

## **PRESS RELEASE**

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### **CANADA'S TRADE INITIATIVES ENHANCE OVERALL OPENNESS BUT LITTLE PROGRESS MADE IN SENSITIVE SECTORS**

#### **Concerns also remain over complicated trade relations and dependency on a single export market**

Regional and multilateral trade initiatives have helped Canada to further liberalize its generally open economy. A new WTO Secretariat report on Canada's trade policies and practices notes that efforts to enhance transparency, establish a more rationale import regime and lower inter-provincial trade barriers are helping producers to adapt to the challenges, and take advantage of greater market openness in Canada and abroad. However, areas such as agriculture, textiles and clothing, motor vehicles and certain services have proved impervious to change. Moreover, Canada's preferential arrangements give rise to questions about their possible distortion of trade patterns.

The Secretariat's report and a policy statement by the government of Canada will be the subject of two days of discussion at the WTO's Trade Policy Review Body on 15 and 17 December 1998.

The WTO's latest report on Canada's trade policies since 1996 notes that trade is a major determinant of Canada's economic performance and that exports continued to benefit from the United States' cyclical lead and from Canada's participation in the North American Free Trade Agreement (NAFTA). The U.S. share in Canadian trade has risen further and now represents 83% of merchandise exports and 76% of imports. Canada has also forged preferential links with other partners, including new free trade areas with Israel and Chile.

The report notes that Canada's new customs tariff, in effect since 1 January 1998, greatly simplified and rationalized its import regime. Almost half of all tariff lines are now duty free, up from a third in 1996. The simple average tariff is down to 7.7% in 1998, compared to 9.2% in 1996. Nevertheless, tariff protection remains significant for food products, textiles, clothing and footwear, all areas where developing countries could well have a comparative advantage. The report also says that Canada's elaborate system of preferential tariffs and rules of origin raise concerns about trade diversion.



The report notes that financial support for agriculture has continued to contract, including the elimination of export subsidies in 1997 and reductions in domestic agricultural subsidies. However, an increasingly market-based environment for grains and some major livestock products contrasts with the retention of supply management regimes for dairy products, poultry and eggs. Canada's in-quota access is in some instances reserved for imports from preferential trading partners. Tariffs on out-of-quota supplies are often over 200%.

Canada's trade in textiles and clothing has been further liberalized, in some instances beyond WTO commitments. In recent years, Canada's textile imports from China and Hong Kong, China have increased significantly, while China is already the largest clothing exporter to Canada. Trade in these products has also been liberalized under preferential arrangements, including Israel and NAFTA, with strong growth under the latter due in part to NAFTA rules of origin.

More than half of all anti-dumping measures apply to steel products, and affect mostly U.S. suppliers. Although this reflects in part the intensity of bilateral trade, the report identifies anti-dumping as a persistent impediment to trade in North America and remarks on Canadian efforts to phase out both anti-dumping and countervailing duties inside NAFTA and in its trade agreement with Chile.

Import controls are in place essentially for health, safety and environmental reasons, with the exception of the trade restrictions applied in the agriculture and textiles and clothing sectors. The report notes that environment-related trade prohibitions have been challenged twice by private companies under the investor-state provisions of the Agreement on Internal Trade and NAFTA.

In regard to government procurement, the report says that frictions persists between Canada and other signatories of the WTO's Agreement on Government Procurement as Canada continues to condition its market opening commitments under the Agreement to moves that it deems economically equivalent by the United States.

Canada's domestic reforms in services have been facilitated, and been stimulated by commitments made under the WTO's General Agreement on Trade in Services (GATS) and NAFTA. Canada also actively participated in the 1997 WTO financial and telecommunications services negotiations. With regard to audiovisual services, the report notes that Canada has yet to find a tenable balance between its international commitments and its perceived need to promote its cultural identity in an increasingly borderless market.

The report concludes that Canada's pursuit of an outward-oriented strategy, combined with prudent macroeconomic policies, has been integral to its recent strong economic performance. Its multi-track approach to international trade and investment relations has further opened up Canada's economy, and resulted in greater competitiveness in many sectors of its economy. However, difficulties in balancing internal pressures in a federal system, regional integration and multilateral liberalization continue to complicate Canada's external trade relations. Canada's trading partners, for example, have questioned Canadian measures in areas such as patent protection, milk and dairy products pricing, state trading arrangements for dairy and wheat products, film distribution, taxation of periodicals, export support for aircraft and the automotive trade regime.

## Notes to Editors

The WTO's Secretariat report, together with a policy statement prepared by Canada, will be discussed by the WTO Trade Policy Review Body (TPRB) on 15 and 17 December 1998. The WTO's TPRB conducts a collective evaluation of the full range of trade policies and practices of each WTO

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member at regular intervals and monitors significant trends and developments which may have an impact on the global trading system. The Secretariat report covers the development of all aspects of each of Canada's trade policies, including domestic laws and regulations, the institutional framework, trade policies by measure and by sector. Since the WTO came into force, the new "areas" of services and trade-related aspects of intellectual property rights are also covered.

To this press release is attached the summary observations from the Secretariat report and the government report. The full Secretariat and government reports are available for journalists from the WTO Secretariat on request (call 41 22 739 5019). They are also available for the press in the newsroom of the WTO internet site ([www.wto.org](http://www.wto.org)). The Secretariat report, together with the government policy statement, a report of the TPRB's discussion and the Chairman's summing up, will be published in hardback in due course and will be available from the WTO Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reports have been completed: Argentina (1992), Australia (1989, 1994 & 1998), Austria (1992), Bangladesh (1992), Benin (1997), Bolivia (1993), Botswana (1998), Brazil (1992 & 1996), Burkina Faso (1998), Cameroon (1995), Canada (1990, 1992, 1994 & 1996), Chile (1991 & 1997), Colombia (1990 & 1996), Costa Rica (1995), Côte d'Ivoire (1995), Cyprus (1997), the Czech Republic (1996), the Dominican Republic (1996), Egypt (1992), El Salvador (1996), the European Communities (1991, 1993, 1995 & 1997), Fiji (1997), Finland (1992), Ghana (1992), Hong Kong (1990, 1994 & 1998), Hungary (1991 & 1998), Iceland (1994), India (1993 & 1998), Indonesia (1991, 1994 & 1998), Israel (1994), Jamaica (1998), Japan (1990, 1992, 1995 & 1998), Kenya (1993), Korea, Rep. of (1992 & 1996), Lesotho (1998), Macau (1994), Malaysia (1993 & 1997), Mali (1998), Mauritius (1995), Mexico (1993 & 1997), Morocco (1989 & 1996), New Zealand (1990 & 1996), Namibia (1998), Nigeria (1991 & 1998), Norway (1991 & 1996), Pakistan (1995), Paraguay (1997), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992 & 1996), Slovak Republic (1995), the Solomon Islands (1998), South Africa (1993 & 1998), Sri Lanka (1995), Swaziland (1998), Sweden (1990 & 1994), Switzerland (1991 & 1996), Thailand (1991 & 1995), Trinidad and Tobago (1998), Tunisia (1994), Turkey (1994 & 1998), the United States (1989, 1992, 1994 & 1996), Uganda (1995), Uruguay (1992), Venezuela (1996), Zambia (1996) and Zimbabwe (1994).

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**TRADE POLICY REVIEW BODY****CANADA****Report by the Secretariat – Summary Observations****Introduction**

Canada has continued to pursue an outward-oriented strategy that, combined with prudent macroeconomic policies, has been integral to a recent strong growth performance. Over the last two years, Canada has participated in regional and multilateral initiatives that have further liberalized its generally open economy. It has also demonstrated its commitment to a strong multilateral trading system through an active and constructive participation in all aspects of work in the WTO. Domestic initiatives to lower inter-provincial trade barriers, move forward internal deregulation, enhance transparency, and rationalize the import regime have helped Canadian producers to adapt to the challenges, and to take advantage of the opportunities resulting from greater market access both at home and abroad. However, a few areas have proved relatively impervious to change and remain sheltered from foreign competition by trade or investment barriers; among those are certain activities in the agriculture, textiles and clothing, motor vehicles and services sectors. Moreover, although outward-oriented, Canada's preferential arrangements give rise to questions about their possible distortion of trade patterns.

**Economic and institutional environment**

Canada has consolidated many of the economic trends noted in its 1996 Trade Policy Review, maintaining output growth and low inflation while eliminating fiscal deficits. Economic activity has reflected strong private consumption and investment, supported by prudent monetary management and the stimuli of regulatory reform, closer internal market integration and pressure from greater international competition. Reduction and reform of public spending and increased budgetary revenues from economic growth underpin the improved fiscal situation. However, reflecting the accumulation of deficits in earlier years, the overall debt to GDP ratio remains at almost 100%, which leaves the budget vulnerable to interest rate increases or slow-downs in economic activity. Unemployment, at 8.4%, also remains an issue.

Developments in the past two years have confirmed trade as a major determinant of Canada's economic performance. Exports continued to benefit from the United States' cyclical lead, supported by efficiency gains in the Canadian economy. The U.S. share in Canadian trade has risen further, to some 83% of merchandise exports and 67% of imports. Canada's aggregate output thus remains exposed to slower growth in the United States. Although diversification away from commodity exports has progressed, primary products still account for almost one third of total merchandise exports, reflecting Canada's generous endowment of natural resources.

The financial crisis in Asia has had so far a limited impact on Canada's overall economic growth, as only 8% of Canadian exports are destined for that region. Nevertheless, the crisis has been felt distinctively in western Canada and, if protracted, could have significant indirect effects on the economy as a whole. Commodity prices have fallen for a broad range of important Canadian export products. This, together with volatility in financial markets, has put downward pressure on the Canadian dollar. The authorities responded by increasing interest rates at various times in 1997 and the first half of 1998, followed by a reduction in September 1998.

Trade and investment policies have developed within an essentially unchanged institutional framework characterized by shared federal-provincial competencies. The federal and provincial authorities have made steady progress in reducing inter-provincial trade barriers, particularly through the 1995 Agreement on Internal Trade (AIT). Reflecting the key role played by foreign capital, the authorities have also sought to ease regulations and reduce other factors that may inhibit foreign investment. In addition, they have continued the process of internal deregulation while making use of new information and communication technologies, notably the Internet, to enhance the effectiveness and transparency of government actions. Overall, these efforts have facilitated factor flows among

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the provinces, eased distortions in the incentive system and created a stronger basis for long-term economic expansion.

## **TRADE POLICIES BY INSTRUMENT**

### **Tariffs**

After an autonomous tariff review, Canada adopted a new Customs Tariff in January 1998 that greatly simplified and rationalized its import regime. The new Customs Tariff incorporated the Uruguay Round tariff reductions planned for 1999, unified the schedule, and decreased the number of tariff lines from 11,000 to 8,000. It also converted all rates of under 2% to zero, a conversion that will be automatic in the future. Duty free entry also replaced special codes that had provided for the concessionary entry of certain inputs. Almost half of all tariff lines are now duty free, up from a third in 1996, and the simple average tariff is down to 7.7% in 1998, compared to 9.2% two years ago.

Tariffs on dutiable items average 14%, unchanged from 1996; sectors where tariff protection remains significant include food products, textiles and clothing, footwear and shipbuilding. Tariff escalation also remains relatively high in certain sectors, including food products, textiles and footwear. These features create potential impediments to exports into Canada in sectors where developing countries could well have a comparative advantage. Transparency has been enhanced by the elimination in the new Tariff of performance-based duty remission programmes and most end-use tariff concessions, but provisions remain that permit only certain firms to import motor vehicles duty-free.

Tariff reductions have also occurred in the context of free-trade agreements (FTAs). In particular, the progressive implementation of the NAFTA has resulted in the elimination of virtually all tariffs on trade with the United States, the main exception being supply-managed agricultural products. Two new FTAs, with Chile and Israel, bring to ten the number of Canada's preferential tariff regimes, each involving different margins of preference and rules of origin.

### **Non-tariff restrictions and controls**

Import controls are in place essentially for health, safety and environmental reasons, with the exception of the trade restrictions applied in the agriculture, and textiles and clothing sectors. Over the past two years, environment-related trade prohibitions have been challenged twice by private companies under the investor-state provisions of the AIT and NAFTA.

Canada has used countervailing and safeguard actions sparingly over the past two years, and there has been a reduction in anti-dumping measures in force. More than half of all anti-dumping measures apply in the sensitive steel industry. Anti-dumping actions affect mostly U.S. suppliers; although this partly reflects the intensity of bilateral trade, anti-dumping thus persists as a potential impediment to trade in North America. Canada has continued to seek the elimination of anti-dumping and countervailing duty measures within the NAFTA, and in FTAs in general. These efforts resulted in provisions to phase-out anti-dumping measures in the Canada-Chile FTA.

Recognizing the important effect of standards and technical regulations on international trade, Canada has actively participated in international standardization activities, including the adoption of international standards, the negotiation of mutual recognition agreements, and efforts to harmonize Canadian regulations with those of major trading partners. These efforts should benefit all of Canada's trading partners, in particular those with whom harmonization is closest.

### **Other measures affecting production and trade**

In 1995-97 there was a significant decline in the financial assistance by the Federal Government to economic sectors. In particular, outlays to the agri-food sector have been substantially reduced, while industry-specific assistance appears now to be largely limited to the cultural sector. Although the provinces have also participated in the fiscal consolidation process, the impact of this process on provincial subsidy programmes is not as clear.

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Canada made market opening commitments in government procurement both under the WTO Plurilateral Agreement on Government Procurement (GPA) and the NAFTA. However, Canada has linked the full implementation of its GPA commitments to moves that it deems economically equivalent by the United States. This position, unchanged since the previous Trade Policy Review, has continued to create frictions with other GPA signatories.

The AIT has sought to remove provincial procurement preferences, and thus promote a more rational allocation of resources. Since 1997, transparency has been enhanced by the launching of an Internet-based tendering system and the conclusion of an agreement to extend AIT disciplines to municipalities, academic and health institutions. These moves may also benefit foreign suppliers, especially those with a commercial presence in Canada. On the other hand, although the AIT prohibits buy-provincial and other practices that discriminate against suppliers from other provinces, its signatories are free to employ buy-Canadian policies where no international commitments apply. In general, the criteria used by provinces to allocate procurement contracts remain opaque.

## **SECTORAL POLICIES**

By and large, the Canadian economy is open and largely free from significant policy-induced distortions. However, some sectors, for various reasons including historical and political, remain subject to interventions that have created barriers to trade and investment. Even these sectors, the main focus of this report, have come under increased scrutiny and in some of them changes are under way.

### **Agriculture**

Public financial support for agriculture has continued to contract, including the elimination of export subsidies in 1997, and important reductions in domestic agricultural subsidies. However, an increasingly market-based environment for grains and major livestock contrasts with the retention of supply management regimes for dairy products, poultry and eggs. Canada's in-quota access is in some instances reserved for imports covered by certain preferential arrangements, including Canada's recent FTAs with Chile and Israel. Tariffs on out-of-quota supplies often stand at over 200%.

WTO Members have questioned the activities of the Canadian Dairy Commission and Canadian Wheat Board concerning trade in dairy products and wheat. In addition to these two entities, Canada has notified the Canadian Freshwater Fish Marketing Corporation, the ten provincial liquor boards and the Ontario Bean Producers Marketing Board as state-trading enterprises.

Canada's few but highly restrictive trade measures in agriculture could help to perpetuate some of the distortions in world markets that Canada sought to remove in the Uruguay Round. These restrictions, by effectively shielding key agricultural activities from market opening under the WTO Agreements, also deny opportunities for trade with Canada to more efficient agricultural producers, particularly those not enjoying preferential access. This approach detracts from Canada's otherwise strong support for production based on comparative advantage, a principle that has served Canada well in other areas.

### **Manufacturing**

The motor vehicle industry is the largest manufacturing activity in Canada, and tightly integrated with that of the United States. A special policy regime has been applied to the industry since the Auto Pact was signed with the United States in 1965. Thus, while MFN tariffs are currently 6.7% for light motor vehicles and aftermarket parts, and 0% for automotive original equipment, firms specifically covered by the Auto Pact and complying with both Canadian value-added content and production-to-sales requirements may import automotive products duty free from all sources. After the Government announced in 1998 that it would not further reduce unilaterally MFN tariffs on automotive products, instead pursuing trade liberalization through the WTO and regional arrangements, the European Union and Japan requested consultations with Canada on the WTO consistency of the Canadian automotive regime. For Canada itself, concerns also arise about the cost

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of forgoing unilateral, efficiency enhancing liberalization, with a view to preserving barriers as bargaining elements for future negotiations.

Canada has implemented the product integration programme for the first two stages envisaged in the WTO Agreement on Textiles and Clothing, and it has included some restrained products among those integrated. Canada has also effectively eliminated some quotas and increased access under others as a unilateral liberalizing effort. Trade in textiles and clothing has also undergone regional liberalization. Trade within the NAFTA region has increased considerably, due in part to rules of origin (the "yarn forward rule") designed to ensure that the benefits of free trade accrue to producers located in NAFTA members. In recent years, Canada's textile imports from China and Hong Kong, China have also increased significantly; China already accounts for the largest, and a growing share of clothing imports.

### **Services**

The process of gradual deregulation of the Canadian services sector has continued, spurred by the need to remain internationally competitive in the face of rapid technological change and competitive pressures from U.S. suppliers. Domestic reforms have facilitated, and been stimulated by international commitments under both GATS and NAFTA, thus ensuring that these reforms also benefit foreign service providers. Canada actively participated in the WTO-sponsored negotiations in Basic Telecommunications and Financial Services. In audiovisual services Canada is still searching for a tenable balance between international commitments and the perceived need to promote its cultural identity in an increasingly borderless market place. In these services, as in all other activities related to cultural industries, the Government reviews all investments by foreigners.

The professional services sector makes a significant contribution to Canada's commercial services exports. Professional services are closely regulated in Canada by provincial and territorial bodies; incorporation of professional service firms falls under provincial or federal authorities. Although Canada's decentralized regulatory system has created impediments to trade in such services, including to inter-provincial labour mobility, steps have been taken, notably under the AIT, for the mutual recognition and reconciliation of occupational standards across provinces. In international fora, Canada has made significant commitments on professional services under the GATS, and negotiated mutual recognition agreements at the bilateral and regional level, notably under the NAFTA.

### **TRADE POLICIES AND TRADING PARTNERS**

Canada follows a multi-track policy approach to international trade and investment relations in which multilateral and preferential arrangements are intended to play mutually reinforcing roles. An effective multilateral system with universal membership, encompassing both trade and investment disciplines, is seen by the authorities as the best means to attract foreign investment to Canada and provide a secure and fair environment for Canadian firms operating abroad. Canada has thus been actively participating in all aspects of current work in the WTO, arguing that the core of such work should be implementing the Marrakesh built-in agenda and developing the programme agreed in Singapore. For future trade talks, Canada is considering a "cluster approach" that would group complementary issues for negotiation, to identify areas where early agreement might be possible.

Given the importance of bilateral trade flows, Canada also grants paramount importance to managing the relationship with the United States. Canada-U.S. preferential trade arrangements, more recently through the NAFTA, have magnified the inherent advantages of geographic proximity and, thus, the reliance of the Canadian economy on one trading partner. As a counterbalance, in addition to its solid support of the multilateral trading system, Canada has sought to forge preferential links with other partners, including the new FTAs with Chile and Israel and an active participation in broader schemes such as APEC and the Free Trade Area of the Americas.

Canada's bilateral and regional liberalization reflects an outward-oriented strategy, which, has created however, an elaborated system of preferential tariffs and rules of origin that give rise to concerns about trade diversion. Moreover, difficulties in balancing internal pressures in a federal

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system, regional integration, and multilateral liberalization continue to complicate Canada's external trade relations, and WTO partners have questioned over the last two years Canadian measures in areas such as patent protection, milk and dairy products pricing, film distribution, taxation of periodicals, export support for aircraft and the automotive trade regime.

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**TRADE POLICY REVIEW BODY**

**CANADA**

**Report by the Government**

**I. INTRODUCTION**

**A. EXECUTIVE SUMMARY**

**1. Recent developments**

Canada's efforts to expand trade and to promote new investment have been supported by a strong domestic economy. Its gross domestic product grew 3.7% in 1997, fuelled by strong domestic demand and a steady trade performance. The first budget surplus at the federal level in three decades, low inflation, low interest rates, and rising employment levels have put Canada in a good position to weather the current turbulence in world financial markets and to continue to be an active participant in world trade and investment.

1. Despite the fact that Canada is a net exporter of commodities, declining world commodity prices of recent months have had a limited impact on Canada's economic performance as the share of the commodities sector in total exports is not as important as it once was. Indeed, the share of resource-based commodities in total exports has fallen from 60% in 1980 to about 35% today, representing some 12% of Canada's GDP. This reflects the changing reality of Canada's economy which is shifting from a commodities-based to a more knowledge-based economy.

2. Canada's efforts to further open markets and strengthen international rules on trade have led to several key developments, including:

- (a) Signing multilateral agreements on basic telecommunications, financial services, and information technology products and playing an active role in the ITA II and Pharma III tariff negotiations under the umbrella of the World Trade Organization (WTO);
- (b) Eliminating tariffs on most products between Canada and the United States and implementing another round of tariff reductions with Mexico on 1 January 1998;
- (c) Eliminating tariffs on a broad range of products under the Canada-Chile Free Trade Agreement;
- (d) Moving ahead with trade liberalization and facilitation efforts within the Asia Pacific Economic Co-operation (APEC) forum and taking on the role of the first chair of the negotiations aimed at achieving a Free Trade Area of the Americas (FTAA); and
- (e) Launching free-trade negotiations with countries of the European Free Trade Association (EFTA) as well as continuing work on the Canada-European Union Transatlantic Action Plan.

**2. Future plans**

3. Canada will continue to promote international trade and investment and to pursue greater access to foreign markets through strengthening and expanding international trade rules. Among the key priorities:

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- (a) Canada will continue to work actively for everything from the implementation of the Uruguay Round agreements by other WTO members, to participating in the accession negotiations of non-members to the WTO, to preparing for negotiations on agriculture and services and in other areas. The WTO remains the cornerstone of Canadian trade policy.
- (b) Trade and investment relations with the United States and the Americas will continue to be a major Canadian priority. Under the North American Free Trade Agreement (NAFTA), Canada will work towards reducing barriers in such areas as services, government procurement, and trade remedies. Our active involvement and leadership of the FTAA negotiations will continue in the months ahead.
- (c) Openness to the public in trade and investment negotiations will be key to Canada's approach in coming years. Canada will continue to undertake full domestic consultations with interested public and private sector groups on various trade negotiations and other initiatives and to promote greater transparency in the work of the WTO and other trade organizations. Greater public understanding and broader public support is key to effective trade policy.

#### B. TRADE AND ECONOMIC POLICY ENVIRONMENT

4. The Canadian economy enjoyed solid growth in 1997, led primarily by gains in private consumption and investment. While growth in the first quarter of 1998 remained very strong, it slowed in the second quarter due to a sharp slowdown in inventory accumulation. Notwithstanding the financial and economic situation in Asia, Russia, and elsewhere, Canadian exports and imports have continued to increase, albeit at a slower rate. Canada's unemployment rate continued its steady decline, standing at 8.1 per cent in October 1998, its lowest rate in eight years.

5. The value of Canadian exports of goods and services increased from \$84 billion in the first quarter of 1997 to \$89 billion in the second quarter of 1998. During the same period, imports rose from \$78 billion to \$87 billion, largely in response to strong domestic demand and likely also due to the depreciation of many Asian currencies. While exports to Asia have declined in 1998 with the economic downturn in the region, imports from Asia have continued to increase. For example, exports to Thailand and Indonesia dropped by 41% and 44% respectively, (January-June 1998 vs January-June 1997) while imports increased by 10% and 13%, respectively. The openness of the Canadian market to imports from Asia is helping to mitigate the decline in the region's economic activity and will contribute to a restoration of growth in these markets which are so important to the Canadian and to the world economy.

6. Sound economic fundamentals and attractive, transparent investment policies are leading to increasing amounts of foreign direct investment. FDI flows for the first half of 1998 exceeded those of all of 1997. Direct investment flows were largely to and from the US and were concentrated in the finance and insurance industries. Significantly, Canada has now become a major global investor, with total direct investment abroad in the past two years, for the first time in Canadian economic history, exceeding inward FDI. In 1997, total investments abroad reached \$194 billion; foreign direct investments in Canada totalled \$188 billion.

7. Aware of the challenges and opportunities of the forces of globalization, Canada has placed a high priority in getting its economic house in order to ensure that Canadians can participate fully in, and benefit from, the global economy. The difficult steps taken to address the economic and fiscal problems that faced the country earlier in the decade have established a solid foundation for continued growth. For the first time since 1969/70, the Government of Canada recorded a surplus (\$3.5 billion) which has been applied directly to the debt. The debt-to-GDP ratio fell in 1996/97 and even further in 1997/98. This accomplishment has been mirrored by the provinces which together have almost

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eliminated their deficits; the total government sector deficit in Canada has thus now been entirely erased. Interest rates have been brought down substantially with the interest rates on long-term government bonds now at their lowest level in 30 years.

8. Despite the current world-wide economic uncertainty, the fundamentals of the Canadian economy are expected to remain strong - a low inflation environment, a declining debt-to-GDP ratio, and strong private sector investment. While growth may be slower than in 1997, there are encouraging signs of continued expansion in consumer demand and business investment, supported by higher employment, low medium and long-term interest rates, and a steady trade performance.

#### C. TRADE POLICY DEVELOPMENTS 1996-1998

9. Over the past two years, Canada continued to pursue policies to improve access to the United States and other foreign markets, and to promote the improvement and expanded coverage of international rules governing trade and investment. Since the last Trade Policy Review in 1996, the following major developments have taken place:

- (a) Canada has fully implemented its Uruguay Round commitments.
- (b) Canada participated actively in further liberalization efforts of the WTO. In 1997, Canada signed the agreement eliminating duties on information technology products. Canada is also a party to the agreement on basic telecommunications services and the agreement on financial services; it has also played an active role in the ITA II and Pharma III tariff negotiations.
- (c) With respect to the NAFTA (and the Canada-US FTA upon which it is based), tariff elimination on most products between Canada and the United States was completed on schedule on 1 January 1998. The fifth round of Canada-Mexico tariff reductions took place on the same date. The second round of "accelerated" tariff reductions under the NAFTA was implemented in August 1998. In the context of the up-coming 5th anniversary of NAFTA, an operational review of the NAFTA work program and future priorities was completed in 1998. For Canada, the NAFTA strengthened the terms of access to the US market by building on the provisions of the Canada-U.S. FTA. It has also given Canada and Mexico much better reciprocal access into each other's markets. Canada's bilateral trade with the United States has more than doubled since the FTA came into force in 1989, reaching \$429 billion in 1997, and trade with Mexico has grown by 80% since the implementation of the NAFTA, reaching \$8.3 billion in 1997.
- (d) Canada was chosen to chair the FTAA negotiations process for the first 18 months. Initial meetings have been held by the nine negotiating groups and the three additional bodies addressing horizontal issues: electronic commerce, smaller economics, and the participation of civil society.
- (e) The Canada-Chile Free Trade Agreement (CCFTA) and its two parallel agreements on environmental and labour cooperation entered into force in July 1997. Tariffs were eliminated immediately on a broad range of products and the majority of the remaining tariffs on industrial and resource-based goods will be phased out within five years.
- (f) In 1997, when Canada hosted the APEC Leaders' Meeting, agreement was reached to move forward on early voluntary sectoral liberalization (EVSL) initiatives in fifteen sectors. Work continues in APEC to realize agreements in nine priority sectors which could provide impetus to broader participation through the WTO.

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- (g) Work continues on the Canada-EU Transatlantic Action Plan. Agreements on customs cooperation and humane trapping standards were signed in 1997. Canada has suggested that Europe's negotiations with Canada, Mexico and the US would benefit from convergence.
- (h) Canada has begun negotiations with EFTA on a free trade agreement.
- (i) Canada implemented its Tariff Simplification Initiative on 1 January 1998. This has made an important contribution to increasing the transparency and administrative efficiency of the Canadian import regime. It unilaterally reduced or eliminated a broad range of tariffs, rounded most rates, eliminated rates of less than 2%, harmonized certain rates, and amalgamated tariff items. Canada also completed its review of the Special Import Measures Act. In March 1998, Canada introduced a bill, which is before Parliament, that proposes adjustments to the system, largely of a procedural nature, and improvements to further enhance transparency.

#### D. FUTURE POLICY DIRECTIONS

10. Canada's economy is trade-dependent and increasingly globally integrated. Forty percent of Canada's GDP depends on trade, one out of three jobs is tied directly to trade, and every \$1 billion in foreign direct investment has been estimated to create as many as 45,000 jobs in Canada. Expanding international trade and investment is a vital element of the government's strategy to promote jobs, growth and prosperity. Trade agreements are instruments utilized by Canada for advancing its trade and economic interests, namely, the pursuit of economic growth and jobs that result from exports and outward investment opportunities, and increased efficiency due to inward investment and technology flows and the stimulus of increased import competition. As a large trader with a relatively small economy, Canada benefits from a trade regime based on rules rather than on power.

11. Looking ahead, Canada will continue to pursue its complementary strategy of trade promotion and trade policy. Key thrusts will include opening markets further and promoting Canadian business within new and expanded markets. Canada will continue to promote a rules-based open international trading system, based on the application of transparent, predictable, and enforceable multilateral trade rules. At the same time, Canada will continue to pursue further reduction of traditional barriers to trade – industrial tariffs, quotas, and import restrictions – and the elimination of unwarranted non-tariff barriers. We will remain active in the ongoing work in the TRIPs Council and in the working groups deliberating on trade and competition, on trade and investment, and on transparency in government procurement. Canada will also work to develop further a transparent and strengthened dispute settlement regime.

12. Canada will continue to emphasize the importance of full implementation of the Uruguay Round agreements by other WTO Members. It supports the use of technical assistance to enable developing and least-developed countries to build the capacity to meet their obligations and benefit from participating in the rules-based system. Canada considers it particularly important to implement market access commitments undertaken at the High Level Meeting on Least Developed Countries held in October 1997. Canada will also be working to make the WTO more universal by actively working to facilitate the accession of major traders such as the People's Republic of China, the Russian Federation, and other economies in transition.

13. Recent discussions in the WTO about a new set of comprehensive trade negotiations present more opportunities to expand and strengthen the rules-based system. Canada believes that it is important that we explore ways to achieve results in a timely fashion. Canada intends to participate actively in the preparatory process of fashioning the scope, format, and content of mandated and new negotiations. Consideration should be given to how negotiations on a cross-section of issues could be

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concluded at different times. This approach might offer a balance of incentives to encourage participants in the WTO negotiations to move forward quickly and to achieve the resulting benefits.

14. Taken together, these initiatives demonstrate that the trade agenda is increasingly about strengthening markets, in addition to opening markets, and reflects the horizontal, domestic agenda of regulatory reform, democratic development, and good governance. We are working to achieve these objectives by creating a predictable and transparent supervisory structure that ultimately avoids corruption and creates a stable environment for traders, investors, and consumers.

15. The recent turmoil in the world's financial markets have led to suggestions – similar to those heard in the 1930s – that new barriers to trade and investment should be erected, and that liberalization has gone too far. In the 1930s, these voices won the day and led to disastrous consequences. The reality is that we need the opposite approach. It is only through open trade and free-flowing investment and technology that our economies will maintain or regain solid, sustainable growth. The threat to renewed prosperity is not the global financial upheaval; rather it is the risk that we may lose sight of the foundations upon which economic prosperity of the past fifty years rests. Canada thus will work to ensure greater institutional coordination such as between the WTO, the International Monetary Fund, and the World Bank.

16. Canada will continue to work towards greater transparency in shaping and conducting trade negotiations, and in the day-to-day conduct of the WTO's work. As outlined in a recent joint Canada-US proposal, we have made proposals that would expedite the circulation of dispute panel reports, expand the number of unrestricted documents, and expedite their circulation.

17. Canada will continue to seek bilateral and regional trade agreements to complement multilateral efforts. Canada recognizes that such agreements often bring results in a shorter time-frame than is possible in a global forum, that they advance the multilateral agenda, and that they maintain the momentum for broad-based trade liberalization. A basic tenet is that these regional trade initiatives remain consistent with the primacy of the WTO framework. In this respect, Canada will continue to be active in the work of the WTO Committee on Regional Trade Agreements to ensure that regional agreements are thoroughly examined with respect to their consistency, both in law and in spirit, with the WTO. Canada is particularly concerned that the Committee has been unable to conclude the examination of individual regional trade agreements notified to the WTO. For example, the examination of NAFTA, which started in March 1994, has still not been completed.

18. The framework provided by the NAFTA, and its ongoing implementation, will continue to be an important element of Canadian trade policy. Canada will continue to work toward market access objectives in additional areas such as services, government procurement, and the application of trade remedies. Additional priorities to be addressed are being developed by the three NAFTA members with a view to expanding trade and investment further.

19. In respect of the Free Trade Area of the Americas (FTAA), the current challenge is to achieve concrete results in the early phase of the process, including progress with respect to business facilitation and engaging civil society. Challenges remain in APEC's being able to implement EVSL, particularly in the current economic context.

20. Canada will continue to pursue improved and more effective relations with the EU. At the same time, Canada will work towards combining the present three-pronged strategy which involves separate negotiations on trade liberalization and facilitation between the EU and Canada, Mexico, and the United States, into a more coherent framework.

21. Canada has recently launched free trade negotiations with the countries of the European Free Trade Association (EFTA): Norway,

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22. Switzerland, Iceland and Liechtenstein. These negotiations are expected to progress quickly.
23. In terms of its bilateral relations, Canada will give priority to managing its relationship with the United States as, by far, the US will continue to be Canada's largest export market.
24. As Canada pursues various trade negotiations and initiatives, it faces both the challenge and opportunity to enhance public understanding of the evolving international trade agenda, the contribution of trade and investment to jobs and growth, and Canada's existing and prospective international commitments. The active interest of the public reflects the fact that we increasingly deal with issues once considered "domestic." Concern about the domestic impact of competition for markets and foreign investment, and the fallout from the crisis in global financial markets has expressed itself in public pressure to reflect social and cultural concerns in the development of trade policies and negotiation of agreements.
25. Concerns about sovereignty, the integrity of social policies, protecting the environment, maintaining national identity, and better sharing of the benefits of trade resonate as much in Canada as elsewhere. Canada will continue to address these concerns and uphold the integrity of its social policies by ensuring that social impacts are considered fully in the formulation of trade policy initiatives. Canada remains committed to close consultation with its private and public sectors and with our trading partners in the WTO to ensure that trade and investment liberalization does not undermine basic values, standards, culture, or a government's right to regulate for legitimate public interests within the broad context of the primacy of the rule of law in international trade.

Considerable work lies ahead; Canada will continue to be fully engaged in analysis, discussions, consultations, and negotiations to realize the further benefits and resulting prosperity that will flow from an effective, strengthened and expanded world trading system.