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# CANADA-UNITED STATES FREE TRADE AGREEMENT: IMPLEMENTATION

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# Canada

**Free Trade Agreement: IMPLEMENTATION**

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i. PREFACE

Canada's economic prosperity depends on how competitive we are as a trading nation. A quarter of our Gross Domestic Product is derived from exports and one in five Canadian jobs depends on it. In an increasingly open international trading environment, fostered through the Multilateral Trade Negotiations, to remain competitive is a growing challenge.

The government's economic agenda of a more competitive economy in the 1990's is being pursued through tax reform, deregulation of key industrial sectors, privatization, an enhanced investment climate, and trade liberalization through the Free Trade Agreement and the MTN.

The Free Trade Agreement (FTA) is a cornerstone of the government's competitiveness strategy. The FTA eliminates barriers to trade in goods and services and liberalizes investment between Canada and our largest trading partner the United States. Along with the government's other competitiveness measures, the FTA positions Canada for the trading opportunities of the 1990's.

This brief is intended to provide the best available information on FTA implementation one year into the Agreement. The following report summarizes the major developments in implementation, as well as the government's approach to monitoring the effects of the FTA over its ten year phase-in period.

## 1. IMPLEMENTATION OF THE FTA

### 1.1 Introduction

While the Free Trade Agreement has only been in effect for one year, there are some obvious signs that exporters and importers are beginning to take advantage of the opportunities it has created. Canadian objectives during this period have been to implement the FTA in a manner that allows us to observe our obligations under the Agreement while vigorously exercising our FTA rights to ensure that the U.S. in turn fully meets its obligations. This will allow Canada to defend its interests and exploit new bilateral trade opportunities. To date, Canada has been largely successful in achieving these objectives.

What follows is a chapter-by-chapter review of developments related to the implementation of the FTA. Also included is an update on the government's trade development initiatives which are assisting Canadian exporters to exploit trade opportunities in the United States.

### 1.2 Chapters 3 and 4: Rules of Origin and Border Measures

Implementation of these chapters has proceeded smoothly. Canada Customs undertook an extensive public information campaign on FTA customs administration changes resulting from the FTA, and most transitional issues have now been dealt with. However, certain importers have expressed concern about obtaining or generating certificates of origin from U.S. suppliers. Canada Customs is exploring methods of solving the problem.

The value of imports from the U.S. benefitting from reduced rates of duty from January 1 to October 30, 1989 was \$12.7 billion out of a total of dutiable imports from the U.S. of \$22.8 billion. Canadian importers are now enjoying a reduction in duty on over 65 per cent (by value) of imports eligible for duty. This is compared to only 18 per cent in the first month of implementation. Importers who were not in a position to claim preferential duty treatment when their goods crossed the border and who have now secured an Exporter's Certificate of Origin are receiving a refund of the duties overpaid. Comparable figures for Canadian imports entering the U.S. are not yet available, but the government has requested that U.S. Customs move expeditiously to provide them.

Canada and the U.S. have responded to requests from their domestic industries for the accelerated removal of tariffs as envisaged in Article 401:5 of the FTA. Agreement has been reached to accelerate removal of tariffs on some 400 tariff items in each country, covering close to \$3 billion in Canadian exports to the U.S. and

about the same amount in imports from the U.S., based on 1989 trade data. Exports of particular interest to Canada include methanol (\$100 million in exports to the U.S.), photographic film (\$93 million), aluminum products (\$354 million), printed circuits (\$303 million) and diesel locomotives (\$425 million). Implementation of this agreement is expected on April 1, 1990. The timing for future negotiations is already being discussed.

The U.S. conversion to the Harmonized System of tariff classification coincided with, but was completely unrelated to, the introduction of the FTA. The resulting higher tariffs on a number of Canadian products have been incorrectly attributed to the FTA. The tariff acceleration exercise has helped to resolve some of the problems in the HS conversion issue and discussions are continuing.

Failure by the U.S. to implement tariff cuts on plywood and related wood panel products have also caused problems. The U.S. unilaterally delayed scheduled tariff cuts on these items because of the decision by the Canada Mortgage and Housing Corporation (CMHC) to refuse U.S. Grade C-D plywood for use in CMHC financed housing. In response, Canada suspended implementation of Canada's tariff cuts on the same products. Chapter 18 consultations have been held on the issue. The private-sector Binational Committee on Plywood Standards which was set up to reach an industry consensus on plywood standards will be reporting in the spring of 1990; this report should prove to be the basis for resolution of the dispute.

Canada Customs has paid particular attention to the systematic requirements. It ensures that importers have the certificates of origin in their possession when they claim FTA tariff treatment and provides importers and exporters with guidance and advice to make necessary adjustments where deficiencies in the certificates are found. Detailed verifications have been carried out, as required, to ensure that imported goods qualify under the rules of origin, and that complaints are routinely investigated.

Another area which is being carefully monitored is compliance by U.S. exporters with the FTA's rules of origin as they pertain to in-bond assembled or produced goods coming from the Mexican "maquiladora" zone. Media reports have alleged that goods assembled in the "maquiladora" zone, using U.S. components, would gain duty free access to Canada under the FTA, causing Canada to compete with cheaper Mexican labour and production costs. The FTA rules of origin ensure that only goods produced or significantly transformed in Canada or the U.S. have access to tariff preferences under the FTA. Safeguards are clearly set out in the Annex to Article 301.2 (transformation/improvement in value rules), Article 302 (trans-shipment through third countries) and Article 301.3 (disqualification of third country goods which receive simple finishing or packaging in Canada or the U.S.). Under these rules,

U.S. made components when assembled in Mexico lose their U.S. identity for FTA purposes.

The U.S. interpretation and implementation of the FTA rules of origin are consistent with Canada's position. Enforcement of this customs provision of the FTA is being strictly carried out through certification and auditing procedures.

### **1.3 Chapter 6: Technical Standards**

This chapter requires Canada and the U.S. to recognize each other's accreditation systems for testing facilities, inspection agencies and certification bodies. The Standards Council of Canada (SCC), following the amendment of its Act to provide for the accreditation of U.S. testing and certifying organizations, has implemented this change. The SCC is now processing applications for accreditation from several U.S. organizations, and a number of Canadian organizations are also seeking accreditation from U.S. standards authorities.

### **1.4 Chapter 7: Agriculture**

Implementation of the institutional provisions of this chapter has gone smoothly.

The horticultural snapback provision allows Canada to apply, temporarily, an increased duty on imports of fresh fruits and vegetables when import prices fall below the five-year average and when the planted acreage is lower than the average for the last five years. A system for monitoring import prices and planted acreages has been established in Canada but was not used in 1989 as the conditions for imposing the temporary duty did not arise.

Another provision requires that Canadian import licences for wheat, oats, barley and their products are to be removed if U.S. support levels for each grain are equal to or less than Canadian support levels. The U.S., for its part, does not require import licences for these commodities. The two countries provided each other with their calculation of the government support for the 1986/87 - 1987/88 period. The support level for oats was lower in the U.S. while the levels for wheat and barley were higher in the U.S. Canada removed import permits for oats and oat products in June.

The Departments of Consumer and Corporate Affairs, National Health and Welfare, and Customs and Excise, in consultation with External Affairs and International Trade Canada successfully established a border control program to identify improperly labelled food products and ensure their conformity with Canadian standards. This action has stemmed the flow of improperly labelled food

products into Canada.

The eight binational Working Groups which are to harmonize technical regulations and standards for a wide range of agricultural, food and beverage goods have begun their work. Responding to industry requests, Canada and the U.S. have recently established a ninth Working Group focusing on fish and fishery products.

Under the auspices of Article 709, Minister of Agriculture Mazankowski and U.S. Secretary of Agriculture Yeutter held meetings May 19 and December 19, 1989 to discuss bilateral and multilateral agricultural trade issues.

### **1.5 Chapter 8: Wine and Distilled Spirits**

The implementation of this chapter has posed some problems. The U.S. is concerned about the audits of provincial "cost-of-service differentials" (COSD) which are justifiable extra costs for handling U.S. products. Five of the requested eight provinces charging COSDs have submitted audits, and the remaining three will also be provided to the U.S. The Provinces have made significant changes to their liquor board practices to implement the Agreement.

### **1.6 Chapter 9: Energy**

Specific provisions were implemented in the following manner: the U.S. has made the required changes to its Atomic Energy Act ensuring continuing access to the U.S. market for Canadian uranium. Prospective U.S. industry legal action against uranium imports has been dropped.

The U.S. issued a temporary order in January to allow exports to Canada of up to 50,000 barrels per day of Alaskan oil. Canada has just received the U.S. draft final ruling for permanent implementation of this provision. Initial reading of the text is positive. One shipment has been made to date.

The U.S. Bonneville Power Administration policy has been modified to afford B.C. Hydro no less favourable treatment than Pacific Northwest Utilities. B.C. Hydro has taken advantage of a new long term policy by Bonneville Power to sign several contracts which, contrary to past practice, are not interruptible.

### **1.7 Chapter 10: Trade in Automotive Products**

Under the FTA, the Auto Pact remains intact with the proviso that it be limited to those Canadian manufacturers which have qualified



by the 1989 model year. The Canadian export-based duty remission programs were eliminated for exports to the U.S. on January 1, 1989, and are to be terminated by January 1, 1998 for exports to third countries. The production-based duty remission programs are to be eliminated by January 1, 1996. Canada has provided the U.S. with the final list of manufacturers in Canada which qualify for duty waivers under the Auto Pact and other duty remission programs.

The FTA also required that a Select Auto Panel be established (Article 1004) with the mandate to propose public policy and private-sector initiatives to improve the competitiveness of the North American automobile industry. The panel co-chairpersons and membership were announced on April 6. The binational, private-sector panel held its first meeting on August 8, 1989 and issued a preliminary progress report September 29. Its report recommended immediate action with respect to automotive customs procedures, standards/regulations and statistics. It also announced its intention to proceed with studies on global competitiveness as well as on the appropriateness of raising the FTA's existing rules-of-origin requirements from 50 per cent to 60 per cent Canada - U.S. content for automotive products.

Canada is required to phase out its import restriction on used cars from the U.S. in five equal stages. Amendments to standards regulations have been passed to allow the required imports for 1989 and 1990. Transport Canada is now in the process of developing a system to accommodate imports in future years.

#### **1.8 Chapter 13: Government Procurement**

The main provision of this chapter increases the amount of procurement open for competition between Canadian and U.S. suppliers in each others' market. It essentially applies the GATT provisions with a lower threshold of U.S. \$25,000. All purchases by covered entities above this new threshold are open to competition unless covered by exceptions allowed for by both the GATT code and the FTA.

The exchange of procurement statistics between Canada and the U.S. on the first year of operation is expected to be available in the fall of 1990.

The Procurement Review Board came into existence on January 1, 1989 as a result of the FTA. A similar mechanism already exists in the U.S. To date, seven complaint files have been opened with the Board. Three were closed because the objects of complaint did not meet the admissibility criteria as set forth in the legislation. Two files are presently under review and two were resolved to the satisfaction of the complainants. These complaints nevertheless dealt with two important procurement issues:

- . setting specifications based on a brand name without allowing for possible substitution such that it resulted in the automatic exclusion of some suppliers; and
- . establishing delivery times that were alleged to be prejudicial to some potential suppliers.

### **1.9 Chapter 14: Services**

The FTA is one of the first international agreements to establish rules governing trade in services. As such it provides a model for the inclusion of services in other international agreements. The services covered under this chapter include enhanced telecommunications and computer services, consulting and other business and consumer services, retailing, wholesaling and tourism. Financial services are covered under Chapter 17 of the FTA.

At its meeting on November 30, 1989 the Canada - U.S. Trade Commission established a Working Group on Services to monitor the implementation of Chapter 14, and to consider, in consultation with the industries concerned, the expansion and further liberalization of trade in services.

The Tourism Working Group, which was established under Chapter 14, held its first annual meeting on November 27, 1989. The Working Group reviewed the continuation of a shared market research program and discussed participation in international tourism organizations. It was further agreed that the U.S. would participate in the organizing steering committee for the World Tourism Statistical Conference to be held in Ottawa in October 1990.

### **1.10 Chapter 15: Temporary Entry**

Chapter 15 of the Agreement ensures that business persons and enterprises will have the necessary access to each others' market in order to sell their goods and supply after-sales service to their customers.

On November 30, 1989 the Canada - U.S. Trade Commission recommended further measures to facilitate temporary travel of business persons between the two countries. The Commission has recommended an amendment to Schedule 1 of the Annex to alter the wording of the provision for sales to ensure that it conforms to language found elsewhere in the chapter. Second, it was recommended that an additional paragraph be added to the distribution provision in Schedule 1 to allow easier entry of Canadian operators of motorcoaches on regularly scheduled routes that were in operation

at the time the Agreement came into force. Third, the Commission proposed that Schedule 2 of the Annex be amended to incorporate the minimum standards for qualifications in each of the professional groups listed in the Schedule. Fourth, the Commission has recommended the addition of more professionals to the current list contained in Schedule 2 where inclusion had been sought by that professional group. Fifth, at the request of members of the journalism profession, the Commission recommended that journalists be removed from the list of professions which qualify for easier temporary entry.

#### **1.11 Chapter 16: Investment**

Under the provisions of the Agreement, Canada will raise the threshold for review of U.S. direct acquisitions or takeovers in four stages to \$150 million by January 1, 1992. The threshold for review of indirect investments also rises in stages but will be completely eliminated on January 1, 1992. Data for the first nine months of 1989 show that 44 direct investments fell between the old and new thresholds, with the investments having a total value of \$480 million. Two indirect investments fell between the old and new thresholds, having a value of \$147 million. To put these numbers in perspective, Investment Canada was notified of 561 direct and indirect acquisitions for the first nine months of 1989, for a dollar value of \$17.4 billion. Of these, 122 direct and indirect acquisitions with a book value of \$15.5 billion were reviewed under the Investment Canada Act to ensure that they were likely to be of net value to Canada.

#### **1.12 Chapter 17: Financial Services**

The legal undertakings required of Canada by Chapter 17 have been implemented through Bill C-2. Similarly, the U.S. passed appropriate legislation concerning its commitments. Department of Finance officials have met with and written to their U.S. counterparts to start consultations to examine how to further liberalize rules governing financial services trade, as provided for in Article 1704. An answer from the U.S. Treasury is expected in early 1990. There have been no major market developments in financial services resulting from the FTA to date. The continuing open trading regime, which was reinforced by Chapter 17, provides financial institutions from both countries with a positive business environment in which they can develop and expand their activities.

### 1.13 Chapters 18 and 19:

#### A. Dispute Settlement

Dispute resolution under the Free Trade Agreement is treated under both Chapter 18 and Chapter 19. The mechanism contained in Chapter 18 applies to all bilateral trade issues arising under the Free Trade Agreement except for the review of anti-dumping and countervailing duty cases (AD/CVD), which are dealt with under Chapter 19, and financial services under Chapter 17.

#### Chapter 18:

Chapter 18 allows for flexibility in the management of bilateral trade issues. Identification of the facts of a trade problem through to settlement of an actual dispute is a graduated process moving from official consultations, to a formal Commission meeting and finally, if required, to formal submission to a five-person panel.

Bilateral consultations under Article 1804 of the FTA have been held on several issues including: cable retransmission rights (request by both countries); fresh fruit and vegetable labelling (U.S. request); lobsters minimum size requirements (Canadian request); plywood (Canadian request); wines and spirits (U.S. request); and wool (Canadian request).

The first panel constituted under Chapter 18 of the FTA considered a dispute involving the Canadian landing requirement for West Coast salmon and roe herring. Its final report, presented on October 16, 1989 held that a landing requirement is a legitimate conservation measure but suggested that the Canadian requirement need not apply to 100 per cent of the catch. It suggested that Canada allow 10 to 20 per cent of the catch to be exported directly from the grounds. Canada announced on November 6 that it would adopt the Report. The federal government is working towards the implementation of the Panel findings in consultation with the B.C. government, industry and the U.S. government.

Canada has recently requested the establishment of a second panel to resolve the issue of U.S. restrictions on imports of Canadian live lobsters. The panel report is expected in mid-May.

#### Chapter 19:

While the Chapter 18 process is quite general, Chapter 19 is much narrower in its focus and more technical in its application. It addresses only countervailing and anti-dumping cases.

Operating under domestic anti-dumping and countervail laws, administrative bodies or tribunals in each country investigate

complaints made by domestic producers concerning imported goods, and hand down decisions as to a) whether a foreign firm is benefitting from subsidies, or selling its products at below fair market value; and b) whether such subsidized or dumped imports are causing or threatening to cause material injury to the domestic industry.

These decisions, known as "final determinations", may result in the assessment of a duty on the imported goods. Prior to the FTA, these decisions were reviewable only by domestic courts, a very expensive process which generally took up to two or three years.

Chapter 19 allows for the establishment of binational panels to replace domestic judicial review of final determinations. Interested parties in such cases can invoke the panel procedures, unlike the Chapter 18 procedure which is exclusively a government-to-government process.

The panels are required to arrive at a decision within 315 days. The decisions are binding, as each country's implementing legislation requires the domestic administrative authority or tribunal to enforce the panel decision.

Twelve panels have been requested to date and are in various stages of resolution. All but one of these were initiated by Canadian exporters. Canadian challenges are underway, or have been undertaken for steel rails, red raspberries, paving parts, salted codfish, and pork.

The first decision of a Chapter 19 binational panel was issued December 14, 1989 pertaining to the red raspberries case. The unanimous panel decision found that the U.S. Department of Commerce's margin of dumping findings were defective against two of three B.C. exporters named in the administrative review and remanded the case to DOC for further substantiation.

There are four separate steel rails cases. Sydney Steel Corp. (SYSCO) is challenging the final countervailing duty determination made by the U.S. Department of Commerce against imports of steel rails from Canada (Steel Rail I). Algoma Steel, which was found not to be benefitting from subsidies in the same investigation, is challenging the dumping finding (Steel Rail II). The two companies have also requested a review of the injury decisions made by the U.S. International Trade Commission.

On August 22, the Government of Canada joined the Canadian Pork Council, the Canadian Meat Council and the Alberta, Ontario and Quebec Governments in requesting the establishment of a Chapter 19 panel to review the final determination of subsidy made by the U.S. DOC on July 18. A decision by this panel is due by July 3, 1990.

The U.S. International Trade Commission (ITC) decision that imports of Canadian pork were threatening to injure the U.S. pork producers is being appealed by the Canadian Pork and Meat Councils and Alberta and Quebec under a separate FTA Chapter 19 panel. A decision is due by August 24, 1990.

There are three separate cases on paving parts; two related to administrative review and one on the scope of the decision. A decision is expected by mid-January, 1990. With regard to salted codfish, the U.S. anti-dumping order has been rescinded and panel proceedings were terminated December 15.

The only existing U.S. challenge relates to a Canadian anti-dumping decision regarding induction motors.

To ensure fairness and integrity in the panel process, a procedure has been developed to deal with any serious breaches which might affect panel decisions and the integrity of the process. In such cases, either government can invoke an extraordinary challenge procedure involving a panel of three former judges who will determine the validity of the allegations and whether a new panel will be required to review the issues. To date, this extraordinary challenge procedure has not been used.

No other international trade agreement incorporates a judicial review of the activities of domestic agencies, with dispute-settlement panels empowered to issue legally binding decisions to such agencies. As illustrated above, Canadian exporters are actively exercising their rights through the panel process.

#### B. Canada - United States Trade Commission

The Agreement established the Canada - United States Trade Commission which assumes overall operational responsibility for the Agreement. The Commission is headed by the Cabinet-level officials having responsibility for international trade - the Minister for International Trade in Canada (The Honourable John C. Crosbie) and the United States Trade Representative (Ambassador Carla Hills). The Commission held two meetings in 1989; on March 13 and November 30.

#### C. Chapter 19 Working Group (Subsidies and Trade Remedies)

FTA articles 1906 and 1907 provide for a five-to-seven-year period to negotiate more effective rules and disciplines concerning the use of government subsidies and a substitute system of rules for dealing with unfair pricing and government subsidization. Since its establishment by the Canada - U.S. Trade Commission on March 13, 1989, the Working Group has met first at a technical level on May 4 and in plenary session on November 15. At the November meeting in Washington, both sides agreed that a two-phase approach

should be adopted: a preparatory phase until the outcome of the Multilateral Trade Negotiations Round is known, with substantive negotiations to follow (likely in early 1991).

Work is underway to ensure that the Canadian side is fully prepared for future negotiations. A contracted survey of U.S. federal and selected state government assistance to business has just been completed for the Department of External Affairs and International Trade and the Department of Finance. As well, Agriculture Canada will be undertaking an extensive examination of assistance provided to U.S. agricultural producers by all levels of government. A broad-based program of consultation is underway on these issues which will ensure that views representative of a wide range of interested parties, regions and industry sectors are taken into account. Initial consultations with the provinces have been completed. Consultations with business groups, labour organizations and other interested parties will be carried out over the next few months.

#### 1.14 Chapter 20: Other Provisions

##### A. Intellectual Property

Canada and the United States agreed to cooperate in ongoing multilateral intellectual property negotiations, especially the GATT Uruguay Round Trade Related Intellectual Property (TRIPS). The TRIPS negotiations are proceeding actively, although significant differences remain. Should there be a successful TRIPS outcome, these provisions may be incorporated into the FTA.

##### B. Retransmission

Canada agreed to implement in the Copyright Act a right of payment for copyright owners of broadcast programs retransmitted by cable companies, effective January 1, 1990. The scheme, which applies to distant Canadian and U.S. broadcast signals carried by Canadian cable operators, will be administered by the Copyright Board. It has received proposals from a variety of groups, including Canadian and U.S. rights owners and cable operators, which it will examine in the course of determining how the scheme should operate, including the setting of appropriate rates. The hearings, which began November 27, 1989 are expected to continue into the early spring 1990.

The U.S. initiated a complaint under the dispute settlement provisions of the FTA concerning Canada's definition of "local" signal, which they believe excludes too many signals from U.S. border stations from payment. Canada has made a complaint over provisions of the U.S. retransmission scheme which treat Canadian copyright owners differently from those in the U.S. Both disputes

are currently on hold.

Canada and the U.S. are now in the process of establishing a joint advisory committee to review outstanding issues related to retransmission in the U.S. and Canada, as set out in Article 2006.4.



## 2. Trade Promotion and Investment Development Activities

The government is participating in a record number of trade promotion activities for the U.S. market in fiscal year 1989-90. These include support for national stands, incoming buyer missions, market studies and initiation of exporters directories. In total, External Affairs and International Trade Canada will participate in more than 400 different promotional events in the U.S. These activities are focussed on energy, chemicals and petrochemicals, defence and related high technology, industrial and transportation equipment, communications, computer equipment and services, and fish, food and beverages. Virtually all of the major trade shows are "sold out" and there are waiting lists of Canadian firms seeking participation. More than 10,000 small and medium-sized Canadian firms are expected to participate in the government's trade promotion programs in the U.S. this fiscal year.

The success of Canadian exporters is reflected in sales reported for some of the trade shows during the first half of the year:

- \* Forest Products Machinery Show, Atlanta, June/89  
- \$2.57 million on site sales; \$4.425 million 12 month projected;
- \* Woodworking, Machinery and Furniture Supply Fair, Anaheim, California, August/89  
- \$0.41 million on site sales and \$0.9 million 12 month projected;
- \* American Booksellers Association Convention, Washington, D.C., June/89  
- \$0.6 million on site sales and \$1.77 million 12 month projected;
- \* National Hardware Show, Chicago, August/89  
- \$1.6 million on site sales and \$18.2 million 12 month projected
- \* American Marine Trades Expo, August/89  
- \$1.024 million on site sales and \$7.0 million 12 month projected
- \* Montreal Furniture Show, Montreal, June/89  
- \$1.0 million on site sales and \$5.0 million projected

Canadian exporters are also taking advantage of the New Exporters to Border States program (NEBS) which assists exporters to explore new markets in nearby U.S. border states. Under the program, Canadian companies that are not currently exporters are assisted to consider the markets just across the border as a natural extension of their home markets. 35 NEBS missions have been

organized this current fiscal year with 10 more in the pipeline. Every region of the country has an active NEBS program.

The New Exporters to the U.S. South program (NEXUS), moreover, assists Canadian exporters experienced in the border states markets to expand their exporting activities to the southeastern and western U.S. states. 18 NEXUS missions have been completed and 4 more are scheduled this fiscal year. Examples include an apparel mission from Alberta to Denver; a building products mission to San Francisco; a high technology mission to Huntsville, Alabama; a furniture mission from Winnipeg to Los Angeles; a giftware mission to the west coast; and an electronics mission to Kansas/St. Louis. Results to date are extremely promising with a high ratio of success recorded in these initial NEXUS events.

There are also a number of initiatives in the works to expand U.S. market opportunities specifically for exporters of services. This year, the government in cooperation with industry is developing market studies in the areas of construction and geomatics (aerial survey/mapping) and is discussing possibilities for an export market study with the pre-press association. Moreover, a mission to the Eastern U.S. seaboard involving the Royal Architectural Institute of Canada has been successfully concluded with a number of opportunities identified in the harbourfront and urban redevelopment fields.

In further developments, the government's trade office network serving exporters has increased its coverage of the U.S. market with the opening of five new satellite offices in 1989: San Diego, Denver, Princeton, Miami and San Juan, Puerto Rico. This brings the network of trade offices in the U.S. to 27 - one in each major distribution centre in the country.

Under the Investment Development Program (IDP) about 90 sectorally focused promotional events have been scheduled for this fiscal year. They involve seminars for U.S. business people on the Canadian investment climate and industrial capabilities, investment information booths at key trade fairs, and advertising, mail and telemarketing campaigns. Approximately 5000 serious investment leads are expected to be identified from this year's IDP activities.

### 3. ASSESSING THE IMPACT

At this stage, it is impossible to detect the economic impact of free trade. The FTA is being phased-in over ten years and its effects will only become manifest over the longer-term. As the December 18, 1989 Informetrica Study points out, "...lags in availability of reliable data, difficulties in isolating FTA from other effects on the economy, and the uncertain nature of results provided by models of behaviour, all point to great difficulties in developing any systematic evaluation of the effects of FTA on the economy.." (Page 7, Main Report). The FTA, along with other structural policy measures such as trade liberalization under the GATT and major tax reform, are contributing to economic change, and it is difficult at this early stage to assess FTA effects. "Early returns" on indicators such as the CPI, employment, trade performance, and GDP are not very conclusive. The Informetrica study identifies some meaningful indicators and data streams which can be analyzed in future years, however, as tariffs fall and rationalization proceeds.

The Department of Finance, for its part, stands by its initial FTA forecasts and assumptions regarding the longer-term impact of the FTA. These include, by 1993, an increase in real terms of business investment of more than 4 per cent, real output GDP growth of about 2 per cent, net job creation of 120,000 and a rise in Canadian exports by about 3.4 per cent in volume terms.

#### 3.1 Assessment Criteria

Just as the Free Trade Agreement is a long-term initiative with a ten-year phase-in period, the economic benefits which will accrue are also long term, linked to the coming into play of the various aspects of the Agreement. At this first anniversary of the FTA, only a small proportion of proposed tariff reductions are in place, and preparatory work is continuing in the reduction of non-tariff barriers areas such as government procurement, temporary entry, services and agricultural technology. Not surprisingly, expert opinion within the federal government, the Economic Council of Canada and private think-tanks conclude that discernible and substantial FTA effects are still several years away. The long-term indicators, such as GDP growth, consumer price index, trade performance, job creation, and productivity measures will only become relevant after a number of years, as the impact of the FTA-induced reduction of tariff and non-tariff barriers becomes apparent.

#### 3.2 Monitoring Activities

Given the importance of the Free Trade Agreement to Canada's future

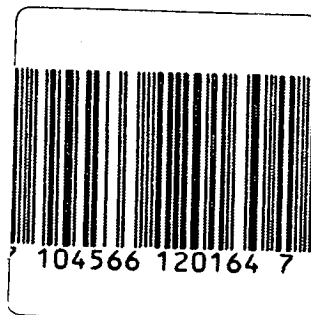


economic prosperity, business, labour, the provinces, academia, private think-tanks, the media, the political parties and specialized interest groups are all keeping a close watch on "how well the FTA is doing". In practice, the Federal Government is monitoring developments in the Canadian economy on a wide range of issues, including the FTA. With respect to the FTA, individual departments are monitoring those aspects of the Agreement that fall under their respective responsibilities. To ensure coordination, the government has an ongoing FTA monitoring network of some twenty departments and agencies which meets at the staff level, and the government consults on a regular basis with the provinces and industry. In addition to in-house monitoring, government officials are also keeping abreast of relevant studies emanating from the press, think tanks, industry associations, labour and academia. The interdepartmental monitoring network is also looking at the data requirements needed to monitor the FTA's economic impacts over the next several years as the forecasted effects take hold.

#### Informetrica Study

A key component for this monitoring approach is a feasibility study which External Affairs and International Trade Canada commissioned from Informetrica Limited to examine the means to measure the economic impact of the Free Trade Agreement on the first anniversary and over the longer term. The study provides an independent view as to the appropriate economic indicators, methodology and time frames for measuring FTA impacts. In brief, the study contains the following conclusions:

- o FTA's principal benefits of greater market access, lower tariffs and more liberalized investment rules will be reflected directly in investment behaviour and prices;
- o In addition, "induced effects" will follow from the FTA on GDP, real income, trade performance, productivity, industry rationalization and labour adjustment;
- o Effective measurement of FTA as direct and induced effects will require macro-economic modelling to establish causality and effect between economic variables, and descriptive, statistical analysis at the sectoral level; and
- o There are serious problems with data availability and time lags. A rigorous assessment of the impact of FTA on the economy is technically feasible only over the longer-term as the effects take hold and reliable data becomes available.



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25975	LIGHT GREEN
25976	DARK GREEN
25977	TANGERINE
25978	RED
25979	EXECUTIVE RED

GENUINE PRESSBOARD

ACCOPRESS

INTERNATIONAL INC.  
CHICAGO, ILLINOIS 60610

DOCS  
CA1 EA 90C21 ENG  
Canada-United States Free Trade  
Agreement : implementation. --  
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