internationally.

There is concern about the low wage rates in Mexico. And certainly that will lead some industries to source production there when low-cost, labour-intensive components are needed. But such strategies will also make those companies more competitive, thereby boosting the high-cost, skilled labour force elements of their production in Canada and the United States. Mexico will win. The United States will win. Canada will win. That is the nature of free trade.

I believe it is important that we be realistic here. Canada will be competing with Mexico *whether or not* there is a trilateral free trade area. The issue is this: do we want in -- with the balanced benefits and phase-in that involves -- or do we want to stay out -- deprived of all benefits and exposed to all the downside risks?

Third, through trilateral free trade, Canada will remain an attractive place to invest. Investing in Canada will mean automatic access to all three continental markets, just as the FTA guarantees investors access to the U.S. market. Were Canada to stay outside these talks, one of our FTA advantages would be threatened. Investors would then choose to put their money in the United States, knowing that they would thereby also get access to both Mexico and Canada. And they would think twice before investing in Canada if our absence from North American free trade did not give us equivalent access to both other continental markets.

A trilateral agreement would have another beneficial effect. Not only would the playing field be even, but the players would be playing from the same rule book. Companies would not have to waste time and resources adapting their products and practices to different sets of regulations in each economy. While preserving important independence in areas vital to national sovereignty and identity, North American free trade would delete expensive duplication, creating more efficient companies better prepared to be strong contenders globally.

I think many Canadians understand these realities. But concerns persist. Some worry that we will reopen the FTA and dilute its provisions or remove its safeguards. Some are concerned by the environmental and labour conditions in Mexico. And still others worry about the adjustment period and measures which will accompany a North American free trade agreement. I will address these one by one.

This Government believes that the FTA is a good deal. It is balanced and fair. It is an agreement worth safeguarding.

There are some in the United States Congress and elsewhere who have suggested trying to secure from Canada in trilateral negotiations what they were unable to secure from us in bilateral negotiations. Let me be clear about where we stand on this issue. Canada is not going to let the United States get through the back door what it could not get through the front door. The FTA is signed, sealed and delivered. We will not negotiate it twice.

That applies in particular to pressure from U.S. lobby groups to challenge Canada's special measures of support for its cultural industry. That pressure will not work. This Government insisted on maintaining special measures of support for its cultural industries when it negotiated the FTA. It is not prepared to negotiate now what was settled then, particularly when the capacity of Canadians to reflect their nationhood to each other has never been more important. That is a point of principle.

But the FTA as a whole may not be a perfect agreement from a Canadian point of view. Improvement is not impossible. Indeed, the FTA itself instructs the parties to seek improvement, which is ongoing right now. If we can identify areas where the FTA could be made even better, we will not hesitate to pursue them. But we will be guided by one criterion only: what is best for Canadian industry and Canadian jobs. Reducing the benefits which come from the FTA is not a price we are willing to pay for a North American accord.

A second set of concerns relates to environmental and labour standards. Some people worry that we will let our own standards slip in both areas. They need not worry. Canadians are justifiably proud of their labour standards, their environmental standards, their safety standards. This Government is not going to preside over their erosion. That will not be the result of North American free trade.

I also believe it is misplaced to see labour or environmental standards in Mexico as a reason to reject trade negotiations with that country. I do not dismiss the concerns of those who lament the current state of the Mexican environment or those who would wish a better life for the Mexican worker. Those concerns were not treated lightly by President Salinas when he recently visited this country. He sees the deficiencies. He wants to make improvements, and he has made many already. But he made one compelling point. And that was that the road to higher wages and a cleaner environment lies through greater prosperity. And that prosperity is dependent upon the opportunity provided by trade. Are we to deny him that prosperity by denying him free trade?

A new trading environment requires industry and workers to adapt to new conditions. The Canadian economy has an excellent track record in responding to those changes.

We are not newcomers to the realities and pressures of international trade. For years now, through progressive reductions in tariffs and trade barriers, Canadian companies and the labour force have not only rolled with the punches, but have continued to do well in a tough and competitive marketplace. Where needed, the Government has provided programs to help industry and workers make the necessary changes.

We do not anticipate that a trilateral free trade agreement will put any strain on the economy. About 80 per cent of our trade with Mexico is already tariff-free. Furthermore, where tariffs exist, a phased reduction will cushion industries from disruptions.

Programs will continue to be available to help Canadian industry become more globally competitive. The Canadian Jobs Strategy helps in the development of our labour market through job creation, adjustment, mobility and retraining. Industry, Science and Technology Canada has a broad range of programs, ranging from sector competitiveness initiatives to small business loans. External Affairs and International Trade Canada has also mounted a wide range of initiatives, some global, some tailored to the challenges and opportunities of particular regions.

All of the major programs have been reviewed and, where appropriate, modified to improve their effectiveness and increase their flexibility. In total there are 400 programs of adjustment available from all levels of government in Canada. And those have recently been supplemented through reform of the unemployment insurance system, yielding an $800-million Labour Force Development Strategy.

I would emphasize that these programs are not designed to create an industrial welfare system. They are aimed at preparing industry and workers to be able to rely on themselves.

One final point. I can assure you that, as we did with the FTA, and as we are doing now with the MTN, we will involve all sectors of business from every region of this country, providing them with information and seeking their advice. A key mechanism for doing this will be the International Trade Advisory Committee (ITAC) and the Sectoral Advisory Groups International Trade (SAGITs). We are also consulting regularly with provincial governments to allow them to raise concerns and provide suggestions. We welcome the active involvement of the Canadian labour movement in the consultation process, as occurred after the FTA went into effect and as continues with the General Agreement on Tariffs and Trade (GATT).

It would not be an exaggeration to say that our close consultations have brought about a unanimous consensus on the FTA. But it is still early days, and the recession clouds analysis; we believe we can see signs already of the benefits flowing from the FTA:

- In 1988, just prior to the implementation of the FTA, the net direct investment outflow from Canada was $2.5 billion. In 1990, Canada had a record net direct investment *inflow* of $5.7 billion from all countries. The turnaround in direct investment flows from other countries suggests that overseas investors see Canada as an increasingly attractive base for their North American operations.

- Canadians are also investing more in their own economy. In 1990, they invested 30 times as much at home as they invested abroad in mergers and acquisitions, a three-fold increase over 1988, the year the FTA was signed.

I believe that we will be proven right in our judgement of free trade. That applies to the FTA. It applies to North American free trade too. We will be proven right by the facts. And we will be proven right by the logic. Those who would have us reject freer trade -- whether bilaterally, trilaterally or globally -- would have Canada diminish its own future. The Government cannot reject the globalization of international trade. The only way to influence what is negotiated at the table is to be at that table.

The world is trading. Competition is tough. We did not make it that way and we cannot wish it away. A failure to trade is a failure to compete. And the inability to compete would mean failure in trade. That is a circle that cannot be broken. It is a reality we cannot ignore.

Competitiveness is easy to describe. It is more difficult to achieve. Achieving that goal is my new responsibility, as it was in a different way in the job I have left. And with your help, and that of Canadians across this country, we will achieve that goal together.

News Release

Communiqué

Minister for
International
Trade

Ministre du
Commerce
extérieur

No. 101

April 26, 1991

INTERNATIONAL TRADE MINISTER
MICHAEL H. WILSON
APPOINTS CHIEF NEGOTIATOR FOR TRILATERAL TALKS

International Trade Minister Michael H. Wilson today is pleased to announce the appointment of Mr. John M. Weekes as Chief Negotiator for the North America Free Trade Negotiations involving Canada, Mexico and the United States. Mr. Weekes has been Canadian Ambassador to the General Agreement on Tariffs and Trade (GATT) in Geneva, Switzerland, since 1987, and as such has been actively involved in the Multilateral Trade Negotiations. Mr. Wilson said, "We have selected Mr. Weekes for this task because it was clear that Canada should be represented by an experienced senior negotiator in these important talks, which are scheduled to begin formally in the next few months."

Mr. Weekes will be supported by a special office for negotiations within External Affairs and International Trade Canada and by a team of expert negotiators for specific issues drawn from various government departments.

Mr. Wilson further noted that there would be very close co-operation between the teams dealing with the Multilateral Trade Negotiations and the North America Free Trade Negotiations. "We have two important negotiations running in parallel, often dealing with the same issues. We will ensure that the Canadian position in both talks is consistent and co-ordinated," Mr. Wilson emphasized.

Mr. Wilson said that Mr. Weekes would be expected to work closely with the provinces in developing the Canadian approach to the talks. The Government intends to work just as closely with the provinces as it has done in the FTA

External Affairs and International Trade Canada
Affaires extérieures et Commerce extérieur Canada
Canada

negotiations with the United States and as it is now doing in the Multilateral Trade Negotiations.

Mr. Wilson also said that Mr. Weekes and his team would be working closely with the International Trade Advisory Committee (ITAC) and the Sectoral Advisory Groups on International Trade (SAGIT), which include representatives of business, labour and academia, and with other interested partners in the private sector in developing the Canadian position. "We have already received excellent co-operation from the private sector in the exploratory phase of these negotiations. I call on all those interested to work closely with Mr. Weekes to ensure the best possible results for Canada," the Minister said.

Mr. Weekes' curriculum vitae is attached.

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For further information, media representatives may contact:

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

JOHN M. WEEKES

Ambassador of Canada to the General Agreement on Tariffs and Trade (GATT)

Mr. Weekes was born in Toronto, Canada, on July 22, 1943. He received a B.A. (Honours) in Political Science and Economics from the University of Toronto in 1966 and joined External Affairs Canada the same year. He served in the Canadian Embassy in Belgrade, Yugoslavia, from 1968 to 1971 with concurrent accreditation in Romania and Bulgaria. He served in the Commercial Policy Division from 1971 to 1973; from 1973 to 1979 he was Counsellor, Delegation to the Multilateral Trade Negotiations in Geneva; in 1974 he was also Advisor to the Canadian Delegation to the Conference on Security and Co-operation in Europe (CSCE). In Ottawa he served as a Divisional Director in the trade policy field from 1979 to 1983 when he became Director General of Trade Policy.

Mr. Weekes assumed his responsibilities as Ambassador to the GATT in September 1987. He was elected as Chairman of the GATT Council for the year 1988-89 and as Chairman of the GATT Contracting Parties for 1989-90. He was also Chairman of the Uruguay Round Negotiating Group dealing with GATT Articles.

Mr. Weekes has been active as a volunteer in the field of alpine skiing in the Ottawa area. He occupied several positions and in 1986-87 served as Chairman of the Alpine Committee of the National Capital Division of the Canadian Ski Association.

Mr. Weekes is married to Arlene Weekes (Harris) and has two children.

STATEMENT

91/29

CHECK AGAINST DELIVERY

NOTES FOR AN ADDRESS BY JOHN M. WEEKES

CANADA'S CHIEF NEGOTIATOR FOR

A NORTH AMERICAN FREE TRADE AGREEMENT

TO THE COUNCIL OF THE AMERICAS AND

THE CANADIAN MANUFACTURERS' ASSOCIATION

TORONTO, Ontario
June 3, 1991

External Affairs and International Trade Canada
Affaires extérieures et Commerce extérieur Canada
Canada

Good evening, ladies and gentlemen. I welcome the opportunity to address this gathering of the Council of the Americas and the Canadian Manufacturers' Association here in Toronto.

Tonight, I would like to discuss the new trade initiative the Canadian government has undertaken in concert with the governments of the United States and Mexico. If successful, it will create the largest unified trading region in the world. On February 5, 1991, Prime Minister Brian Mulroney, U.S. President George Bush and Mexican President Carlos Salinas de Gortari announced the decision to begin negotiations on a North American Free Trade Agreement (NAFTA).

I want to situate this initiative in the context of this government's overall approach to economic and trade policy. I will outline our general objectives in the negotiations and mention some of the major elements of our work. I will also stress the big role that has to be played by the private sector. You in the private sector need to advise the Government during the conduct of the negotiations. But, perhaps even more importantly, you will have to take advantage of what is negotiated and ensure that it brings benefits to Canada and Canadians. The Council of the Americas and the Canadian Manufacturers' Association are particularly well placed to be in the vanguard of this effort.

The ultimate goal of these negotiations is to create a North American market free of tariffs and non-tariff barriers. The agreement would permit the free flow of goods, services and investments among the three countries. It would provide for the protection of intellectual property rights. And it would establish a fair and expeditious dispute settlement mechanism. It would create a market of 360 million people, larger than the 12 countries of the European Community.

The negotiation of such a North American agreement is a continuation and extension of the Canadian government's approach to economic policy -- an approach that sees increased trade linked to increased competitiveness and increased prosperity.

During the past six-and-a-half years, the Government has undertaken sweeping domestic policy reforms. It has introduced tax reform and a program of deficit reduction. It has improved the climate for investment and privatized major Crown companies. It has introduced adjustment programs to help workers adapt to the demands of the modern, outward-looking economy. All these reforms were carried out with one goal in mind -- increasing Canada's competitiveness in an increasingly globalized trading world that is characterized by tough competition.

That drive for competitiveness has been coupled with a firm commitment to the progressive reduction of tariffs and other trade impediments. You see this commitment in Canada's efforts to secure a successful conclusion to the Uruguay Round of the

General Agreement on Tariffs and Trade (GATT). You saw this commitment two years ago when Canada and the United States signed the historic and precedent-setting Free Trade Agreement (FTA).

Both countries have realized a number of benefits from the FTA, from increased investment to increased trade. Indeed, a $4.3-billion foreign direct investment surplus last year was Canada's first such surplus in a decade. We believe a North American Free Trade Agreement will add to the gains of the FTA. For Canada, the effects of a North American agreement will not be as significant as those of the FTA. But, moderate though its impact will be, it will add positively to Canada's economic performance.

The immediate benefits of an open Mexican market for Canadian exporters may be modest. But as Mexico grows, as increased trade translates into increased prosperity for Mexican workers, then I think Canadian exporters will be busy trying to keep pace with what will probably become North America's fastest growing market. Even now there are important business opportunities to be found in telecommunications, transportation, oil drilling and exploration equipment, and pollution control and abatement technology. Canadian exporters will also find opportunities in agricultural, consumer and automotive goods.

Perhaps more importantly, the creation of a trilateral market with a combined Gross Domestic Product of US$6 trillion will allow Canadian companies to strengthen their international competitiveness. This new marketplace will offer the framework for new business partnerships. It will strengthen North American business on the global stage.

Our participation in a successful North American Free Trade Agreement will guarantee that Canada continues to be a prime investment location for investors from around the world. It will demonstrate to investors that investing in this country will guarantee secure access to all three markets. It will serve as a signal to investors that Canada is positioning itself to secure its future prosperity.

In the controversy generated around initiatives such as this one, the main purpose of our efforts sometimes becomes obscure or forgotten. It is, plainly stated, to reduce obstacles to trade. Artificial trade barriers are a drag on economic well-being. The more freely people can exchange goods and services, the more efficient our economies will become.

Mexico's trade barriers have hampered Canadian exporters' efforts to compete for a slice of the Mexican market of 85 million people. In announcing in February our intentions to join the talks, Canada wanted to ensure that Canadian exporters enjoy the same access to the Mexican market as do U.S. exporters. If we had not moved to join the talks, a bilateral U.S.-Mexico trade deal would have created preferential access for the U.S. and stacked the deck against Canadian business and our economy.

While Mexico has already reduced many tariffs as part of its decision to join the GATT in 1986, I remind you that its GATT-bound rate -- the maximum levy it is allowed under the GATT -- is 50 per cent for most products. The average rate of tariff protection is currently much lower than that. But Mexico holds in reserve the ability to resume a high-tariff policy. Today there is no treaty preventing the Mexican government from unilaterally raising its tariff above current rates, as it did in 1990 when the duty on numerous paper products went from 10 to 15 per cent. The ability to take such actions does not contribute to a stable trading environment. The phased elimination of duties through a new treaty will go a long way to creating confidence for Canadian exporters in the Mexican market.

Tariff barriers are not the only obstacle that concerns us in these negotiations; there are non-tariff barriers as well. In the early 1980s, almost all exports to Mexico required an import licence, one of the most common and effective forms of non-tariff barrier. Their discretionary nature makes them particularly damaging to a predictable trade environment. While that situation has changed for the better, with the requirement for licensing declining substantially, the barrier still affects approximately 20 per cent by value of Mexican imports. The licences apply to agricultural and some forest products, motor vehicles, and selected chemicals and petrochemicals. These are all important export goods for Canada. The removal of these barriers would be a major element of a successful agreement.

Mexico's investment climate has undergone significant liberalization over the last few years, particularly since new regulations were approved in May 1989. But much work remains to be done. The investment climate in Mexico is still much less open and free than that found in Canada or the United States. Potential investors must still meet several criteria, even in the many areas now open for majority foreign ownership. A number of important sectors are still reserved exclusively for Mexican control, including 100 per cent state ownership in areas such as oil refining and basic petrochemicals. Investment performance requirements are also in place in several other sectors, including, importantly, the automobile sector, where investors must submit to trade-distorting export and domestic sourcing requirements. For a North American Free Trade Agreement to achieve its potential for stimulating economic growth, Mexico must open its doors wider for foreign investors, creating more opportunities for everyone.

These negotiations may also offer some modest opportunity to build on the gains made under the Canada-U.S. FTA and improve our access to the market of the United States. We will certainly not allow the hard-fought deals made in the FTA to be re-opened. The agreement has been signed, sealed and delivered. We will not accept reductions in benefits that accrue to Canada under this agreement. However, the agreement itself enjoins the parties to seek further improvements in certain areas. The bottom-line test for any improvements will be whether they are in the Canadian interest and whether they are good for Canadian producers and Canadian jobs.

Let me give you two specific examples.

Canada will be seeking improved access to the U.S. government procurement market. We hope to build on the gains made under the FTA to cover even more government agencies and departments. Great strides were made in this regard under the FTA. Canadian firms can now bid on a limited number of contracts in excess of $25,000, down from the previous ceiling of $171,000. But that is not enough. "Buy America" restrictions and numerous so-called "set-aside exemptions" keep many doors closed to Canadian exporters. Canadian companies will have an opportunity to bid on many billions of dollars of government contracts now closed to them, if we can win removal of these discriminatory barriers.

Canada also comes to the negotiating table with an interest in gaining improved access for our financial services sector. Canada's banking community, for example, wants better access to both the Mexican and the U.S. financial industries markets. NAFTA is one way of achieving that goal. For this reason, Canadian bankers are supporting these negotiations. As Helen Sinclair, President of the Canadian Bankers' Association, said last fall, "Canadian banks applaud the federal government's new trade policy on Mexico." We intend, through the negotiations, to press the interests of our financial services industry in the U.S. and Mexican markets. No one can dispute the strength of Canada's banking industry. An enhanced ability to export its services will contribute to the economic well-being of all Canadians.

Some of the criticism of a North American Free Trade Agreement has involved accusations that North America is forming an insular trading bloc. This is not our intention, and it will not be the result. Rather than causing North American businesses to turn inward, a North American Free Trade Agreement will prepare them to set their sights even further afield. We strongly believe an agreement will encourage Canadians to form the strategic alliances in North America that can give our businesses the needed edge to meet and beat tough off-shore competition.

Japanese business success shows how a company should use the best of the resources available to it, whether those resources be domestic or foreign. A North American Free Trade Agreement will permit companies in all three countries to do just that. They will put into action the best of what each country has to offer, whether that be design, production, marketing or after-sales service. This may be done by a single company with multinational operations, or it may involve joint ventures or partnerships among different companies in the three countries.

Working closely with Mexican firms will also help Canadian business to strengthen contacts and alliances with the as yet untapped market of Latin America and South America. Latin America is on the move as never before. Economic reform can be seen in virtually every country, from the Rio Grande to Tierra del Fuego. These countries are looking outward, lowering barriers to trade, working hard for success in the Uruguay Round. The region is poised for growth. It represents a major opportunity and business challenge for the next 20 years.

Our association with Mexican business may pay large dividends in years to come. It was not that long ago that the industrial powerhouses, Japan and Korea, were regarded as little more than producers of low-end goods. Then they exceeded everyone's expectations in upgrading their technology, their expertise and, ultimately, their products. We may well be about to witness the same thing happening in Mexico. And with NAFTA, Canadian companies will be in on the ground floor.

It is evident that Canadian firms can benefit from the lower-cost inputs of the Mexican marketplace. This has sometimes been characterized as exploitation of low-wage Mexican workers or as a threat to Canadian workers. But I would like to draw your attention to a point made more than 10 years ago by Francis Blanchard, then Director General of the International Labour Organization.

"Just as the industrialized countries are now at a comparative advantage by virtue of their abundant capital and technology mastery, so does an abundant labour supply confer a comparative advantage on the developing countries," he said. "Technology and capital are cheaper in the North than in the South: yet it is not considered unfair to develop activities based on this advantage. Nor, therefore, would it make sense to reproach the South for having lower labour costs ... because therein lies its present advantage."

Mr. Blanchard had the foresight then to see what so many experts on development are saying today: The road to development is through trade, not aid. The result of a three-country economic partnership, in which each country relies on its own comparative advantage, will be increased trade and increased prosperity -- and not only for companies, but for their workers as well. In fact, Canadian jobs in many companies may be made more secure by farming out certain labour-intensive activities to Mexico. This is part of a global trend that will happen with or without NAFTA. And it is not a trend that anyone need apologize for.

Any healthy trade agreement will have to contain a structure for dealing with the range of disputes that are bound to arise during the normal course of events. The three key elements of a dispute settlement mechanism should be fairness, transparency and timeliness. We will strive to ensure that NAFTA provides for such a system.

We will also work for a common, effective and practical set of rules of origin for all three countries, similar to those found in the FTA. Rules of origin ensure that the benefits of the agreement will extend only to firms producing goods in one of the three countries. These rules will be strict. The Canadian government does not want companies producing goods outside the borders of the agreement to take advantage of the tariff-free benefits inside. Third parties should not get windfall benefits when they made no concessions in the negotiations. All goods that cross our frontiers will have to meet the regulations laid down by the agreement. And we will establish clear processes that companies must undertake to prove that their goods qualify for free trade benefits.

The Canadian government is very conscious of the need to consult closely with Canadians. This is as true for NAFTA as it is with the Uruguay Round of the GATT. We want to consult all sectors of the Canadian economy. The government is committed to holding extensive consultations throughout the talks. These consultations will be conducted with various levels of government, the business community, organized labour and the academic world, all in an effort to ensure that we arrive at a deal that is good for Canada and Canadians.

Government officials will conduct regular meetings with various groups to listen to their concerns and note their suggestions. Minister for International Trade, the Honourable Michael H. Wilson, will continue to hold regular meetings with representatives from business, labour and the academic world. He will also meet regularly with representatives of the various sectoral interests nation-wide. The federal government has also pledged to consult actively with provincial governments on the status of negotiations. Senior officials from both the federal and provincial levels will be meeting later this week, and Mr. Wilson will meet with his provincial counterparts later this month.

Canada's trade policy encompasses a clear vision of the future. It is a future in which companies around the world are able to compete freely in a global marketplace, a marketplace that increasingly permits the free flow of goods, services, investments and ideas.

NAFTA is one component of the federal government's trade and competitiveness agenda. On the trade side, that agenda includes GATT, the FTA and our efforts to improve trade relations with the Pacific Rim. We have one international trade agenda, even if we are pursuing it in different forums. We will advance our interests wherever we find an opportunity to do so. Within the multifaceted configuration of Canadian trade policy, the NAFTA will have an important role to play in our continuing effort to open markets around the world for Canadian goods and services. But we will succeed only with the help and support of people like you in the private sector.

I am particularly grateful for the opportunity provided by the Council of the Americas and the Canadian Manufacturers' Association to speak here tonight. Thank you.

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

No. 171

July 30, 1991

INDUSTRY AND INTERNATIONAL TRADE MINISTER WILSON CALLS FOR TRADE BARRIER REDUCTION PROPOSALS

The Honourable Michael H. Wilson, Minister of Industry, Science and Technology and Minister for International Trade, called today for written submissions from producers, exporters, importers and other interested Canadians outlining their specific interests in market access for goods and services under the proposed North American Free Trade Agreement (NAFTA).

The governments of Canada, the United States and Mexico have agreed to work toward the elimination of existing trade barriers on all goods of North American origin. It is expected that some barriers will be reduced immediately when NAFTA becomes law, while others will be phased out gradually over a period of years, as was the case in the Canada-U.S. Free Trade Agreement (FTA).

The Government is inviting the submissions to identify areas where Canada should press for quick elimination of tariffs between Canada and Mexico. As well, the Government wants advice on removal of Mexican and United States non-tariff barriers to trade in goods and services. The Government also wants to hear of areas where Canadian producers may wish time to adjust to free trade under a NAFTA.

As negotiators for the three countries are now discussing various tariff phase-out options, the submissions should be received in Ottawa as soon as possible and no later than September 15, 1991.

Mr. Wilson said the Government seeks all relevant information to formulate as clear a picture as possible of the specific trade interests that can be promoted in these negotiations. "We want all interested Canadians, including business, labour and other groups, to have the opportunity to give the Government the benefit of their experience and interest in international trade."

In addition to the advice offered in written submissions, the Government is working closely with the provinces, and it is further seeking the views of the private sector through the International Trade Advisory Committee (ITAC) and the Sectoral Advisory Groups on International Trade (SAGITs).

The Minister said the trade barrier reductions under NAFTA are part of the Government's drive to increase Canada's economic competitiveness. "Canada must continually seek to increase its competitiveness to ensure a modern and prosperous economy.

"Guaranteed access to larger markets and removal of trade barriers strengthen Canadian competitiveness. We achieved these objectives with the FTA, and it is what we are working toward in the current multilateral trade negotiations (MTN) and the negotiations for NAFTA.

"Canadian businesses that are more competitive in North America will be able to meet competition worldwide," Mr. Wilson said.

Submissions on trade barrier reductions should be made to:

Office for Trilateral Trade Negotiations
External Affairs and International Trade Canada
C-3, Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Fax: (613) 992-4695

Further information on making submissions is included in the attached annex.

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For further information, media representatives may contact:

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

ANNEX

In February 1991, the Prime Minister of Canada, the Right Honourable Brian Mulroney, the President of the United States, George Bush and the President of the United States of Mexico, Carlos Salinas de Gortari, announced their intention to negotiate a North American Free Trade Agreement (NAFTA) to create the world's largest free trade market. Negotiations began in June 1991 with the first meeting of the Ministers of International Trade of the three countries concerned, at which they agreed, among other things, to work toward the elimination of tariff and non-tariff barriers currently applied to goods produced in their countries. Negotiations are under way to establish the most effective means of eliminating these barriers. Canadian companies or producers who already export or import, or are interested in doing so, have a direct stake in NAFTA's outcome. To ensure that the Government is better able to serve these interests, views are being invited from the public on the pace at which the trade barriers in question should be eliminated.

We have already sought the advice of the International Trade Advisory Committee (ITAC) and the Sectoral Advisory Groups on International Trade (SAGITs). These groups, which provide advice on major trade issues such as the Uruguay Round negotiations under the General Agreement on Tariffs and Trade (GATT) and the Canada-U.S. Free Trade Agreement (FTA), will seek to provide, by the end of the summer, the detailed views of the private sector on specific market access issues related to North American trilateral trade. The federal government is also consulting closely with the provincial and territorial governments. Interested parties that have already communicated their views to these bodies do not need to make a separate submission to the Government unless they so desire.

Submissions should be as specific as possible concerning the products of export interest to the United States and Mexico (including the classification number under the Harmonized System where available); they should also identify, where relevant, the current barriers (tariffs, non-tariff barriers) that impede access to Canadian exports of manufactured and resource-based products, as well as agriculture and food products. Examples of non-tariff barriers are quantitative limits or import quotas, import licensing arrangements, discriminatory government purchasing practices and other government measures that restrict or prohibit trade. It should be noted that, in light of the FTA, Canada's access to the U.S. market has largely been addressed. However, certain non-tariff measures such as government purchasing practices are also covered by NAFTA negotiations and representations on these or other measures would be welcomed.

We would also appreciate receiving your recommendations as to the time frame for gradually eliminating various tariffs (longer periods for so-called sensitive items, such as 10 years, and shorter periods -- 5 years, for example -- or immediately for those with high export potential). Finally, you may also wish to comment on the elimination of certain rates of duty that Canada applies under the Customs Tariff or on other measures that serve to protect the Canadian production of goods. Such comments should outline the probable effect of such reductions in terms that are as specific as possible.

Canadian negotiators in the services area would be greatly assisted through the receipt of additional information regarding the export interests of Canadian services exporters, particularly in the areas of business services, professional services, transportation services and telecommunications. Submissions should also note particular difficulties encountered in the export of such services such as licensing or residency requirements. In preparing their submissions, service and other exporters might wish to map out their requirements with respect to the temporary entry of persons. The provisions of Chapter 15 of the FTA regarding temporary entry for business might serve as a useful point of departure.

Additional information would also be very helpful, including your current production and export figures for the products concerned, the number of people employed by your company, and other relevant information.

Please indicate whether any information is confidential.

For further information, contact:

Kevin Gore
Market Access
Office for Trilateral Trade Negotiations
External Affairs and International Trade Canada
C-3, Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel: (613) 992-7259
Fax: (613) 992-4695

North American Free Trade Negotiations

A Situation Report

On February 5, 1991 the Prime Minister of Canada and the Presidents of the United States and Mexico announced their intention to pursue a comprehensive and trade-liberalizing North American Free Trade Agreement (NAFTA). The Canadian approach to the NAFTA negotiations builds on the Canada-U.S. FTA implemented almost three years ago and is closely coordinated with Canada's efforts in the Uruguay Round of Multilateral Trade Negotiations (MTN). For a number of areas such as subsidy/countervail and intellectual property issues, Canada believes that the best chance of progress lies in a successful conclusion to the Uruguay Round.

Canada's broad objectives in the NAFTA negotiations are:

a) barrier-free access to Mexico for Canadian goods and services, while developing tariff phase-out provisions and safeguard mechanisms which reflect Canadian import sensitivities;

b) improved access to the U.S. market in such areas as financial services and government procurement;

c) improved conditions under which Canadian businesses can make strategic alliances within North America to better compete with the Pacific Rim and the European Community, as well as other parts of the world;

d) ensuring that Canada remains an attractive site for foreign and domestic investment; and

e) the establishment of a fair and expeditious dispute settlement mechanism.

Ministerial Oversight

Ministerial oversight of the NAFTA negotiations has been strong and ongoing. The formal negotiations were launched when Trade Ministers from the three countries met in Toronto on June 12, 1991. The key elements of the Toronto Ministerial Meeting, attended by Mexico's Commerce and Industrial Development Minister, Dr. Jaime Serra Puche, United States Trade Representative Carla Hills, and International Trade Minister Michael Wilson, were:

- an opportunity to determine the procedural and substantive issues necessary to ensure the success of the first phase of the negotiations;
- agreement that the objective of the negotiations should be to achieve a comprehensive agreement, broad in scope, that would confer real benefits to its participants; and
- a consensus on the necessity to maintain close and continuing political "oversight" of the negotiations.

The second Ministerial Meeting was hosted by the United States on August 18-20, 1991 in Seattle, Washington. Between the Toronto and Seattle meetings, there were two meetings of Chief Negotiators (Washington, July 8-9, and Mexico City, August 6-7). Meetings of Chief Negotiators are primarily held in order to take stock of the progress in individual negotiating groups and to develop advice for their respective Ministers. At the Seattle Meeting, Ministers agreed that:

- they were generally pleased with the progress in the individual negotiating groups;
- each country should be in a position to exchange their initial tariff elimination proposals by mid-September 1991;
- there was a need for a comprehensive approach to deal with the range of market restrictions existing in the automotive sector; and
- they were satisfied with the parallel activities identified and under development in the fields of labour conditions and the environment.

The third Chief Negotiators meeting, held in Ottawa on October 9-10, 1991, focused primarily on narrowing differences among the three countries on a range of specific sectoral issues. Chief Negotiators also took stock of developments taking place in MTN negotiations which could have an impact on progress in the NAFTA.

The Third Ministerial meeting was held in Zacatecas, Mexico on October 26-28, 1991. In Zacatecas, Ministers noted that most negotiating groups had achieved considerable progress in defining the issues under their areas of responsibility. The review of developments by Ministers led them to conclude that the negotiations were on track, and that officials should begin to make the negotiations more precise through the exchange of specific drafting proposals. In effect, such proposals would be used as a technique for advancing the negotiations. Ministers also noted that parallel progress in the MTN negotiations would serve to facilitate efforts in the NAFTA negotiations, especially with respect to agriculture.

Negotiating Groups

By early November, individual negotiating groups had met up to six times. As agreed earlier, the meetings of the working groups are rotated among the three countries with the order of rotation being established by mutual agreement at the working group level.

As confirmed by Ministers, the negotiating groups have made considerable progress during the late summer and early fall. Building on earlier efforts that established negotiating frameworks, delegations have exchanged detailed information. From this base, individual negotiating groups defined issues, identified problems and discussed a number of possible approaches that should result in a mutually beneficial agreement. A brief up-date on the activities of individual negotiating groups follows.

The work on tariffs and non-tariffs barriers, the traditional core of trade agreements, has made good progress. The group exchanged initial tariff reduction proposals and non-tariff barrier request lists on September 19. By mutual agreement, the tariff phase-outs have been structured in terms of immediate, intermediate, and longer-term, with the actual length of the phase-out stages yet to be determined. Following the initial exchange, the meetings have focused on a detailed examination of the initial proposals.

Work continues on the chapter-by-chapter review of the rules of origin in the Canada-U.S. FTA, in order to identify those changes that might be required to meet the specific conditions of a three-country agreement. While complex in nature, well drafted rules of origin are necessary to ensure that the benefits of the free trade agreement accrue primarily to the NAFTA partners. At the same time, care is being taken to ensure that any certification process required under the agreement does not itself represent an unnecessary administrative burden on goods and service traders in North America.

The three parties have agreed to seek an important liberalization of their government procurement regimes, using the GATT Procurement Code plus the Canada-U.S. FTA commitments as the starting point for further improvements. Negotiators in this group are also discussing the possibility of including services procurement within the set of obligations to be agreed upon. Canada and Mexico both believe that negotiation of the U.S. Small Business Set-Aside and Buy America programs is an important objective to be pursued in this group. Buy America programs restrict the ability of Canadian suppliers in the urban transportation and telecommunications sectors. Canada is also interested in liberalizing the purchasing practices of Mexico's parastatal sector (Crown Corporation equivalents) which accounts for some U.S.$ 8.1 billion of procurement business annually.

The agriculture negotiating group has met five times with the most recent meeting being held on October 21-22 in San Antonio, Texas. Experience under the Canada-U.S. FTA shows that while bilateral, or regional, progress can be achieved, several of the core problems in international agricultural trade can only be fully addressed at the multilateral level. Thus Canada continues to emphasize the importance of achieving a balanced result in the Uruguay Round. In the NAFTA context, there has been progress made with respect to rules of origin and on tariff reductions. Discipline on the use of export subsidies in intra-NAFTA trade is also a key element in the negotiations. Also under discussion are possible measures dealing with sanitary and phytosanitary issues, non-tariff measures, and a special agricultural safeguard provision.

In the opening round of negotiations, Mexico identified, as a central NAFTA objective, the reform of the U.S. anti-dumping regime and the establishment of a special NAFTA panel mechanism which reviews both subsidy/countervail and anti-dumping determinations. The U.S. sees considerable merit in first concluding the negotiations well advanced in the MTN. Canada shares Mexico's desire to see greater discipline extended to trade remedy procedures, but believes that priority at this point should be given to the MTN. Canada's objectives in the area of safeguards are to develop an emergency safeguard mechanism which would improve Mexican procedural and institutional standards of transparency and to craft a transitional period tariff snap-back provision capable of addressing effectively any Canadian import sensitivities.

Negotiators in the intellectual property negotiating group have completed their initial exchange of information, including a detailed examination of the degree to which intellectual property is protected by domestic legislation in each country. Negotiators recognize that efforts in this area will be heavily influenced by the relative outcome of the Trade-Related Intellectual Property (TRIPs) negotiations being conducted in the MTN. Canada contends that both agreements should contain strong and enforceable provisions requiring adequate standards of protection for IP rights, accompanied by fair and effective procedures for acquisition and enforcement. The two agreements should also result in an appropriate balance among social interests, including the legitimate concerns of IP owners and users as well as the needs of the consumers of IP-related products. In Canada's view, the broader Uruguay Round result should be established first and should set the standard for what is included in the NAFTA.

An important part of any eventual NAFTA will deal with the question of how the three countries will deal with investment issues. The investment negotiating group is responsible for negotiating all those elements (except in the case of financial services) of the agreement relating to the right of citizens of one country to invest and operate in the other NAFTA countries. Canada envisages an outcome based on national treatment and exceptions as in the FTA.

In the context of NAFTA, services account for close to 75 percent of both employment and GDP in Canada and the United States, while contributing 66 percent of production and some 60 percent of employment in Mexico. Moreover, services in all three countries account for a large and growing share of international trade[1]. To date, each country has tabled proposed lists of service sectors that could be covered by a NAFTA. Each country has also exchanged lists of measures that might constitute barriers to more liberalized trade in services. In their Ottawa meeting in October, Chief Negotiators agreed to the establishment of a sub-group on temporary entry of service providers under the general supervision of each country's respective services negotiator. The temporary entry group will take Chapter 15 of the FTA as its point of departure. This group met for the first time in Washington in early November.

In the area of financial services and insurance, there is agreement to discuss general rules and specific market barrier issues in tandem. Each country has completed a preliminary identification of barriers, while the work on principles (e.g., non-

[1] Direct services exports constitute some 11 percent of Canada's total exports. At the same time, services are also large components of many goods exports, particularly high technology exports. Consulting engineering is a good example.

discrimination) continues. Canada considers that any final NAFTA agreement should contain provisions on principles for trade in financial services as well as an effective dispute settlement mechanism. Work in this group is being closely coordinated with Canada's efforts in the MTN.

Future Agenda

The next stage of the negotiations will focus on the development and exchange of preliminary drafting proposals. These would be very preliminary documents, but would serve the useful purpose of helping to focus and coordinate the discussions in individual negotiating groups.

Environment

Canada has undertaken a series of initiatives reinforcing environmental co-operation with Mexico and ensuring the proposed NAFTA respects Canada's high environmental standards.

The initiatives constitute a four-pronged action plan that will:

- uphold environmental standards for traded goods,
- incorporate environmental concerns in the NAFTA consultation process,
- review the potential environmental impact of the NAFTA, and
- intensify Canada's environmental co-operation with Mexico.

The first aspect of the plan concerns the NAFTA negotiations themselves. Within the NAFTA negotiating group on standards, the negotiators will consider trade-related environmental standards, including the nature of standards, technical regulations and approval procedures for products affecting human health, safety and the environment.

The Canadian negotiators are insisting upon the right of a NAFTA member country to establish standards required for sound environmental reasons. Moreover, Canada's right to take any trade measure that is necessary to protect human, animal or plant health or safety in Canada will be reaffirmed in NAFTA. Canada's position is that each country must maintain its ability to set environmental standards and to enact those measures necessary to ensure compliance with internationally agreed upon environmental agreements or accords.

Second, representatives of environmental interests have been appointed to both the International Trade Advisory Committee (ITAC) and several of the Sectoral Advisory Groups on International Trade (SAGITs). These key advisory bodies, reporting directly to Minister Wilson, also include representation from a broad range of private sector interests. The views of the provinces are also being sought. To further assist the government's environmental consultations on the NAFTA, all concerned Canadians are invited to send comments to the Office of North American Free Trade Negotiations, External Affairs and International Trade Canada.

Third, the government has established an interdepartmental committee to conduct an environmental impact review of the NAFTA on Canada. To fulfil the 1990 commitment to conduct an environmental review of all new policies, the committee will meet regularly with Canadian negotiating group leaders to scrutinize continuously the environmental implications of the agreement.

The review will be presented to Cabinet at the same time as the NAFTA itself. The conclusions of the review will be made public. The ongoing nature of the review will ensure that the environment is taken into account throughout the negotiations.

Finally, the fourth element of the Canadian action plan highlights stronger bilateral co-operation under the Canada-Mexico Agreement on Environmental Co-operation signed by Prime Minister Brian Mulroney and Mexican President Carlos Salinas de Gortari in March 1990.

Under this accord, several environmental projects are underway or are being planned. Of particular importance to both countries are projects aimed at strengthening Mexico's capacity to enforce its environmental standards.

Process of Consultation

On the Canadian side, individual working group leaders are also involved in the process of consulting with provincial governments, industry, academia and the general public. The issues under negotiation are included in the agenda for federal-provincial consultation on issues of international trade policy that was first established during the Canada-U.S. FTA negotiations and which has continued for the MTN. Since May, the Chief Negotiator has met with his provincial counterparts four times, and the provinces have been de-briefed through conference calls following the three ministerial meetings. Federal and provincial trade ministers met on July 17 and December 6, with NAFTA being a principal order of business.

Consultations with industry and labour representatives is primarily through the International Trade Advisory Committee (ITAC), as well as in the Sectoral Advisory Groups on International Trade (SAGITS). The Chief Negotiator held a special meeting with most of the newly named SAGIT chairpersons on September 4. On September 20, International Trade Minister Wilson met with the ITAC for the first time following the recent recomposition of the ITAC/SAGIT network. Canadian negotiators are also in close touch with other industry, labour and consumer interest associations, in order to allow as wide a degree of consultation on the NAFTA negotiations as possible.

Table of Annexes

Background Information:

1. A chronology of the North American Free Trade Agreement (NAFTA).

CHRONOLOGY

1990

March 16-19

During an official visit to Mexico, Prime Minister Mulroney signs 10 joint co-operation agreements with Mexico:

- Memorandum of Understanding regarding the framework for trade and investment consultation
- 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 cooperation between customs administrations
- Memorandum of Understanding on forestry cooperation
- Agreement tourism
- Agreement on environmental co-operation
- Arrangement on agricultural and livestock co-operation
- 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 Minster 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 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.

1991

January 21
- Acapulco, Mexico -- Ministerial meeting

February 5

Prime Minister Mulroney and Presidents Salinas and Bush announce their decision to pursue NAFTA. It is envisioned 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 Salinas, 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 (EDC)-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 environmental and labour cooperation. This resolution is sponsored by Richard Gephardt (D-Mo.) and Dan Rostenkowski (D-III.)
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 -- First Ministerial Meeting: Official launch of the NAFTA negotiations.
July 8-9	♦ Washington, D.C. -- First Meeting of Chief Negotiators
August 6-7	♦ Mexico City -- 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 Ministerial Meeting.

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