

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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TRADE POLICY REVIEW MECHANISM

CANADA

MINUTES OF MEETING

Chairman: Dr. M. Zahran (Egypt)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman (Dr. Zahran), introducing the third review of Canada's trade policies and practices, welcomed the Canadian delegation headed by H.E. Ambassador Shannon, members of the Council, and the discussants, Ambassador Luiz Felipe Lampreia and Mr. Ole Lundby. As usual, the discussants would speak in their personal capacities.
2. The Chairman recalled the objectives of the Trade Policy Review Mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403). The Council was to base its work on two reports, one submitted by the Government of Canada (C/RM/G/51) and the other by the GATT Secretariat (C/RM/S/51). He reminded the Council of the procedures for conducting reviews, introduced in May 1993 (document L/7208).
3. Australia, the European Union, Hong Kong and the United States had given advance notice in writing of points they wished to raise during the meeting. These had been conveyed to the Canadian delegation and copies were available to Council members.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF CANADA

4. The representative of Canada welcomed this third opportunity under the Trade Policy Review Mechanism to have the Council review Canada's trade policy. Many developments had occurred in international trade since June 1992, and Canada had continued to liberalize its trade policies. Canada had written its Government report in the form of a policy statement.

5. A global recession had created difficulties for economic growth in Canada, in particular for employment, the control of public deficits, and for the business and consumer confidence that were necessary for the functioning of a healthy economy. This environment had now improved and he was optimistic that it would continue to do so.

6. Key developments in trade policy included the successful conclusion of the Uruguay Round, the completion and the implementation of the North American Free Trade Agreement, and ongoing implementation and operation of the Canada-U.S. Free Trade Agreement; all were major achievements given the compressed time frame and the breadth and depth of these agreements.

7. In the Uruguay Round, Canada had met its principal trade policy priorities over the past seven years, including: (i) a significant and comprehensive market access package; (ii) the full incorporation of agriculture into international trade disciplines; (iii) multilateral agreements on trade in services and on trade-related intellectual property; (iv) the development of fairer and improved trade rules, particularly in the areas of subsidies and countervailing duties; (v) a stronger and more effective dispute settlement system; and (vi) the agreement to establish a World Trade Organization to integrate the results of the Uruguay Round and to provide a central forum for the management of the international trading system. To reach these goals, Canada had agreed on important concessions in agriculture, textiles and other areas.

8. The NAFTA was a precursor for a new kind of trading relationship between countries at different levels of development. It also broke new ground by including provisions to deal with competition policy, and, like its predecessor, the Canada-U.S. FTA, included provisions on investment and services. Steps had been taken by all three parties in implementing the agreement, including the establishment of working groups to address trade remedy issues. The Canada-U.S. FTA had improved bilateral trade and investment, but trade disputes had raised the need for improved trade remedy rules.

9. Future policy directions included maintaining and expanding access to markets for goods and services; concluding the outstanding negotiations on certain key service sectors; strengthening the rules-based multilateral trading system; tightening further the international disciplines on the use of subsidies; ensuring the successful launching of the WTO in all its aspects; providing a leadership rôle in addressing new trade issues and prospective new regional trade fora such as APEC; and promoting, once the WTO was in place, consideration of accelerating the market-opening measures of the Uruguay Round. It has been Canada's experience in the FTA and NAFTA that, once trade liberalization measures had been agreed, the market adjusted quickly to meet the new conditions.

10. Canada intended to participate fully in the establishment and operation of the WTO and its bodies. In keeping with the multilateral character of the WTO and recognizing the importance of bringing new economies into the multilateral trading system, Canada would continue to be actively involved in accessions to the GATT/WTO. Canada would also participate actively in dealing with unfinished business left over from the Uruguay Round and with the new trade issues that were emerging.

11. In the NAFTA, Canada would continue to support a policy of open regionalism and encourage a similar approach with its partners. This would also be the Canadian approach in relation with trading partners in the Asia-Pacific region. In the past 10 days, Canadian ministers, together with their colleagues in the Asia-Pacific Economic Cooperation (APEC) forum, had discussed and agreed upon a programme to eliminate all trade and investment barriers in the region over the next twenty-five years. Canada has been very active since the beginning of APEC in 1989 in shaping the APEC agenda to reach this stage and would be working with colleagues in APEC, at the summit of the Americas in Miami, and in Geneva over the coming months to develop concrete, practical proposals to advance Canada's goals of more open markets and stronger international trade rules. It was Canada's view that the APEC process, as well as the intended broadening and deepening of the NAFTA, could only serve to strengthen and complement work in the GATT/WTO.

12. Canada would seek support for the principles of international consultations and rule-making, avoidance of protectionism, and the complementarity of rules in international trade and the attainment of societal objectives.

Foreign investment

13. The Secretariat's report was an objective review of developments in Canadian trade policies over the past two years, including the liberalizing initiatives undertaken by Canada in the field of foreign investment. No foreign acquisition of a Canadian business had been disallowed under the Investment Canada Act. New regulations would allow greater foreign ownership in telecommunications, while substantial foreign investment restrictions had been removed in the oil and gas sector.

14. In the GATS, Canada had undertaken to remove the remaining significant foreign ownership requirements in the financial sector, going further than some of its major trading partners. Canada had also extended to all GATS members the NAFTA preferential thresholds for review of acquisitions as they apply to the services sector, as well as all sectors covered in the NAFTA. This made the NAFTA investment thresholds universal among WTO members.

Tariffs

15. Through the GSP, free trade agreements, unilateral reductions or through multilateral trade negotiations, applied tariffs had been steadily brought down and bound on a full range of imported goods. Canada had joined the zero for zero agreements in the Uruguay Round tariff negotiations. Customs duties in 1992 represented less than 3 per cent of total imports, and those collected on imports from non-NAFTA sources had declined from nearly 7 per cent in the mid 1980s to below 5 per cent currently. A review of tariffs had been announced, notably through the incorporation of concessionary schedules into the main schedule and its consolidation.

Rules of origin

16. While NAFTA rules of origin on certain products were more stringent than FTA rules, others were less so. The requirement that certain parts for certain goods originate in the region, was actually simpler and more transparent than the FTA regional value content test which it had replaced, and had been welcomed by producers and traders as an improvement and a reduction in administrative burden. The NAFTA rules met the principles and standards set out in the common declaration on preferential rules of origin under the Uruguay Round. They were an improvement over the FTA rules by being more consistent and predictable, and by providing producers and traders with greater flexibility. In particular, the regulations were interpreted, applied and administered uniformly by the three parties,

and addressed the ambiguities and problems under the FTA rules that underlined the Canada-U.S. disputes.

Government procurement

17. The Canadian process of government procurement tendering was among the most open and accessible in the world. Its transparency, as well as such innovative systems as the open bidding system, ensured that information on tenders was readily available both to domestic and foreign suppliers. The Federal Government was currently engaged in consultations with the governments of all ten provinces with a view to preparing a final sub-central offer under the new Agreement on Government Procurement. The Internal Trade Agreement, signed between the Federal, Provincial and Territorial governments in July 1994 and entering into force in 1995, was an important step in reducing inter-provincial trade barriers and in making provincial procurement more transparent.

Anti-dumping practices

18. Canada's Special Import Measures Act, under which anti-dumping actions were carried out, was fully consistent with GATT obligations. The Canadian use of normal value, which was set in advance, increased transparency for exporters. Canada's operation of anti-dumping actions included a process of review five years after initial findings, that was now included in the Uruguay Round Anti-dumping Agreement. Reliance on anti-dumping legislation may indicate that the relevant Canadian mechanisms were well designed and efficient in determining where protection was legitimately needed against injurious dumping. The remarkable stability in the anti-dumping process over both time and across products attested to this efficiency. Canada continued to seek improved rules on this particular issue in the NAFTA and in the WTO.

Textiles and clothing

19. The Uruguay Round Agreement on Textiles and Clothing contained an agreed schedule over ten years for the complete phase-out of quotas negotiated under the MFA. For the first phase of transition, Canada had announced its commitment to remove 16.3 percent of its imports from restraints, beyond the minimum limit of 16 percent. During the transition period, quota levels in existing bilateral restraint agreements would be subject to increases. However, Canadian manufacturers' sensitivities to low-cost imports and the necessity for an orderly adjustment process would influence the choice and timing of products to be integrated under the other phases of the ATC.

20. Preferential tariffs would also be available to importers from developing countries. The eight and ten year phase-out of tariffs on textile and clothing imports from Mexico would also allow other exporters time to adjust and become more competitive. Canada viewed the reintegration of trade in textiles and clothing into the GATT as an important achievement, having significant economic benefit to developing countries.

Agriculture

21. In keeping with its GATT/WTO commitments, Canada would convert its existing agricultural import controls to a system of tariff rate quotas (TRQs). Most of the TRQs would come into effect on 1 January 1995. Others would come into effect at the beginning of the relevant marketing year, reflecting both the realities of harvesting and marketing considerations for these products, as well as timing decisions of major competitors. Under the new system, existing import quota allocation mechanisms would remain essentially unchanged. Quota growth for supply-managed commodities

already subject to allocation but facing new access requirements, would be allocated with an emphasis on promoting value-added processing activity in Canada.

22. Imports not currently subject to any allocation mechanism would be allocated as follows: (i) for heavy cream, dairy blends and dry whey, and beef/veal, quota would be allocated on the basis of total applications received; (ii) margarine, wheat, barley and their products would be allocated on a first-come, first-served basis; and (iii) for butter, allocation would be to processors.

Telecommunications

23. The telecommunications sector in Canada was one of the most open markets in the world, with competition in all market segments, as well as an open and transparent regulatory régime. Canada had given full commitments on enhanced services under the GATS. He expected the ongoing negotiations on basic telecommunications services to help remove foreign restrictions facing Canadian companies operating abroad.

24. The Representative of Canada addressed specifically the Secretariat report's description of the Bell-Northern Telecom relationship to clarify any misunderstanding. The Bell-Northern telecom relationship was one between two privately-owned companies affiliated through a common holding company, Bell Canada Enterprises. An understanding had been reached between Bell Canada, Northern Telecom, and USTR whereby Bell and Northern agreed to terminate their supply agreement in effect since 1939. The two companies had terminated their agreement so that Northern would be able to receive U.S. Government advocacy support of exports from its U.S. operations. This question was in his view one of national treatment for firms established in the territory of another contracting party.

Pulp and paper and forestry

25. Federal funding for forestry involved transfer payments under federal-provincial agreements to provincial governments, not industry; these funds had been used in support of activities such as planting and silviculture. Since 1987, the federal forest industry policy had been strongly against providing operating subsidies, new capacity and modernization as forms of financial assistance to the pulp and paper sector. Since that time, minor amounts for research and development and innovation had been the only form of assistance to the sectors.

26. Canada was not in breach of the 1992 Rio Convention on Bio-diversity by allowing clear-cutting of Clayquot Sound in British Columbia. Forestry practices applied in Clayquot Sound were based on sound sustainable development principles which had been confirmed by numerous delegations from Europe and elsewhere. The system of and the commitment to forestry management audits were in place sometime before the threatened boycott occurred. The section of the Secretariat report on this issue should be corrected or deleted as it did not provide an accurate or balanced view of Canada's forestry practices and did not relate to trade policy.

Cultural industries

27. Canada was very interested in maintaining its national identity and promoting its cultural industries. The Government believed that the publishing, broadcasting, film and video, and sound recording industries made an essential contribution to national identity, sovereignty and the expression of shared values. Thus, one of Canada's objectives in the Uruguay Round was to ensure Canada's ability to protect and promote Canadian cultural industries.

28. The completion of the Uruguay Round had strengthened the open, rules-based system, so fundamental to further international economic growth. Its successful implementation would lead to higher incomes and a more positive environment for the conduct of international trade. Access to markets for industrial products would be improved appreciably, with most tariffs being cut by at least one third. The reintegration of textiles and clothing into the GATT was of key interest to many economies. Agriculture would be fully integrated, tariffs would be cut by one third and export subsidy and domestic support measures would also be substantially reduced. New areas had been brought within the framework of multilateral disciplines and improvements had been made to trade remedy rules. There was now an opportunity to put to work one of the major international trade and economic achievements in the post-war period. Canada was committed to ratification of the Uruguay Round Agreements by the end of the year and stood ready to accept the obligations and the benefits of further trade liberalization.

III. STATEMENT BY THE FIRST DISCUSSANT

29. The first discussant, Ambassador Luiz Felipe Lampreia, saw Canada's intrinsic and peculiar duality as one of its most distinctive features, as witnessed by its constitutional structure, whereby provinces enjoyed a high degree of autonomy yet abide by the decisions of the Central Government. The régime and instruments of Canada's trade policy seemed to contain the same duality.

30. He praised Canada's intention to reduce barriers to trade, strengthen the rules-based multilateral trading system and tighten disciplines on the use of direct and indirect subsidies. The effective operation of the WTO was one of the Canadian Government's top trade policy priorities.

31. He considered that new rules of origin, adopted under NAFTA, were likely to increase trade diversion, notably in the clothing sector and motor vehicle component sector. He had read in the Secretariat report that "the increase of the content requirement for NAFTA benefits, from 50 per cent under the Canada-United States FTA to 62.5 per cent under NAFTA may penalize manufacturers which buy from the cheapest source worldwide". The concerns here were twofold: trade diversion resulting from NAFTA and penalization of Canadian manufacturers (and of their foreign suppliers).

32. The considerable increase in anti-dumping procedures in the last two years was also a matter of concern. Canada was the third largest user of anti-dumping legislation with over 80 measures in place, covering 23 products. The average margin of dumping in final determinations made over the last two years reached nearly 33 per cent. Over two thirds of the 67 new investigations initiated during this period referred to imports of steel products. Trade of these products was previously subject to voluntary restraint agreements and controls on imports, whose removal was followed by the sharp rise in the number of actions. The disparity between the high number of anti-dumping actions and the very low number of countervailing measures might be related to the fact that Canada itself granted subsidies in various forms.

33. A safeguard action under GATT Article XIX on boneless beef was in place in Canada. Imports of this product exceeding a certain level and originating in countries other than the United States were also subject to a 25 per cent surtax. Although the tariff quota had been considerably increased since it was first set, there remained concerns with the continued recourse to Article XIX.

34. Another serious concern was related to heavy government subsidization of some productive activities in Canada. According to the North-American policy group of the Dalhousie University in Halifax, Nova Scotia, there were currently about 750 programmes of governmental assistance at the federal and provincial levels in Canada. Direct subsidies and grants to businesses had been mentioned as an impediment to Canada's external competitiveness.

35. Although industry in Canada was a significant beneficiary of subsidies, a large share of government transfers were made in the context of agricultural programmes. The Government maintained production and price management as well as import quotas. Grains and dairy products provided excellent case studies of the different forms and consequences of subsidies to agriculture in Canada.

36. Support to the grains sector was provided mainly through stabilization programmes and transportation subsidies. Domestic subsidization of wheat and other grains had decreased considerably, but still amounted to over a quarter of Canada's crop value in 1993. The decrease in subsidies to the production of grains was a step in the direction of commitments made in the Uruguay Round; Canada was reviewing domestic support programmes for agriculture.

37. He noted the dairy sector's insulation from international trade by production quotas, administered pricing and regulatory régimes. It appeared that Canada's tariffication commitments in the Uruguay Round would have no liberalizing effect on trade of such products. Initial and final tariff quotas for powdered milk and cream were nil. In both cases, the average tariff equivalent in 1995 was approximately 300 per cent, declining to 250 per cent in the year 2000. Tariffs would thus be as effective as the quota restrictions in protecting this sector from foreign competition. The same comments applied to Canadian poultry and eggs markets.

38. The problems faced by the Canadian fishing sector reflected the failure to internalize external costs related to resource depletion. Government policies to promote intensive fishing had contributed to the collapse in stocks, which in turn had dramatic effects on the Canadian Atlantic fishing industry.

39. The textile sector revealed increases of all sorts: an increase in exports in 1993, an increase in employment in the same year, an increase in imports from the United States and, contradictory as it might appear, an increase in the number and scope of restrictions imposed on imports from developing countries. Unlike the share of clothing imports from the United States, which had increased from 9 per cent in 1990 to 16 per cent in 1993, the shares of the developing countries in textiles imports had declined in the same period. In spite of this situation, the imposition of quantitative restrictions had continued unabated. New measures had been introduced in recent years, affecting 18 countries. A total of 39 countries were now subject to bilateral or unilateral restraints. He asked if the economic situation of the textile and clothing sector justified the plethora of restrictions introduced in the last three years. He also asked if, in view of the sharp increase in imports from the United States and the large number of new restrictive measures, Canada was transferring the burden of import adjustments to the developing countries.

40. The NAFTA was likely to increase trade diversion in textiles. The effects of the so called "yarn forward" rules of origin were already visible: imports of textiles and clothing from the United States increased, while those from non-OECD sources stagnated. He noted that, among "Quad" countries, Canada currently had the highest level of tariff protection for textiles and clothing. Canadian trade policy for this sector needed to be reoriented towards liberalization of restrictions on developing countries. Unfortunately, this had not been the orientation of Canada in its recent notification of integration of products according to Article 2.6 of the Uruguay Round Agreement on Textiles and Clothing.

41. The wide range of dispute settlement mechanisms established under the Canada-United States FTA, under the NAFTA, the GATT and soon under the WTO might create confusion for Canada's trading partners. According to the Secretariat's report, when a dispute arose under the provisions of both the NAFTA and GATT, the complaining party might invoke either forum to settle the dispute. He asked what were the precise limits and conditions for a dispute to be brought under each one of these mechanisms. Third parties might have a substantial interest in a dispute between Canada and the United States or Mexico. Lawyers in Canada and in the United States were also reportedly worried that the arbitration panels set up under the Canada-U.S. FTA could rule on specific bilateral disputes, but did not have legal superiority over the U.S. Trade Act.

IV. STATEMENT BY THE SECOND DISCUSSANT

42. The second discussant, Mr Ole Lundby, noted the increase in importance of the U.S. as a market for Canada's exports and a source of imports. The export trends were a reflection of a marked improvement in Canada's competitive position as well as the phasing-in of the Canada-U.S. FTA. The implementation of the NAFTA and the strong economic recovery of the United States would probably further increase the importance of the U.S. market for Canada.

43. The general trend of Canadian trade policy had been in the direction of liberalization, hand in hand with a remarkable change in the structure of the Canadian economy towards sectors based on high technology and skills, and a marked improvement in productivity.

44. Questions remained concerning the relationship between regionalism, multilateralism and the resulting complexity of the tariff régime. The Canada-U.S. FTA, the NAFTA and the results of the Uruguay Round clearly pointed in the direction of more open trade with lower tariff protection. A complex tariff régime had, however, resulted with 9 to 11 different types of tariffs, which depended on such elements as the end use in Canada as well as on origin.

45. To a certain extent this complex tariff régime was an unavoidable result of Canada's foreign trade liberalization. Recognizing this complexity, the 1994-95 Budget contained an initiative to simplify and streamline the Canadian tariff structure, including the reduction of tariffs on manufacturing imports. He asked what the likely outcome of such a tariff simplification would be, and if the tariff régime was still an important element of economic, trade and industrial policies. He also questioned what plans the authorities had to explore the prospects for negotiating bilateral free-trade arrangements with selected Pacific Rim countries, and if this would simplify or indeed add further to this complexity.

46. Canada's dependence on the U.S. market had increased from 75.8 per cent in 1990 to 80.9 per cent in 1993. This was a remarkable diversion, as well as an engine for growth in good times and an effective brake in bad times. Canadian authorities considered the present balance between regional and multilateral liberalization to be an optimal one, and whether a trading nation that had liberalized to such a large degree vis-à-vis its neighbour could not lower barriers to trade on an m.f.n. basis with the rest of the world.

47. Turning to the relationship between federal and provincial competence, an issue that had already been raised at the last Trade Policy Review, he asked a number of questions including whether Canada's legal structure affected its ability to implement internationally negotiated trade commitments, and if it was true that inter-provincial trade barriers had become a major problem to Canada, hampering economic growth and job creation, as well as reducing the competitiveness of Canadian-based firms. Preferential procurement practices by provincial governments, their municipalities and other agencies which restricted inter-provincial trade, cost Canadian taxpayers an estimated Can\$4 billion per year. This figure became even more interesting when viewed against the Canadian Government's own report, where the benefits of the Uruguay Round were estimated at Can\$3 billion per year.

48. The impact of provincial deficits on the government fiscal balance, macro-economic stability and the exchange rate was another issue of concern. Over several years Canadian firms had controlled costs better and improved productivity to a remarkable degree. The Government had, through prudent monetary policy, succeeded in controlling prices and the Canadian dollar had depreciated in real terms. He asked whether provincial deficits posed a threat to the stability of macro-economic policy and thus to the predictability of Canada's foreign trade performance.

V. STATEMENTS BY MEMBERS OF THE COUNCIL

49. Most members of the Council expressed their appreciation of Canada's active participation in all the activities of the GATT. Canada had given strong support, through its active rôle in the GATT and the Uruguay Round, to a freer multilateral trading system. Its leadership and contributions in such fields as training activities, the ITC, trade and environment, working parties on free trade agreements, and management of the GATT/WTO were also praised. Canada was recognized as a key player in reducing tariffs, with cuts of 40 per cent for industrial products.

50. The representative of Australia noted the positive developments in Canadian trade and industrial policies, as well as the greater opening of its economy. The July 1994 Agreement on Internal Trade was a welcome development to the effect that it eliminated barriers to trade in Canada.

51. However, Australia was disappointed by Canada's relatively high protection levels for certain agricultural sectors and by its supply management system which continued to be the main instrument of support for a number of agricultural products. In 1993 Canada had imposed restrictions on boneless beef from sources other than the United States under GATT Article XIX.

52. She recalled that NAFTA had yet to be examined under GATT Article XXIV. Like any regional free trade agreement, NAFTA would only make a more positive contribution to overall trade if it did not raise barriers against third countries or create undue trade diversion. She asked if Canada or the other NAFTA partners had made any assessment of the trade creating and trade diverting effects of NAFTA. It appeared that a by-product of Canada's trade agreements had been the further complication of its tariff. At previous reviews of Canada, contracting parties had raised the need to simplify Canada's complex tariff system. She welcomed Canada's decision to consolidate and restructure its tariff, and hoped that in this process of consolidation and restructuring, the very high rates on some agricultural items would be reduced. She expected that Canada would take into account the interests of exporting countries on particular products where tariffs may be increased or remission eliminated.

53. Canada was to be commended for reforms such as those in the long distance telecommunication market. Noting that the Secretariat report found that inconsistencies between the federal Government and the provinces could have an adverse effect on internal as well as external trade, she asked whether the Internal Trade Agreement would be widened beyond the present 11 sectors.

54. Multilateral and regional trade liberalization had brought considerable benefits to Canada, but some significant sectors had been largely excluded from this process. Large parts of Canada's agricultural sector, for example, remained virtually untouched by these liberalizing influences and the benefits flowing from them. While import bans and quotas in supply managed areas such as dairy and poultry, would be replaced by tariff quotas under the Uruguay Round agreement on agriculture, the very high tariff rates applying from 1995 would effectively prevent trade beyond minimum access commitments, thus allowing Canada's supply managed systems to remain in place. Canada's current approach to tariffication might thus exclude any significant reform of its dairy and poultry sectors. Subsidization and support policies in agriculture were other areas of concern.

55. The representative of the European Union noted that the EU remained Canada's second largest trading partner and the second source of foreign direct investment in Canada. He noted the numerous trade developments since the last review, including the NAFTA, the Internal Trade Agreement, and the initiation of a tariff policy review. Tariffs had been abolished or reduced on certain inputs, as was the case for certain consumer goods whose tariffs were considerably higher than those in place in the United States.

56. Canada was confronted with the constitutional problem of relative competences of provincial and federal authorities. While the federal government could negotiate international agreements, implementation could pose problems in areas under provincial jurisdiction, as witnessed by recent cases on alcoholic beverages, and create potential difficulties in implementation of the Uruguay Round.
57. The European Union was currently negotiating a Mutual Recognition Agreement with Canada on certification and conformity testing, which would be signed in 1995. Obstacles to trade at the provincial level, including differences in norms, in packaging and labelling regulations, local inspection clauses, prevented free access to the Canadian market. He asked what were the expected effects of the Internal Trade Agreement and whether it would improve the situation for European exporters.
58. The European Union was concerned about the increased number of self-initiated anti-dumping cases by Canada, as well as the injury standards applied to EU exporters. The recent safeguard action on beef came in addition to countervailing duties imposed in 1986 on the same products originating in the European Communities, which were at that time considered to be GATT-inconsistent.
59. The announced extension of NAFTA investment thresholds to all WTO members was welcome. In contrast, there remained significant differences in treatment between NAFTA and signatories to the Agreement on Government Procurement; large sectors were excluded from the scope of the Agreement, and the provinces had so far made no commitment to liberalization.
60. Agricultural support programmes, although declining as a share of GDP, continued to distort supply and trade, as witnessed by recent licensing practices of the Canadian Wheat Board affecting pasta imports. Parma ham imports were still not authorized, although they had been admitted into the United States five years earlier. The European Union also considered inconsistent with international law the decision by Canada to extend custodial management on fishing beyond the 200 mile limit. Finally, he noted that written questions had been transmitted to Canada in advance.
61. The representative of Hong Kong noted that Canada had a very complex tariff structure, which featured 11 different tariff treatments, depending on the origin. Hong Kong was pleased that a rationalization and simplification process had begun this year. It wished to know the expected timeframe for the exercise, and more importantly, how it would be approached and what tariff changes might affect the trade interest of trading partners.
62. Noting that in case of inconsistency between the NAFTA and the GATT, the former would prevail unless stipulated otherwise, he asked how this would affect Canada's obligations under the GATT and how this tallied with Canada's objective of making the GATT's institutional framework stronger in the Uruguay Round negotiations.
63. Hong Kong noted that NAFTA and, indeed, Canada's FTA with the United States had led to some trade diversion. For example, the FTA had coincided with increased imports from the United States of both textiles and clothing, while the share of non-OECD suppliers had declined in the same period. This illustrated the potential downside of regional trading arrangements. It seemed to Hong Kong that LDCs were being asked to bear the brunt of adjustment.
64. Hong Kong was disappointed to note that while the negotiation for an Agreement on Textiles and Clothing in the Uruguay Round were still going on in 1992 and 1993, Canada simultaneously increased the number of items, as well as the number of countries that were subject to import restraint. Hong Kong was even disappointed by the list of textile products proposed for the first phase of integration. In respect of Hong Kong, only one item currently under restraint featured in the list.

This was not commercially meaningful and did not create the momentum for change which was the idea behind the phased integration programme. It was also noted in the Secretariat report that textiles and clothing remained one of the most protected sectors of the Canadian economy. Hong Kong urged Canada to take a different approach in subsequent phases of integration.

65. Resort to anti-dumping procedures had increased considerably between 1992 and 1993, reversing the continuous decline since the mid-1980s. Canada was the third largest user of this measure, and there was an extremely high average margin of dumping, amounting to 33 per cent. He suspected that anti-dumping was being used as a form of safeguard. Hong Kong noted that the reform of trade remedy laws, as applied within NAFTA, had become a declared trade policy priority, and suggested that this should not be looked at from a purely intra-NAFTA perspective.

66. Hong Kong recognised that Canada had long been a very constructive influence on multilateral discussions and negotiations in Geneva, and that despite significant problem areas, Canada had been a positive force in trade liberalization over the years.

67. The representative of the United States commended Canada for its consistent commitment to promoting an open international trading environment, exhibited most recently by its rôle in facilitating the successful conclusion of the Uruguay Round and the NAFTA. Canada had also undertaken to reduce barriers to trade on a number of industrial products and to extend progress in areas such as services, procurement, intellectual property protection and provincial powers affecting trade. Credit was deserved for Canada's commitment to eliminate all tariffs in a number of sectors, including paper and paper products, pharmaceuticals, beer, steel, toys, and construction equipment, among others, and to reduce remaining tariffs by an average of 40 per cent over the next five to ten years. He joined others in complimenting Canada for its support in helping to establish the WTO.

68. He welcomed Canada's three-year plan to rationalize its cumbersome tariff structure and streamline multiple preferential, not-transparent régimes, which had expanded since the last review to include 11 different systems. He was concerned that UR tariff-rate quotas would be implemented through the expansion of the Import Control List, whose current administration was not transparent; the ICL commodities were not classified by their tariff number. The Government of Canada had also restricted access to ICL commodities by allocating import shares to government-registered and/or traditional importers.

69. He questioned the GATT consistency of "cost of service" charges and other barriers imposed by provincial liquor control boards on imported wine. These charges should reflect market realities, be non-discriminatory and should not exceed the actual costs associated with customs clearance and international communications. He asked if the administration of the ICL would be made more transparent, and if the revised ICL would be clearly defined in the Harmonized System with an open procedure to review and comment on product descriptions.

70. Canada was commended for increasing the openness of its government procurement market, notably by placing federal procurement of construction works and services under the disciplines of GATT and NAFTA. A number of services were still excluded from the new GATT code. Provincial procurement practices continue to discriminate against non-local suppliers because they were not bound by the UR commitments. He encouraged Canada to commit its provinces to liberalize their procurement procedures. He asked what were Canada's plans regarding the possible inclusion of the full-range of procurement practices under the discipline of the U.R. Agreement, and if there was an agenda to discuss commitments aimed at reducing provincial barriers to trade in procurement.

71. With respect to agriculture, he welcomed Canada's decision to accept comprehensive tariffication of its supply-managed commodities as required in the market access provisions of the Uruguay Round. Canada had tariffied the quotas on some supply-managed commodities (yogurt and ice cream) that were found, in 1989, to be inconsistent with GATT. It appeared that some products which previously entered Canada free of any quantitative restriction had been included in the tariff-rate quotas for dairy products.

72. There had not been any significant change in Canada's regulations on bulk shipments. Waivers to these rules were only allowed when supplies were not available from Canadian sources. There had not been any change to the container size regulations that had granted preferential treatment to Canadian processors. Imports of processed fruits and vegetables continued to be restricted to standardized packages. Although Canadian regulatory changes in 1993 had improved access for some products, exporters remained disadvantaged since Canadian processors received a two-year exemption from the onerous requirements. He asked if these container size regulations would apply equally to domestic and imported commodities following the two-year exemption.

73. He expressed concern about the operation of Canada's agricultural marketing boards, in particular the lack of transparency in export pricing and the ability of the Canadian Wheat Board (CWB) to price discriminate in export markets through its privileged position as a monopoly exporter. He asked how the tariff-rate quotas would be allocated, and if access to tariff-rate quotas would be based on a first-come-first-serve basis or discretionary licensing. He also asked whether Canada believed that a measure that was found to be GATT inconsistent could be legitimized through tariffication, whether actions would be taken to improve transparency in export pricing and reduce price discrimination in export markets for wheat and barley, and whether Canada intended to report export pricing in compliance with the Uruguay Round Understanding on the interpretation of Article XVII.

74. He applauded Canada for taking positive steps to liberalize trade in services, most notably in long-distance telecommunications. He asked if Canada planned to expand the liberalization in its services market.

75. The passage of the internal trade agreement was a laudable effort to decrease inter-provincial barriers to trade, most notably abolishing certain discretionary practices among provincial liquor monopolies. But restrictive practices and lack of transparency in areas such as alcoholic beverages, agricultural marketing boards, and government procurement practices continued to pose problems for international and domestic commerce. He asked in what ways the Government of Canada was working with provincial Governments to ameliorate provincial regulations that impede the free internal flow of goods and services in areas such as electric energy and agriculture.

76. He noted that since the last review, concerns had been raised by trading partners over discriminatory measures, which had been implemented or proposed, affecting magazine publishing, cable television, and direct broadcast satellite services. Canadian policy objectives related to the "information highway" emphasized protection of cultural content, apparently at the expense of network integration. In this context, he asked a number of questions including on the current status of possible implementation of the magazine task force's recommendations by the Government of Canada, if Canadian policy objectives related to the protection of Canadian culture would continue to come at the expense of investment opportunities in Canada's emerging communication services market, how measures to protect Canadian cultural industries had been reinforced, how Investment Canada determined whether new business and acquisitions of existing companies in areas involving "cultural heritage"/"national identity" were of net benefit to Canada, how the net benefit test was conducted, and if Canada was of the opinion that only Canadian-owned broadcast services promoted Canadian culture.

77. With respect to environmental barriers affecting trade, he asked how Canada's recent legislation allowing the stopping and searching of vessels outside the 200-mile limit could constitute an environmental action and whether this was a manner of dealing with environmental challenges beyond the country's border that Canada would recommend to other countries.

78. The representative of Argentina welcomed Canada's economic performance and its increasing participation in world trade. However, the increase in imports had not benefited Latin America; between 1990 and 1993 imports from this region had rather declined by 20 per cent. Canada was an outstanding member in the multilateral trading system. Noting that trade policy was an important element in Canada's economic strategy, he asked if this policy would be maintained or if changes would be considered in order to reduce the State involvement in monopolistic enterprises at a federal and provincial level, and adjust government regulations and practices which appeared not to be consistent with GATT/WTO disciplines and provisions. Canada's trade policy was fragmented, with different tariffs and rules of origin in the FTA, NAFTA and under the GATT, as well as differential treatment at the provincial level. In addition, there were still a number of import restrictions. He also expressed concern about a weak base for the establishment of a safeguard measure on bovine meat imports.

79. He welcomed the declining trend in Canada's Producer Subsidy Equivalent between 1991 and 1993, due to a decrease in producers' income subsidies and a partial reduction in transport subsidies. However, he expressed concerns about the maintenance of agricultural import restrictions, production quotas and price controls. He hoped that the Canadian Government would autonomously modify its approach to the supply management system. He was also concerned that import restrictions on dairy products would remain at the same level as before the Uruguay Round. Another areas of concern for his delegation were the future quota allocation mechanism and the use of Article XIX.

80. He requested clarification on a number of issues, including export subsidies on wheat, how the Canadian Wheat Board took consideration of market conditions and competitive factors, the import prohibition of fresh fruits and vegetables when there was no pre-established local buyer, local content provisions on grapes and wine, and Canada's view that there was no need for a reduction in its AMS, which also included transport subsidies. He noted that Argentinian wheat exporters had suffered serious injury as a result of Canada's supply offer of around 1.4 million tonnes of wheat to the Brazilian market at a considerable lower price. He recalled that the United States and Canada had agreed that NAFTA rules would not prevent subsidized exports to Mexico. He wanted to know the true composition of Canadian subsidies at all levels of government, including in the provinces.

81. The representative of the Czech Republic noted the active participation of Canada in the Uruguay Round, and welcomed the high ad valorem tariff reductions in various sectors, as well as the recent tariff policy review announcement. He expressed concern over tariffs in some sensitive areas like fabrics, man-made fibres and yarns, footwear and dairy products, which exceeded 17 per cent. He asked whether the review would result in a more substantial lowering of tariffs in these sectors, and if it would address existing non-tariff barriers.

82. Noting that the anti-dumping measure applied to imports of waterproof rubber footwear from the Czech and Slovak Republic had been in place for over 15 years, he asked if such a long-term application was not an undesirable obstacle to trade. He requested information on the main characteristics of the process currently under way to consider alternative trade remedy measures within NAFTA, and how the results of such a process would affect third parties.

83. Welcoming the decision taken by Canada to renew the General Preferential Tariff (GPT) on products originating in the Czech Republic, he asked if the announced review would increase the scheme's product and country coverage.

84. The representative of Mexico praised Canada's non-inflationary economic recovery. The recent economic growth was driven by exports, which had also benefited from real exchange rate depreciation. In this respect, he asked if Canada was not too dependent on its exchange rate policy. Noting that the fiscal deficit, the public debt and unemployment rate were high, he requested information about plans to address them.

85. He noted that Canada's provincial system had a negative impact on foreign trade by obstructing the efficient control, by the State, over the implementation of trade laws and regulations in the whole territory. Inter-provincial barriers also distorted internal and external competition. He asked for additional information on any plans to solve this problem.

86. The representative of Finland, speaking on behalf of the Nordic countries, complimented Canada on its rôle in the Uruguay Round negotiations. Because of a similar underlying philosophy between Canada and the Nordic countries on trade matters, cooperation had been close and rewarding during these years. The structure of productive sectors was another common denominator between the Nordic countries and Canada. A clear recovery of the Canadian economy from the deep recession was becoming evident; the export driven growth strategy combined with appropriate measures aimed at raising the competitiveness of the productive sector were bearing fruit - although high unemployment remained a problem.

87. He noted that growth in foreign trade was mainly based on trade with the United States, and that the share of other countries was stagnant or actually decreasing. The Nordic countries hoped that the NAFTA agreement would have wider trade creating effects.

88. He welcomed the elimination of the compulsory licensing for drug patents and a full 20-year term of patents protection. He asked if the low spending on R&D by Canadian companies could be explained by the extensive foreign ownership of the companies. Power-generating equipment still enjoyed disproportionately high tariff protection. The multiplicity and lack of transparency of the tariff régime would be effectively tackled through the on-going review of tariff policy. The sharp increase in the number of anti-dumping investigations contrasted with previous trends. The trading system for dairy products remained largely regulated through import quotas, production quotas and export programmes.

89. The Internal Trade Agreement between federal and provincial governments did not cover many sensitive areas, such as agriculture, food, energy and provincial crown corporation procurement. He asked if it was true that the Agreement covered only one per cent of existing inter-provincial barriers.

90. Noting that the proportion of European exports and imports in the Canadian market had declined during the last few years, he asked how Canada foresaw the future of Euro-Canadian trade relations, particularly in the aftermath of NAFTA.

91. The representative of Switzerland asked what were the expected effects of NAFTA on third countries. Referring to the NAFTA "yarn-forward" rule of origin for textiles, he asked to what extent the de minimis rule, which granted NAFTA treatment to textiles and garments whose foreign components did not exceed 7 per cent of the total weight, was pertinent for such items as embroideries. He shared the concerns expressed by others regarding inter-provincial trade and sub-federal procurement.

92. The representative of New Zealand commented on the high current account deficit and the fact that net public debt reached 70 per cent of Canada's GDP, and asked about the Government's plan on this issue. In the light of the NAFTA and the recent increases in bilateral trade, he asked whether diversification of trade was still a priority. While tariffs in industry reached 8.6 per cent, those for "tariffed" agricultural products would average 173 per cent at the end of the reform period. Details were requested as to the exact applied tariff rate on products subject to tariffication in 1995, and assurances that products previously freely traded would not be included as tariffed items. He welcomed the reduction in the federal dairy subsidy, and joined other speakers in regretting the continued licensing of beef after the Uruguay Round.

93. The representative of Poland asked about the stage of implementation by the federal and provincial authorities in adapting the domestic legislation to the new rules and disciplines resulting from the Uruguay Round Agreements. Noting that some of these agreements had imposed an obligation to bring domestic legislation under new disciplines before the entry into force of the WTO Agreement, he asked if Canada intended to do so in the case of the Anti-dumping and Subsidies and Countervailing Measures Agreements. He also asked if Canada would remain in the old Committees established under the Tokyo Round Codes when it became a WTO Member.

94. He was concerned that the Federal Regulatory Review initiated in 1992, might result in an increase of some non-tariffs barriers. Polish exporters were worried that new requirements, like Good Manufacturing Practices, new health standards as well as packaging and labelling norms would adversely affect imports of foodstuffs and textiles. He suggested that a reasonable transitional period for adaptation to the new standards be provided.

95. Poland had been affected by an anti-dumping measure on rubber footwear since May 1979; this measure had been renewed for the third time in October 1993, despite the continued absence of Polish exports of this item since 1987. Polish exporters of alcoholic beverages were concerned with access barriers in some provincial markets because of tightened requirements of the Liquor Boards. In contrast, he welcomed the Canadian declaration designating Poland as a normal risk-investment economy; this declaration would further encourage Canadian investment, particularly if it were followed by the removal of the requirement of high credit guarantees for trade transactions and capital investment in Poland. He was looking forward to further liberalization of Canada's market for small-sized joint-ventures with Polish capital.

96. The representative of India praised Canada's positive influence in the Uruguay Round, notably in such areas as trade and the environment, and services. He agreed with the second discussant on the problems related to trade in textiles, which amounted to an aberration in Canada's overall trade régime.

97. The representative of Hungary considered that certain sanitary measures were excessive compared to those of similar countries, and actually prohibited the import of certain meat products, notably salami from Hungary. Restrictions on internal trade in Canada had affected exports of Hungarian wine.

98. The representative of Egypt shared Canada's views on the use of trade sanctions to impose one country's standards on other countries. He noted that solutions had to be found through a process of international consultation and rule making. In his view, the international trading system was complementary, and not contrary to the attainment of broader social objectives.

99. He appreciated the extension of the GPT system for a period of 10 years as from 1994, as well as the broad coverage of beneficiaries and the volume of trade under this system. He noted that the average ad valorem tariff on Canadian imports from GPT beneficiaries was higher than the average tariffs on imports from NAFTA members, and hoped that the full review of the system would take these elements into consideration. He also requested information about the regional distribution of foreign investments.

100. The representative of Japan noted that further expansion of trade with the Asian-Pacific region was one of the top priorities in the Canadian trade policy agenda, including expanding trade with Japan. In the gradual shift of its trade structure from resource-based exports and merchandise imports towards high-value merchandise exports, Canada was trying to re-orient its export policy by establishing strategic sectors. These efforts were made without irrational complaints about the openness of the Japanese market or any discrimination against imports from Japan. Concerns were shared with other members regarding the NAFTA and provincial trade policies.

101. Both federal and provincial governments in Canada restricted exports of raw logs and other wood fibre, as witnessed by the measures taken by British Columbia and Alberta. The wood processing industry in these provinces was able to buy raw logs and other wood fibre below world prices, so that they could export wood products at very competitive prices. He asked about the GATT basis for these export restrictions, and whether they were consistent with Article XX(g) of the GATT. He also asked if these measures were taken in conjunction with restrictions on domestic production or consumption or taken in order to support the domestic industry. Other questions included whether Canada intended to eliminate export restrictions, whether the federal Government had taken reasonable measures to ensure observance of GATT rules by the provincial Governments in this respect, and if these measures were applied in order to export products to the NAFTA partners as well.

102. Japan was concerned that the safeguard measure on boneless beef was not applied to Canada's NAFTA partners. Selective non-application of safeguard measures was in his view inconsistent with Articles I, XI, XIII, and XIX of the GATT, and not justified by Article XXIV:8(b).

103. He asked about the liberalization plans concerning tariffication of items in NAFTA trade, and why Canada maintained high tariffs on certain industrial items not produced in Canada (6.5 per cent for photographic films; 14.3 per cent for clocks; 9.7 per cent for electrical insulators of ceramics; 7.4 per cent for grand pianos). The elimination of the drawback scheme for exports to the United States or Mexico was, in his view, another form of tariff increase. He asked for Canada's view on the consistency of this elimination with paragraphs 4 and 5(b) of Article XXIV of the GATT. He also asked what measures Canada intended to take in order to dampen the effect of the elimination of the drawback system.

104. Noting that NAFTA allowed for the "regional value-content requirement" on automotive goods to be higher than that required by the U.S.-Canada FTA, he asked for details on the differences of such local content requirements on automotive goods between the NAFTA and the FTA. He questioned if this was consistent with paragraphs 4 and 5(b) of Article XXIV of the GATT. He shared the views expressed by others regarding procurement by provincial entities.

VI. REPLIES BY THE REPRESENTATIVE OF CANADA AND ADDITIONAL COMMENTS**General economic and trade performance**

105. In response to questions raised about the rôle of exchange rates, the measures to control the deficit, the rôle of trade in the economic recovery and the structure of trade, the representative of Canada agreed that trade had quite clearly been the motor of economic recovery. Canada's GDP depended to a very large extent on trade and it was for that reason that the Government had been pursuing policies aimed at trade liberalisation within a framework of improved rules.

106. There had been a clear movement in the geographic distribution of trade towards greater concentration on the U.S. market. This had to be seen against the backdrop of the 1991-93 period in which the U.S. economy was among the first to begin its recovery from the recession and Canada was well positioned to take advantage of that growth. Government policy was aimed at trade diversification; this explained why Canada was actively pursuing trade opportunities in major markets such as Japan, the European Union, through expansion of NAFTA, and why Canada had played such an active rôle in APEC.

107. It was incorrect to state that there was "too great" a dependence on exchange rate policy. The value of the Canadian dollar was market-determined, and interventions by the Bank of Canada were on a very short-term basis, only to moderate extreme fluctuations. Monetary and fiscal policy had an impact on the exchange rate. Canada continued to meet its targets for price stability, and the Government was committed to medium term deficit reduction, so as to place the debt-to-GDP ratio firmly on a downward slope.

108. The current fiscal situation had been presented by the Minister of Finance in a statement before Parliament on 18 October 1994, reiterating the Government's long term objective to eliminate the fiscal deficit. As an interim objective, the Government intended to reduce, by fiscal year 1996-97, the budgetary deficit to 3 per cent of GDP compared to 6 per cent of GDP recorded for the current year. Specific measures to that effect would be announced in late February.

109. The Government did not regulate the destination of Canadian direct investment abroad and there were no restrictions on outbound foreign investment. However, to facilitate Canadian foreign investments, Canada had initiated an active programme of negotiating bilateral agreements with developing countries aimed at the promotion and protection of investment.

110. In January 1992, the Federal Government had revised its foreign investment policy in the Book Publishing and Distribution sectors to conform more closely to the approach taken in other sectors related to Canada's cultural or national identity (including the publication, distribution and sale of books; magazines and newspapers; films; music; video and audio recordings; and radio and television). At this time the Government had also strengthened its capacity to apply the definition of what constituted a Canadian-controlled company through the incorporation of an anti-avoidance clause in the Investment Canada Act (ICA). In addition, the announcement stipulated that (i) foreign investment in new business enterprises in the industry would be limited to Canadian-controlled joint ventures, (ii) the acquisition of an existing Canadian controlled business by a non-Canadian would only be permitted under extraordinary circumstances; (iii) successful non-Canadian bidders for a Canadian book enterprise would be subject to a net benefit test under the ICA; and (iv) indirect acquisitions of Canadian book businesses would be subject to review under the ICA.

111. In determining the net benefit of a prospective investment, the Investment Canada Act specified that certain factors be taken into account including, the effect of the investment on the level and nature of economic activity in Canada, and the effect of the investment on competition within an industry or industries in Canada. With respect to cultural industries, a contribution to Canadian cultural objectives was also important in determining net benefit. Policy statements had been articulated in each of the cultural industry areas. The new liberalized investment thresholds (to be extended under the WTO on an m.f.n. basis) did not include investment in cultural industries.

112. With Can\$6 billion in direct expenditures and another Can\$1 billion in tax support, the Federal Government was the largest investor in science and technology in Canada. Efforts to increase R&D spending in Canada were numerous and included: (i) efforts to promote national or Canada-wide science and technology networks (e.g., the Networks of Centres of Excellence, Strategic Alliances Program, Human Frontier Science Program and the various programmes of the Natural Sciences and Engineering Council); (ii) numerous amendments made to a variety of intellectual property statutes by a number of omnibus bills, many of which were designed to fulfil Canada's GATT and NAFTA obligations (the entry into force of a variety of intellectual property bills had created a more positive investment climate in Canada by improving intellectual property protection thereby encouraging basic R&D in many sectors); and (iii) more attractive corporate tax incentives for both small and large manufacturing companies engaged in R&D. Up to half of the provinces also offered R&D tax incentives.

113. In 1992, the Department of Industry had completed the development of the Whole Enterprise Strategy for the acquisition and diffusion of technology. This strategy now served as a framework for the delivery of policies, services and programmes relating to technology acquisition and diffusion. Ongoing support for the National Research Council's Industrial Research Assistance Program was a key point of this strategy. Under this initiative, the Federal Government participated in a wide variety of science and R&D oriented programmes whose objectives involved basic research and development activities.

114. In 1994, the Government of Canada had announced a comprehensive review of federal spending on Science and Technology. The federal Government would be releasing a new federal Science and Technology review in the spring of 1995, intended to strengthen Canada's ability to take advantage of science and technology and innovation.

Multilateralism and regionalism

115. Canada believed that multilateralism and regionalism were two sides of the same coin whereby Canada was trying to find the best vehicles to further its objectives of expanding trade within rule-based frameworks. With regard to the Uruguay Round, Canada had stated its primary objectives and had indicated its determination to pass implementing legislation before year end.

116. A number of studies conducted by the GATT, the OECD and private sector institutions had tried to estimate the quantifiable gains of the Uruguay Round and included Canada in their research. Various researchers had estimated the quantifiable gains for Canada at between 0.2 and 1.2 per cent of national income. In Canada, the Federal Department of Finance had conducted its own study using a general equilibrium trade model of the Canadian economy and had estimated the quantifiable Canadian gains of the Uruguay Round at least a 0.4 per cent increase in real income or Can\$3 billion annually when the agreement would be fully phased-in. This translated into an ongoing gain of Can\$400 in 1993 dollars for a family of four. These figures likely underestimated the total overall impact since they did not capture dynamic effects nor did they include trade in services.

117. Canada, and the other NAFTA partners, firmly believed that NAFTA was a trade creating agreement and was consistent with GATT obligations. The first article that established the agreement affirmed its consistency with GATT Article XXIV. The benefits of a GATT-consistent FTA were in terms of world growth, from the gains in incomes and efficiency in resource allocation that arose from trade liberalization between the trading partners. He looked forward to discussing these issues at the GATT working party on NAFTA in early 1995.

118. NAFTA was an open agreement with provisions for accession by interested countries; Canada's position was that NAFTA was, and would remain, open to any country able and willing to undertake the NAFTA obligations, including those in the environment and labour side agreements. Canada believed it was important to proceed successfully with the first accession to NAFTA before undertaking other accessions, and had strongly indicated its preference for negotiations with Chile. NAFTA partners and Chile were currently in preliminary discussion on this issue, but there had been no decision as yet to start negotiations.

119. Having implemented NAFTA, Canada was especially cognizant of the need to maintain strong trading relationships with other contracting parties so as to ensure trade diversity. As the EU was Canada's second largest trading partner, a special importance was placed on Canada-EU trade. The great majority of Canada-EU trade was without problems or disputes and the implementation of the Uruguay Round Agreement presented real opportunities to increase bilateral trade and investment flows.

120. The disputes that had arisen in Canada-EU trade had proven difficult to resolve. Canada hoped that the improved dispute settlement procedures, agreed to in the Uruguay Round, would result in speedier dispute settlement in the future.

121. Canada remained strongly committed to trans-Atlantic trade relations. It continued to work with the European Commission, pursuant to the 1976 Canada-EC Framework Agreement for Economic Cooperation, to foster closer economic ties. In the months ahead Canada hoped to conclude an Agreement on Science and Technology with the European Union. It was also negotiating an Agreement on Mutual Recognition of Testing and Certification of Product Standards, and an Agreement on Customs Cooperation. An Agreement on Mutual Protection of Integrated Circuit Topographies had been recently implemented.

122. The so-called "NAFTA thresholds" would be given to all WTO members on an m.f.n. basis. This commitment which had been included in Canada's UR-implementing legislation, would apply both to goods and services.

123. A response would be provided in writing to the question of how the Government of Canada could promote the strengthening of the multilateral trading framework as a trade policy objective when NAFTA had been negotiated to take precedence over GATT to the extent of any conflict.

Federal/provincial issues

124. Canada was the Contracting Party to GATT and was bound by its obligations under Article XXIV:12. However, provincial governments might have to modify certain laws and regulations in areas under their jurisdiction, particularly in the services sector. The provinces were fully consulted and involved in developing the objectives and the negotiating positions for the Round. In the negotiations, Canada had made no commitments in areas requiring changes to provincial legislation without first gaining the approval of the provinces.

125. The Internal Trade Agreement was a framework agreement based on the principle that governments should ensure the free movement of persons, goods, services and investments across the country. The Agreement contained general rules to apply prospectively as well as specific liberalization commitments effective on the date of entry into force - scheduled for 1 July 1995 - and a list of specific measures to be eliminated over time. The Agreement also contained commitments to future negotiations to remove barriers or to expand the scope and coverage of disciplines in a number of areas. The Committee of Ministers responsible for internal trade was also empowered to identify additional sectors or activities for future negotiations.

126. The Agreement obliged governments to work toward the reconciliation of standards-related measures either through the application of the principle of mutual recognition or full harmonization. Some chapters, notably the Agriculture Chapter, contained more specific commitments to develop and implement common national standards affecting the inter-provincial movements of particular products. Negotiations were continuing on energy-related issues with a mandate to report back to the Committee of Ministers by 1 July 1995. All Parties also undertook to ensure that their legislation and regulations were readily accessible. The provinces and the federal government agreed that, should they adopt or modify a measure that might affect the flow of internal trade, they would notify the other Parties with an interest in the matter. Furthermore, there was a provision for all members of the Agreement to maintain enquiry points.

127. The Agreement provided for a substantial liberalization of government procurement practices. It covered all purchases of goods (over Can\$25,000), services and construction (over Can\$100,000) made by all provincial and federal government departments and agencies. The Agreement was to apply to all procurement by municipalities, academic institutions, schools and hospitals. Future negotiations to expand the coverage to Crown corporations (e.g., public utilities) were to be carried out over the next two years.

128. The Agreement also set out detailed rules concerning the tendering process, including an undertaking to use electronic systems to facilitate access for all suppliers.

129. Canada was an active participant in the negotiation of the new Government Procurement Agreement. At the time the negotiations concluded, Canada did not have a clear measure of the overall value of the offers being made by some of the major participants in the negotiations and so was not in a position to put forward an offer for coverage at the sub-central level. Canada did undertake, however, to cover entities in all ten provinces on the basis of commitments obtained from provincial governments and to provide the final list of sub-central coverage within eighteen months after the conclusion of the new Agreement. Canada was confident that it would meet the deadline mentioned in its offer, namely, mid-October 1995.

130. In addition, Canada fully supported the decision taken by the Committee on Government Procurement to allow further negotiations to take place between the signing of the Agreement and its coming into force in January 1996; it was prepared to continue discussions in 1995 so that the coverage of the Agreement could be as broad and balanced as possible.

General trade policy questions

131. The Canadian authorities had already indicated that the tariff simplification review would be conducted over a three-year period. Canada noted that there is no question that Canada has a very complex tariff system. It was not designed with a view to complicate things. In fact, many of these complications had benefited Canada's trading partners. There were three systems of preferences for

developing countries: the GPT, Commonwealth preferences and the Caribbean programme. In addition, there were NAFTA rates of duty with the United States and Mexico, and other tariff preferences for New Zealand and Australia. Trading partners had also benefited through the various autonomous measures that Canada had implemented, such as concessionary rates and duty remissions.

132. The representative of Canada said that it was too early to speculate as to the possible outcomes of this three-year review and whether it would also encompass unilateral liberalizations. Canada's trading partners would be informed of developments in the course of the review and would be provided with an opportunity to consult on proposals to simplify the existing tariff system. The review did not address non-tariff measures.

133. On 31 January 1994, Canada had tabled legislation to extend its General Preferential Tariff or GSP for a further ten-year period beyond its expiry date of 30 June 1994. The Government had also announced that consultations would be held with interested parties on the possible extension of GPT product coverage and reduction of GPT rates, particularly for the less developed countries. This announcement had been made in view of the results of the Uruguay Round whereby, the margin of the GPT tariff preference (the difference between the m.f.n. rate and the GPT rate) would be reduced or eliminated. The Government would also examine the maintenance of GPT for countries which had reached a high level of economic development. The Government had now consulted with interested parties on the possible expansion of GPT product coverage and the reduction of GPT rates and would shortly be publishing, for public comment, the draft results of this review.

134. Canada's Import Control List was administered in a manner that was fully consistent with Canada's GATT obligations. Quota levels and details of administration were published and importers had a right of appeal with respect to administrative decisions, including the right to appeal to the courts of Canada. The system functioned efficiently, with permits delivered to importers in most major centres within minutes of their application. Officials were constantly reviewing the administration of the Export and Import Permits Act in order to respond to changes in trading practices and to improve the service to the public. The ICL was defined in terms of individual products because the legislation, the Export and Import Permits Act, referred to products rather than tariff lines. However, in the day to day administration of the Act, product quotas were expressed in terms of a control code that was based on the Harmonized System. Importers, therefore, knew exactly to which tariff lines the various quotas related. This correlation had proven very useful in facilitating imports and the Canadian authorities intended to continue this system. Canada would maintain import licensing for agricultural products subject to tariff rate quotas in order to provide a degree of certainty to importers and exporters. With respect to a few products-- margarine, wheat, barley and their products, and beef and veal for a transitional period there would be no allocation of quota shares and import licenses would be issued on a first come/first served basis. For products subject to quota allocation, the system was essentially one of importer allocations. Licences would be issued automatically to importers with quota allocations. To ensure the fullest possible use of these allocations, penalties would continue to apply for under-utilization.

135. For all agricultural products that were subject to tariffication, individual import licenses would be required only for in-quota imports; over-quota imports would come in under General Import Permits, which might be freely invoked at time of importation and did not require a specific application. With reference to Table AV.2 of the Secretariat's report, it had been correctly pointed out that, although the ad valorem tariff equivalent in 1995 for broiler hatching eggs, for example, was 280.4 per cent, the applied rate in 1995 would include the first of six steps in tariff reductions, i.e. 273.4.

136. An answer to the question about the increase in the EU's share of the Canadian quota for imported cheese following the enlargement of the EU would be provided in writing.

137. High tariffs on items not produced domestically was not a particularity of Canada, as witnessed for example in the case of wheat and canola. A waiver system was in place in Canada for imports of goods not produced domestically. The elimination of the drawback scheme for US or Mexico-bound exports was designed to avoid double taxation of non-originating goods traded in the NAFTA; a new drawback mechanism would be introduced.

138. In response, the representative of Japan sought details of the waiver system for goods not produced domestically. The drawback allowed duties on parts exported from a third party to Canada to be refunded when the finished product was subsequently exported to another NAFTA party.

Rules of origin

139. The representative of Canada considered that new NAFTA rules of origin for motor vehicles provided a strong incentive to encourage the purchase of parts in North America in exchange for duty-free trade in the NAFTA territory and provided a more accurate and transparent calculation of North American value-added than the former Canada-US Free Trade Agreement (FTA).

140. Under the NAFTA, the value-added level rose in two steps over eight years from 50 per cent to 62.5 per cent for cars, light trucks and their engines and transmissions, and from 50 per cent to 60 per cent for other motor vehicles and parts. The value-added level under the FTA was fixed at 50 per cent. The tracing requirement for automotive goods required that the value of certain non-originating automotive parts imported from outside North America be included in the value of non-originating materials used in the production of an automotive good regardless of whether the imported goods had since been incorporated into originating goods. The tracing requirement provided for a more accurate value-added calculation than existed under the FTA, allowing producers to include as North American content any value-added to an imported part after it had entered North America.

141. Under the FTA, the value-added calculation was based upon a cost build-up equation. This equation was at the centre of two trade disputes between Canada and the United States in 1991-1992. The NAFTA equation (referred to as the net cost method), was a top down calculation, the starting point being all costs reported on the producer's books. The NAFTA equation improved the transparency of the value-added calculation and addressed the ambiguities of the FTA equation.

142. Referring to questions about different rules of origin applied to imports under different tariff schemes, Canada would be actively participating in the WTO harmonization of the Rules of Origin work programme on non-preferential rules. Once completed, Canada might then be prepared to review the harmonization of rules for other purposes including tariff treatments.

143. The representative of Japan considered that the new "tracing" method added considerably to costs of production. Companies had to hire extra lawyers and purchase additional computers to ensure that their products qualified for NAFTA treatment.

Anti-dumping and trade remedy actions

144. Canada, Mexico and the United States had agreed to seek solutions that reduced the possibility of disputes concerning subsidies, dumping and the operation of trade remedy laws under NAFTA. The three Governments had established a trilateral working group on subsidies and another group on

dumping and antidumping duties. These groups would build on the results of the Uruguay Round and on experience in regard to these issues. The working groups had been instructed to complete their work by 31 December 1995. At this point in time it was premature to speculate as to the outcome of these consultations and therefore as to what their subsequent effect might be on third parties.

145. Normal values were determined on the basis of an anti-dumping duty investigation conducted by Revenue Canada. It was not a price undertaking as provided under Article VII of the Agreement on Anti-dumping. Rather, it was a price below which dumping had been determined to have taken place. It affected only those goods subject to an anti-dumping finding. The Canadian system was prescriptive rather than retrospective in nature. By this method, exporters who cooperated fully in the investigation could avoid payment of anti-dumping duties by pricing goods at or above the determined normal value. This compared to the retrospective system where duties were paid regardless of the level at which the goods were priced, and later refunded on review. It would be difficult to determine without extensive research the proportion of imports subject to an anti-dumping finding that were priced at or above the normal value.

146. Depending on the solutions that might be found to transitional issues, Canada's intention was to remain in GATT 1947 and in the Tokyo Round Codes for the acceptance period. He noted the questions posed by several participants regarding the duration of anti-dumping orders, the renewal of orders in the absence of trade, and indicated that answers would be provided in writing, as would those on the GATT basis for restricting the export of logs.

147. The prohibition on imports of used motor vehicles had been in effect since the turn of the century and was "grandfathered" by GATT's Protocol of Provisional Application. Under the FTA this prohibition was eliminated as of 1 January 1994 with the United States. Under NAFTA, Canada negotiated, on a reciprocal basis with Mexico, the phased elimination of the prohibition on used vehicles by the year 2019.

148. In a further comment, the representative of Hong Kong asked what was the underlying reason for the increase in anti-dumping actions, which reversed the previous trend.

Intellectual Property

149. Canada did not intend to make provisions for extending the term of a pharmaceutical patent to compensate patent owners for lost time due to the delay required in obtaining health regulatory approval.

Services

150. Canada, as an active participant in the ongoing negotiations dealing with financial services, maritime transport, movement of natural persons, and basic telecommunications, was keenly interested in further liberalization. Primary objectives remained to obtain full m.f.n. based results in each of these sectors. The full extent of liberalization in these sectors would be conditional on Canada's assessment of others offers. Canada would also be active in the working group on professional services, placing particular attention upon the legal, engineering, and architectural professions.

151. Liberalization under the Internal Trade Agreement would also contribute to improving the economic efficiency of the services industry, notably by removing impediments to labour mobility - e.g., mutual recognition of workers' qualifications - and by the reconciliation/harmonization of regulations and standards-related measures affecting service industries, such as road transport.

152. According to balance of payments statistics (which did not take into account some key types of services transactions and which underestimated the value of total trade in services) Canada's service receipts increased from Can\$22.4 billion in 1989 to Can\$26.9 billion in 1993. At the same time, Canada's services sector GDP increased from Can\$326 billion to Can\$341 billion. Exports of services had increased more quickly than production of services. However, Canada was a net importer of services; Canadian services payments over the same period increased from Can\$30.6 billion to Can\$40.7 billion.

153. Between 1989 and 1993, the service sectors with the greatest increase in exports were travel and business services. The business service category included insurance, consulting and other professional services, research and development, transportation related services and commissions. In the business service sector, which was by far the largest service export, the main destinations were the United States, the United Kingdom, Germany, Japan, and France.

Sectoral issues

154. In keeping with its WTO/GATT commitments, Canada would convert existing agricultural import controls to a system of tariff rate quotas (TRQ). As part of this process the government had established a system of administrative guidelines for the allocation of TRQs. Canada considered these arrangements to be fully consistent with its obligations under GATT/WTO.

155. On 3 November, the Government had issued a press release that provided extensive detail on the establishment and administration of tariff rate quotas. This information was made available to all contracting parties through their embassies in Ottawa. Most of the TRQ's would come into effect on 1 January 1995. Others would come into effect at the beginning of the relevant marketing year. He noted that the United States would also be subject to Canada's Uruguay Round tariff rate quotas on agricultural products other than beef, wheat and wheat products. Canada's approach to tariffication was fully consistent with its NAFTA and WTO obligations.

156. It would be premature to speculate on the supply situation in the Canadian beef market in 1995 and future years. The tariff rate quota in 1994 under Canada's Article XIX safeguard for beef had been established at 72,021 tonnes. The adjustment of this level to 85,021 tonnes had been taken in response to particular market circumstances.

157. Canada and Australia had not been able to reach a mutually acceptable agreement on terms of access to the Canadian market for Australian beef during the Uruguay Round negotiations; at that time Australia rejected an offer of a 32,000 tonne country allocation for beef. This issue continued to be discussed bilaterally. In order to minimize the possibility of import surges, Canada's TRQ for beef and veal would be allocated on the basis of applications prior to the quota period, with priority given to applications from processors. This method would allow beef to be imported when needed, throughout the year. These changes would provide a stable import régime for beef and veal, in contrast to the uncertainty associated with the existing Meat Import Act. In addition, Canada was offering duty-free access on the in-TRQ amount, which had been set at a historically generous level.

158. Canada's support for the grains sector had been declining since 1991. Support payments under the stabilization programmes were based on market conditions. As market conditions improved in terms of increased price levels, less support was provided to the sector. As a budgetary reduction measure, the Government's commitment towards transportation subsidies under the Western Grain Transportation Act (WGTA) had been reduced by 10 percent for crop year 1993/94. This commitment had been further reduced by 15 per cent for crop year 1994/95 to Can\$560.6 million. In terms of

Canada's Uruguay Round commitments, Canada's total non-green domestic support in the coming years would be well below Canada's commitment to reduce aggregate measure of support (AMS) by 20 per cent by the end of the transition period. Therefore, there was no need to make any changes to support programmes in order to meet Uruguay Round requirements on AMS. Canada would meet its Uruguay Round export subsidy reduction commitments. Recently introduced WTO implementing legislation contained certain provisions which amended the WGTA to ensure compliance with the WTO.

159. GRIP and NISA were implemented by federal-provincial agreements that required non-mutual termination notice of two fiscal years. Therefore, the basic GRIP and NISA programmes were expected to remain unchanged for at least the next two years. While federal and provincial Ministers of Agriculture were reviewing safety net policy and programmes, with a view to containing expenditures and meeting international trade obligations, substantive change was not expected until at least late 1995. On 18 November 1994, the federal Minister on Agriculture had announced, with his Saskatchewan counterpart, a two year GRIP replacement programme for Saskatchewan. Although the programme details were still being negotiated, the bulk of the funding was anticipated to be directed to the NISA programme, a lesser amount to a low slung grains sector programme, and development initiatives. Federal funding for safety net programmes would be roughly equivalent to 1994/95 levels. Effective from the 1994 tax year, red meats and forages had become NISA eligible commodities in all provinces except Alberta and British Columbia. These two provinces may enrol red meats in future years.

160. The Government was putting together a framework and mechanism within which the issue of grain marketing systems could be thoroughly analyzed. Details regarding this framework were not yet available. In 1993 it had been proposed that the Crow Rate be reformed from an export subsidy to a domestic support measure by paying the subsidy direct to farmers instead of to the railways. This proposal was introduced by the previous Government. The present Government was consulting with grain industry participants and provincial Governments concerning reform of the Western Grain Transportation Act. Decisions would be made in early 1995.

161. On 2 August 1994, Canada and the United States reached a one-year Memorandum of Understanding (MOU) regarding trade in grains. The MOU which took effect on 12 September, established a Joint Commission on Grains which would examine all aspects of the two countries' respective marketing and support systems for all grains and the effect of those systems on the Canadian and U.S. markets and on competition between the two countries in third country markets. The objective of the Commission would be to assist the two Governments in reaching long-term solutions to existing problems in the grain sector. The Commission was to provide its preliminary findings and non-binding recommendations to both Governments by 12 June 1995, and to conclude its work by 11 September 1995.

162. There was no intention to make fundamental changes to supply management for dairy as a result of the Uruguay Round outcome; however, some operational changes to dairy supply management to ensure compliance with Canada's obligations and to improve the functioning of the system were under discussion with the industry.

163. Canada would provide details in writing to the question of when it would remove other prohibited imports which were banned for the sole purpose of providing assistance to local industry. Written answers would also be provided regarding the issues of standards applied to imports of meat that was not heat-treated or vacuum packed (e.g., Hungarian salami), and of the non-application of the safeguard action on boneless beef to NAFTA partners.

164. The representative of Argentina noted that imports of fresh fruits and vegetables without a pre-arranged buyer continued to be prohibited, and sought clarifications regarding local-content requirements on wine. The representative of the European Union sought further clarifications on the way the Canadian Wheat Board intended to administer the annual TRQ for wheat, and considered that a long term solution still had to be found for trade in pasta products.

Textiles

165. According to the most recent information, Canada's trade-weighted tariff for textiles and clothing products would fall from the present rate of 21.3 per cent to 14.5 per cent at the end of the implementation period, bringing it slightly below the trade-weighted level of the U.S. tariff. The Canadian MTN offer represented a reduction of 32 per cent, which was higher than that of the European Union and of the United States, and almost equal to the 33 per cent cut made by Japan. Fully 100 per cent of Canada's tariff lines in this sector were already bound. He welcomed the commitment made by major exporters to bind and reduce significant portions of their textile tariffs. While Canada would have been prepared to consider additional cuts in its textile tariffs, in the end this was not possible, due to other developments in the negotiations.

166. While employment statistics indicated a resurgence in the Canadian apparel industry, this positive development had to be viewed against the background of the situation that had prevailed in the earlier part of the decade. The employment level was still below the 1991 level as shown in the Secretariat report. It should be also noted that this level had been declining from earlier years. (In this respect, employment in the textile industry had fallen from 69,800 in 1980 to 44,790 in 1993, a drop of 36 per cent. In clothing, the drop had been from 113,900 to 85,000 over the period, a 25 per cent decline). The last few years had witnessed a significant reduction in the number of plants, an increase in short-time and part-time employment as firms struggled to meet ever-increasing import competition.

167. As a result of the increase in low-cost imports and of the market disruption caused by these imports, the Canadian Government had concluded bilateral restraint agreements with exporting countries. These restraints had been reviewed by the Textiles Surveillance Body and found to be in conformity with Canada's obligations under the Multifibre Arrangement. He also noted that a number of restraints had been concluded or imposed on imports of countries that were participants neither to the GATT nor to the MFA.

168. Canada was committed to the re-integration of this sector into the GATT and had participated fully in the negotiation of the MTN agreement on textiles and clothing. In this context, Canada had notified on 1 October 1994, the list of products that it would integrate on 1 January 1995. Canada was the only Quad member to have integrated a category of products under restraints, even though there was no such requirement. This action would directly benefit a number of restrained suppliers, such as Hong Kong, the Republic of Korea, Sri Lanka, Macau, Pakistan and Thailand (as well as China and Chinese Taipei).

169. Trade statistics did indicate an increase in bilateral textiles trade with the United States. This increase was in keeping with the overall increase in bilateral trade under first the FTA and then the NAFTA. In the context of Canada's overall textile and clothing trade, it should be noted that imports from the United States were in high-value products whereas those from developing countries were concentrated in low-cost products.

170. While the NAFTA rules of origin for textiles and clothing were more restrictive than those of the FTA, their impact, however, had been exaggerated. For example, while the yarn-forward rule

would appear to limit opportunities for offshore fabrics to be used in the manufacture of garments for export to the United States, the fact was that this rule did not represent any change from the FTA rules of origin. In both cases, garments made from offshore fabrics did not meet the rules of origin and could not qualify for duty-free treatment. They could enter however under the m.f.n. tariff.

171. Both the FTA and NAFTA provided for tariff rate quotas under which specified quantities of non-qualifying products could obtain duty-free treatment. Under NAFTA, these TRQ's had been significantly expanded, thereby resulting in additional opportunities for offshore fabric suppliers. It should be noted also that the TRQ levels far exceeded existing export levels to the USA, thus providing room for future growth. There was, in general, no change to the rule of origin for embroidery fabrics of Chapter 58 from the FTA rules of origin. In fact, for most yarns and fabrics there was very little change between the FTA and the NAFTA rules of origin; this was also the case with most made-up articles, such as tablecloths which might incorporate some embroidery.

Export assistance programmes

172. The Export Development Corporation (EDC) recently adopted a new policy that recognized that benefits accruing from Canadian exports were many and varied, and were not solely reflected in Canadian content, the underlying determinant of qualification for EDC support under the old policy. Under the new policy, all benefits to Canada could be considered in determining eligibility of an export transaction for EDC support. The policy recognized that some benefits could be measured in immediate payoffs, whereas others yielded longer term dividends. The policy was designed to encourage more Canadian entrepreneurs to avail themselves of EDC services in pursuing export opportunities.

173. Examples of other benefits which could be considered, in addition to Canadian content, included export of world mandated products, transfer of new technology/product lines to Canada, enhancement of future business prospects as a result of a transaction; R&D spurring innovation; accelerated development of high skill level jobs in Canada; or the development of a new export product, market, or exporter. Canadian content was retained as one of the benefits, but with a reduced threshold ratio of 50 per cent as opposed to the 60 per cent ratio under the old policy. On this basis, a transaction with an optimized Canadian content of 50 per cent or higher would meet the benefits criteria without further review. Transactions which did not attain the 50 per cent threshold would still be considered for other benefits. A single benefit might well qualify a transaction which did not meet the threshold. To further simplify the process, specific products or groups of products known to generate sufficient benefits to Canada would be pre-approved for support.

Subsidies

174. Canada supported the improved disciplines on trade-distorting subsidies, as defined in the new WTO Agreement on Subsidies and Countervailing Measures. Subsidies given by the Federal Government, as well as by sub-federal or Provincial Governments, that distorted trade within the meaning of the Subsidies Agreement, would be subject to the countermeasures provided in the Agreement.

Alcoholic Beverages

175. In recent years, there had been considerable liberalization of provincial liquor board practices with the implementation of the recommendations of the 1987 and 1992 GATT Panel Reports on the import, distribution and sale of alcoholic beverages by Canadian marketing agencies. Significant changes in domestic beer marketing practices had resulted from the Canada-United States Memorandum of Understanding on beer which had also been applied on an m.f.n. basis.

176. The Internal Trade Agreement (ITA) would decrease barriers to internal trade upon implementation in July 1995. Under national treatment, any changes would be extended to Canada's trading partners. Given the changes cited above, the Canadian Government considered Canadian alcoholic beverages marketing practices to be GATT consistent.

Electric and Electronic Equipment

177. Canada would provide written details on the Government's strategy to promote telecommunications, computer services and software, and computer-assisted manufacturing systems, and how the partnerships between governments and the private sector would work.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

178. The Council has now conducted the third review of Canada's trade policies and practices. These remarks, made on my own responsibility, summarize salient points raised during the discussion. They are not intended to substitute for the Council's collective evaluation and appreciation of Canada's trade policies and practices. Details of the discussions will be reflected in the minutes of the meeting.

179. Following a comprehensive opening statement by Canada, the Council's discussions fell under the following five main headings:

(a) General economic and trade performance

180. Council members welcomed Canada's economic recovery in the two years since the last review, and noted the rôle of trade as the engine of its recovery. In the three years to 1993, the direction of trade had decisively shifted in favour of bilateral trade with the United States; it was suggested that the NAFTA would accentuate this trend. Some participants noted the high level of internal debt, which had reached 70 per cent of GDP, and questioned the potential impact of high fiscal deficits on macro-economic and exchange rate policy; they asked how far exchange depreciation had conditioned the growth of exports. A number of questions were asked about Canada's policy towards foreign direct investment, including Canada's own investment abroad.

181. In response, the representative of Canada agreed that trade had played a major rôle in the economic recovery. Canada had also been well placed to benefit from the U.S. recovery, but the aim was to achieve greater diversification, hence Canada's active pursuit of other market opportunities, including through APEC. Monetary and fiscal policies naturally had an impact on Canada's market-determined exchange rate. Fiscal deficits were also being progressively reduced. Outbound foreign investment was not restricted; rather, it had been facilitated by bilateral agreements. Details were provided.

(b) Multilateralism and regionalism

182. Canada's rôle in achieving, and commitment to, the Uruguay Round results was praised by all. Participants noted the commitment to eliminate tariffs in a number of key sectors, and to reduce remaining industrial tariffs by an average of 40 per cent over the next five to ten years. The liberalization of certain services sectors, procurement markets and new intellectual property protection legislation were all welcome. Concern was expressed, however, about the level and administration of the above-quota tariff rates to be introduced in agriculture as a result of the Uruguay Round.

183. Several participants raised questions about the implementation of NAFTA and, in particular, its relation with the GATT in a number of areas, including dispute settlement. The potentially trade-diverting nature of NAFTA rules of origin was another source of concern. Details were sought on differences in local content rules on motor vehicles between the FTA and the NAFTA, and whether the new rules were consistent with Article XXIV of the GATT. Participants also asked about Canada's plans for future developments in regional cooperation, and noted that the expansion of trade with the Asia-Pacific region had become a priority of Canadian trade policy. In this context, some participants asked about the position of Europe in Canada's current trade policy objectives, noting that the share of trade with European countries had declined.

184. The representative of Canada noted that multilateralism and regionalism were two sides of the same coin, whereby Canada sought to advance its objectives of trade liberalization within rule-based

frameworks. Canadian estimates of Can\$3 billion in gains from the Uruguay Round were probably underestimates; they did not capture the dynamic effects, nor did they cover services. NAFTA was believed to be trade-creating and was open to others; it would be discussed in a Working Party in 1995. Discussions, but not yet formal negotiations, were taking place with Chile on its possible accession. Despite some persistent trade disputes with the EU, Canada was also strongly committed to fostering trans-Atlantic trade relations; the Canadian representative gave some examples of present and planned co-operation which should lead to increased trade. He confirmed that NAFTA investment thresholds would be accorded to all WTO members under Canada's Uruguay Round implementing legislation.

(c) Federal-provincial relations

185. Several members welcomed the renewed efforts to remove inter-provincial trade barriers within Canada, whose estimated costs to the Canadian economy exceeded the quantified benefits of the Uruguay Round for Canada. Remaining restrictions to inter-provincial trade with effects on external trade were identified in the fields of procurement and trade in alcoholic beverages and food products. Clarifications were sought regarding the coverage and implementation of the July 1994 Agreement on Internal Trade.

186. The representative of Canada said that all provinces had been fully consulted on the implementation of the Uruguay Round agreements and no commitments had been made without prior agreement with the provinces. Rules established under the Internal Trade Agreement were scheduled to enter into force on 1 July 1995. Further negotiations were underway. Details were given on procedures for mutual recognition or full harmonization of standards, including in specific sectors, as well as on the opening up of government procurement practices. Canada would make its offer under the Government Procurement Code by mid-October 1995 and supported the initiative for further negotiations during 1995.

(d) General trade policies and practices

187. The complexity of the Canadian tariff was criticized by some participants; at the same time, they welcomed the reduction in tariff levels carried out autonomously, regionally and multilaterally over the two years since the previous review. Tariffication in agriculture revealed extremely high above-quota rates averaging 173 per cent. Questions were asked regarding the evolution of Canada's GPT scheme. The recent move to simplify the tariff was welcome, and members sought further details. In this connection, it was suggested that Canada might consider a move to global free trade on an m.f.n. basis.

188. Several participants expressed concern on the level of recourse to anti-dumping procedures; the duration of orders even when exports had ceased; new cases of self-initiation; and high dumping margins in recent cases. Participants welcomed Canada's stated priority of reforming current anti-dumping legislation within NAFTA, and asked what instruments were considered as replacement and whether the reform could not be extended to other trading partners.

189. The widening of government procurement markets subject to GATT rules was recognized by participants, who nevertheless regretted that provincial discrimination remained after the signing of the new Internal Trade Agreement. Canada was urged to include a larger number of Provincial Crown corporations under non-discriminatory and transparent procurement rules.

190. Issues were raised relating to standards and other technical and environmental measures in agriculture, fishing and forestry. Some participants noted that rules on bulk shipment, container sizes,

and inter-provincial trade in alcoholic beverages continued to be obstacles to trade. Canada was asked to clarify the reasons for its decision to stop and search vessels fishing outside its territorial waters.

191. In response, the representative of Canada noted that the tariff review would take place over three years; it was, therefore, too early to speculate on the outcome. He noted that the existing complexity was the result of preferences which had benefited many countries, including developing countries. The review would not cover non-tariff measures. Legislation to extend the GPT had been tabled, and consultations had just been completed on the product coverage and the reduction of rates. The draft results of the review would be published shortly for comment.

192. He noted that Canada's licensing system was fully consistent with its GATT obligations and gave details on the functioning of the system. Restrictions under the Import Control List were administered on the basis of HS items and were, therefore, transparent for importers. Only in-quota imports under tariffed agricultural items would be subject to specific licensing, allocated on a first-come-first-served basis; over-quota imports would enter under General Import Permits.

193. Rules of origin for motor vehicles under NAFTA were intended to encourage the purchase of parts in North America and provide a more accurate and transparent calculation of regional value added. Details were provided. Depending on the outcome of the WTO harmonization of non-preferential rules of origin, Canada might review the harmonization of rules for other tariff treatments.

194. Within the NAFTA framework, trilateral groups were to complete, by the end of 1995, work on subsidies and anti-dumping with a view to reducing trade disputes on such practices. An explanation was given of Canada's procedures for determining "normal values", which were said to help importers avoid the imposition of anti-dumping duties. Canada would remain in the Tokyo Round Anti-Dumping and Subsidies Codes for the acceptance period of the WTO.

(e) Sectoral issues

195. Some participants observed that Canadian agriculture was still heavily protected and benefiting from substantial government assistance. Participants noted the very high above-quota tariff rates resulting from the Uruguay Round Agreement on agriculture. Clarification was sought regarding the rates to be applied in the first year of implementation. Points were made concerning the safeguard action on boneless beef, which had been taken in a context of growth in the industry, and did not apply to NAFTA partners. Some participants asked for clarifications regarding export pricing of grains.

196. Export restrictions on logs were perceived by some as potential subsidies to the domestic processing industry. Continued protection of the "cultural" industries was noted. At the same time, Canada was commended for its recent steps to liberalize trade in telecommunications services and improve patent protection.

197. Some participants voiced concern about recent developments in trade policy regarding textiles and clothing. Both the geographical scope and frequency of import restricting measures had increased, with developing countries bearing the brunt. Strong expansion of bilateral trade in textiles and clothing with the United States was perceived as a potential sign of trade diversion.

198. The representative of Canada provided information on the size and administration of the various tariff rate quotas to replace the existing system of agricultural import controls. The TRQs, to be introduced on 1 January 1995, were consistent with Canada's obligations under the Uruguay Round. The United States would, like other members, be subject to the Uruguay Round TRQs. The level

of the beef and veal quota was based on negotiation, while the adjustment of the boneless beef action under Article XIX was made in response to changing market conditions. Quotas would now be allocated to domestic processors based on allocations in the prior period, providing for increased stability in the market. Bilateral discussions on quota allocation were continuing with Australia.

199. Support for grains had been declining since 1991. The level of Canada's total "non-green" domestic support in coming years would be even lower than its commitment over the transition period. Canada would also meet its export subsidy reduction commitments. A Memorandum of Understanding (MOU) with the United States on trade in grains was reached in August 1994, establishing a joint commission to examine all aspects of the two countries' marketing and support systems for all grains with a view to reaching long-term solutions to problems in the sector.

200. No fundamental change was expected in the dairy sector as a result of the Uruguay Round, although there would be some operational changes to ensure compliance with Canada's obligations.

201. Trade-weighted average tariffs on textiles and clothing would fall from 21.3 per cent at present to 14.5 per cent under Canada's Uruguay Round commitment and all lines were currently bound. Because of low levels of unemployment in the sector and market disruption from increases in low-cost imports, some new bilateral restraint agreements had been reached with exporters. Canada was committed to the re-integration of the sector into the GATT. The products which it would integrate as of January 1995 would benefit a number of restrained exporters.

202. A number of changes had taken place in recent years in import regulations on alcoholic beverages, with considerable liberalization of provincial liquor board practices. Barriers would also decrease as a result of the Internal Trade Agreement. Given these changes, Canada considered its alcohol marketing practices now to be GATT-consistent.

Conclusion

203. Canada's trade policy is dynamic. NAFTA and the Uruguay Round have led to new or imminent obligations and to trade liberalization in traditional and new areas; participation in APEC expands horizons to fresh geographical links. The coming years would see further growth and change in Canada's trade policies. I am confident that the WTO framework will provide the firm foundation for the coherent and consistent application of all the trade policy measures to be taken by Canada in these different contexts.