Government of Canada | Gouvernement du Canada

news release

Date For release **August 12, 1992** **No. 165**

CANADIAN OBJECTIVES MET IN NORTH AMERICAN FREE TRADE AGREEMENT

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

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

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

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

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

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

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

Mr. Wilson outlined what the Agreement means for Canada.

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

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

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

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

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

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

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

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

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

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

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

- 30 -

For further information, media representatives may contact:

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

HIGHLIGHTS

OF THE

NORTH AMERICAN

FREE TRADE AGREEMENT

(NAFTA)

AUGUST 1992

CANADA'S KEY OBJECTIVES MET

Barrier-Free Access to Mexico

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

FTA Benefits Plus Improvements

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

Canada -- An Attractive Place to Invest

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

WHAT'S IN THE AGREEMENT

TARIFFS

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

THE AUTO INDUSTRY

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

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

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

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

AGRICULTURE

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

TEXTILES AND APPAREL

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

ENERGY

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

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

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

SERVICES

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

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

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

FINANCIAL SERVICES

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

INTELLECTUAL PROPERTY

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

INVESTMENT

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

STANDARDS

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

THE ENVIRONMENT

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

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

GOVERNMENT PROCUREMENT

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

DISPUTE SETTLEMENT

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

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

WHAT'S NOT IN THE NAFTA

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

WHAT IF OTHER COUNTRIES WANT TO JOIN THE NAFTA?

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