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GATT TRADE POLICY REVIEW

CANADA

On 30 July 1990, the GATT Council will consider reports on the trade policies of Canada, prepared by the Canadian Government and the GATT Secretariat. The reports will form the basis of a comprehensive examination of the trade policies of Canada.

The reports cover all aspects of Canada's trade policy, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; and sectoral implementation.

The trade policy review mechanism was launched in December 1989 as one of the early results of the Uruguay Round to enable a regular collective evaluation by the GATT council of the full range of trade policies of individual GATT members.

Attached are summary sections of the reports prepared respectively by the GATT Secretariat and the Canadian Government. Full reports are available for journalists from the GATT Secretariat on request.

The complete trade policy review of Canada, including these two reports together with a record of the Council's discussion and of the Chairman's summing-up, is expected to be published in October 1990, and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland.

Since December 1989, reviews of the following countries have been completed and are available from the GATT Secretariat: Australia, Morocco, United States.

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TRADE POLICY REVIEW

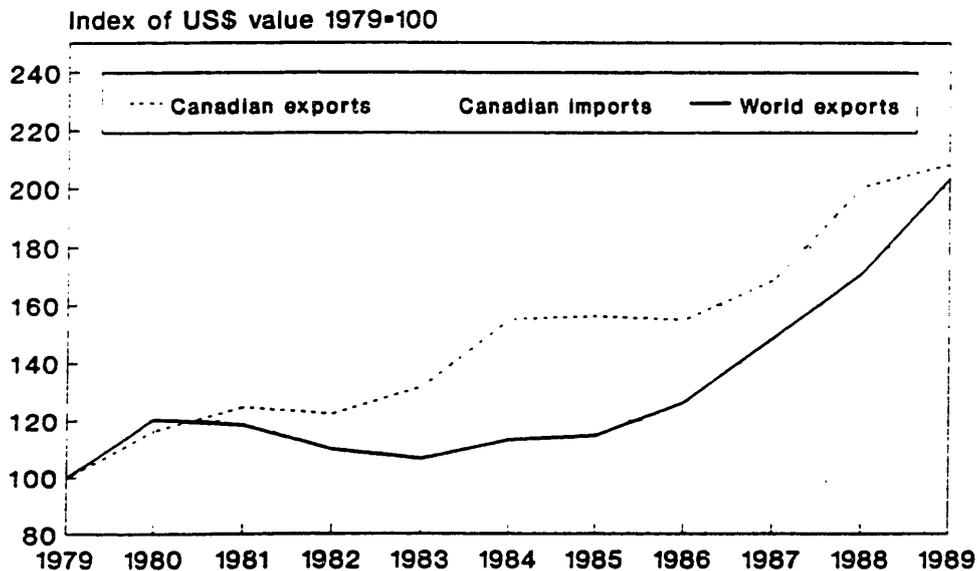
CANADA

Report by the GATT Secretariat - Summary Observations

(1) Canada in World Trade

Over the past ten years, Canadian exports and imports have expanded faster than world merchandise trade (Chart VII). As a result, Canada has become the seventh largest exporter and importer of merchandise in the world, up from tenth rank in 1979. In 1989, Canada's share in global merchandise trade was 3.8 per cent.

Chart VII
Canada and world merchandise trade,
1979-89



Source: GATT Secretariat.

The important rôle of international trade in Canada's economic development is evident from the fact that merchandise exports and imports each corresponded to about 21 per cent of Canadian GDP in 1989. Trade in services, which has not expanded as rapidly as merchandise trade, accounted for about another 6 per cent. The economy is further linked internationally through substantial foreign direct investment. Significant liberalization in this field occurred with the implementation of the Investment Canada Act in mid-1985.

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Over two-thirds of Canada's merchandise trade is with the United States. Next in importance are the European Communities and Japan (shares of 10 and 5 per cent). Developing countries account for about 7 per cent of Canada's merchandise exports and 10 per cent of its merchandise imports, well below the average for industrial countries combined.

Boosted by the Auto Pact of 1965 with the United States, automotive products have become Canada's most important export and import item. In 1988, Canada was the fourth largest exporter of these products in the world. Canada is also among the leading exporters of several primary products such as wheat, forestry products, fisheries products, and certain minerals and metals.

Raw materials, food and fuel loom much larger in Canada's exports than in its imports, an exceptional feature for a developed country. However, exports of manufactures have been more dynamic, in particular exports of automotive products, electronic devices, and some chemicals. Currently, manufactures make up three-fifths of total merchandise exports.

Canada has traditionally recorded a surplus on its merchandise trade account, and a deficit on its services account. In the course of an investment boom, imports of machinery and equipment increased sharply in recent years. Because of the strength of domestic demand, the economy has been working virtually at full capacity, inflationary pressures have built up, and the trade surplus has declined. As a percentage of GDP, Canada's current account deficit increased from $\frac{1}{2}$ to 3 per cent between 1985 and 1989. Measures to contain the current account deficit include efforts to reduce the Government budget deficit, a task made more difficult by a heavy debt-servicing burden. Ongoing and planned reforms in other economic policy areas, including trade policy, aim at raising potential output and increasing the structural flexibility of the Canadian economy.

(2) Institutional Framework

In Canada, a democratic federal state of ten provinces and two territories, the Federal Parliament has the exclusive constitutional and legislative authority over international and inter-provincial trade. Intra-provincial trade, including the distribution of imported goods, is under the jurisdiction of the provinces.

Trade policy is conducted by the Cabinet under the authority of the legislation passed by Parliament. The legislation also grants authority to the Cabinet to use executive orders (Orders-in-Council). The Trade Executive Committee of the Cabinet, chaired by the Minister of International Trade and comprising seven other Ministers, sets priorities for and formulates trade policies. Private business feeds its views into trade negotiations through the International Trade Advisory Committee and thirteen Sectoral Advisory Groups on International Trade.

A broad range of Government departments and agencies is involved in the implementation of trade-related policies. In general, administrative procedures are streamlined and transparent.

In 1988, the Government established a quasi-judicial body, the Canadian International Trade Tribunal, to assess injury in dumping, countervail and safeguard cases, and to hear appeals relating to customs valuation and certain excise matters. Affected parties have access to hearings, and the findings of the Tribunal are published. On request from the Government, the Tribunal also reviews trade policies. The Economic Council of Canada is another important independent advisory body involved in trade policy analysis.

The Canadian legislation provides for statutory appeal against administrative actions, such as anti-dumping and countervailing duties, customs valuation, and certain decisions regarding Government procurement.

(3) Trade Policy Features and Trends

Canada is a founding signatory to the GATT. It has signed all MTN Codes, except the International Dairy Arrangement, to which it is an observer.

Canada has frequently stated its support of the m.f.n. principle. However, a large share of Canada's merchandise trade is subject to preferences. The Canada-United States Free Trade Agreement (FTA), effective 1 January 1989, has forged even closer links between Canada and its largest trading partner. Under the Agreement, tariffs will be eliminated in bilateral trade by 1998 and several non-tariff measures liberalized; new institutions have been established to deal with bilateral disputes. On selected items, bilateral concessions are provided in trade with Australia and New Zealand.

Canada has four schemes for providing unilateral preferences to developing countries. The global scheme of preferences for developing countries, implemented since 1974, provides for preferential tariffs between duty-free and two-thirds of m.f.n. rates. Through periodic reviews, product coverage of the scheme has been enlarged and preferential margins for several items increased. Currently, the majority of agricultural products is excluded from GSP treatment, as are some manufactures of particular export interest to developing countries, such as certain textiles, clothing and footwear. For imports from least-developed countries, duty-free access is granted for all items covered by the GSP scheme. Developing countries from the Caribbean Commonwealth get duty-free access on a large number of their imports through the CARIBCAN scheme. British Preferential Tariffs are unilaterally provided on selected items to developing countries from the Commonwealth.

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The complexity of the preferential arrangements, involving differences in product and country coverage, margins of preferences and rules of origin, makes it difficult to assess the extent to which Canada differentiates among its trading partners, including among developing countries. However, it is evident that, with the full implementation of the FTA, the United States will have more predictable and freer market access than any other trading partner of Canada.

(i) Recent evolution

Since 1984, the Canadian Government has embarked upon a major programme of liberalization and deregulation. Canada has taken several steps to improve access to its market in both a multilateral and a bilateral context. Canada's average applied tariff was 3.7 per cent in 1989, down from more than 5 per cent in 1980. Import quotas for chicken, turkey, eggs and egg products have been increased, and quotas on footwear were terminated (1988).

Not all trade policy changes have been in the direction of improved market access. New import quotas were introduced for a few agricultural items. Canada's quantitative restraints on textiles and clothing under the current Multifibre Arrangement are broader, and applied more strictly, than under the previous one.

Significant developments with respect to non-border measures include a decline in federal financial assistance to agriculture from CAN\$4.5 to 3.3 billion between 1986-87 and 1989-90. In 1988-89, overall Government financial assistance to agriculture, including assistance by provincial Governments of about CAN\$2 billion, was equal to 68 per cent of the gross domestic agricultural product in Canada.

Financial assistance outside agriculture has almost doubled between 1986-87 and 1989-90, from CAN\$1.4 to 2.7 billion. Regional programmes have expanded particularly strongly. The orientation of assistance policies outside agriculture is shifting to labour adjustment and support for technology, rather than subsidising production costs. With the exception of some primary products, no industry-specific structural adjustment programs are now in operation at the federal level.

(ii) Type and incidence of trade policy instruments

Tariffs are the most widely used import policy instrument in Canada. They are more important in industry than in primary production where assistance through other measures plays a more prominent rôle.

For the majority of products, tariffs are low; a large number of items enter duty-free. However, within several product categories, including textiles, clothing, footwear, chemicals, transport equipment, toys, office and stationery supplies, tobacco, furniture, and several

agricultural items, the highest tariffs exceed 20 per cent (within alcoholic beverages, the ad valorem-equivalent tariff for one item was 71 per cent in 1988). According to estimates by the Canadian International Trade Tribunal, effective rates of tariff protection for manufactured textile items could range from 16 per cent (natural fibre woven fabrics) to 46½ per cent (natural fibre knitted fabrics), and for clothing items from 22 per cent (man-made fibre woven clothing) to 29½ per cent (natural fibre woven clothing). Tariff escalation is present for a variety of products in both industry and agriculture.

Most tariff rates are ad valorem. Specific, composite or alternate rates apply to a number of items, including certain textiles, clothing, chemicals, metal products, and agricultural products. Seasonal tariffs are in place for fresh fruits and vegetables.

Tariff concessions are granted if a particular product is used for a specified purpose. For example, benzyl alcohol for photographic uses enters duty-free into Canada instead of facing the normal 12.5 per cent m.f.n. tariff rate for this product. Some agreements which provide tariff relief under the Auto Pact are confidential. The incidence of tariffs is also reduced through tariff remission schemes such as the Machinery Programme. As a result, the applied tariff rate for a particular import item can differ among m.f.n. sources.

Overall, the Canadian tariff régime, including preferential and concessional arrangements, appears complex and lacking in transparency. However, an element of security for domestic and foreign traders results from the very large extent of tariff bindings (98 per cent of tariff lines and 96 per cent of the value of 1989 imports).

Output of several agricultural products is substantially assisted by both the federal and provincial Governments through measures such as price support and subsidies for transport and insurance. In some cases, policies affecting trade, including certain regulations for alcoholic beverages, differ across Provinces. Quantitative restraints apply to imports of some dairy products, poultry and eggs. The restrictions imposed in the context of domestic supply management programmes often result in a high premium for domestic producers and high prices for consumers. For example, it has been estimated that, in 1989, the consumer price for eggs was 20 per cent above, and the consumer price for milk more than 100 per cent above the world price.

Within industry, non-tariff measures, largely in the form of bilateral restraints under the MFA, provide substantial assistance to textiles and clothing. Other non-tariff measures include financial assistance to several industries, with transport equipment being a major beneficiary.

According to the Canadian authorities, voluntary export restraint arrangements which previously limited imports into Canada of automobiles from Japan and the Republic of Korea have been terminated. In the case of Japanese automobiles, consultations on market conditions are held from time

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to time. For 1990, the Republic of Korea has unilaterally fixed, under its internal export monitoring policy, a restraint level of 6.6 million pairs of leather footwear exports to Canada.

Canada prohibits or restricts imports of specific products mainly for reasons such as health and safety, technical standards, preservation of endangered species and supporting domestic supply management programmes for some agricultural products. Import licensing covers items such as dairy products, eggs, poultry, textiles, clothing, steel and elephant ivory. There has been some increase in the coverage of import licensing in recent years.

Regarding technical standards, the policy of the Government of Canada is that all federal Departments and agencies comply with the provisions of the GATT Agreement. The Government encourages the use of international standards.

National security is the most important objective in restricting exports. A COCOM list of countries to which certain exports are prohibited is in operation. National security restrictions largely refer to industrial products.

Other reasons for restricting exports include ensuring adequate domestic supply, supporting domestic processing of resources, implementing an inter-governmental agreement, and health and safety concerns. Exports to Libya and South Africa are restricted. Canada monitors exports of specialty steel to the United States, and exports of carbon steel to all destinations to help prevent circumvention of the United States' voluntary export restraint agreements on steel. Export taxes are applied to some softwood lumber products sold to the United States, following a complaint by the United States that Canadian stumpage programmes and practices constituted subsidies, a view to which Canada does not subscribe.

As a proportion of total merchandise exports, financial assistance for Canadian exports is small. The two main support schemes for exports are the Program for Export Market Development, and the loans, guarantees and insurance provided by the Canadian Export Development Corporation.

Domestic processing of its natural resources is an important objective for Canada. Provinces have jurisdiction over their natural resources. They encourage domestic processing through several tax policies. Export restrictions apply to some unprocessed natural resources, such as uranium, logs and certain fisheries products.

In public procurement, the value-for-money criterion is used in combination with other objectives, such as promotion of small scale industries and developing domestic capabilities. About 5 per cent of the federal Government purchases of goods and services are covered by the GATT Government Procurement Code; in turn, federal procurement is about one-quarter of the total public procurement market of about C.A.N\$70 billion.

For procurement not covered by the GATT Code or by the Free Trade Agreement, a 10 per cent Canadian-content preference is applied. Additional preferences are provided in provincial procurement, with differing conditions for purchase across provinces. In the case of large projects (CAN\$2 million and above), certain types of offset requirements are negotiated in public procurement. Canada also operates a rationalization policy under which products of multinationals in certain sectors are granted Canadian-content preferences, provided these companies contribute "significantly" to the economy.

Canada has more than 100 Marketing Boards at both the federal and provincial levels, covering items such as wheat, dairy products, fish and alcoholic beverages. Several boards, including a few provincial ones, have authority to conduct interprovincial and international trade. The functions of different marketing boards vary, and may include price negotiation, establishing production or sales quotas, imposing levies for different levels of production, supporting exports, specifying limits on imports, and setting advance payments for certain products.

(iii) Temporary measures

586. Canada has been an active user of anti-dumping measures, with steel and other metal products being affected in a large number of cases. Though the use of these measures has declined in the second-half of the 1980s (three anti-dumping definitive duties were imposed in 1989), 117 definitive duties and 13 price undertakings were in place at end-1989. Many of the outstanding measures date from the early 1980s.

At end-1989, eight countervailing measures were in place. Most of these were on agricultural products.

A special feature of Canadian anti-dumping and countervailing legislation is a provision for public interest. Under this, the duty can be reduced or eliminated if the cost of the restriction to the public is determined to be higher than the gain from it. Thus far, the provision has been invoked once, resulting in a lower duty.

Canada uses short-term (maximum of 180 days) and long-term safeguard measures. The short-term measures are mainly for fruits and vegetables. With the establishment of the Canadian International Trade Tribunal, domestic industry can directly request enquiries related to long-term safeguard measures.

Canada has not taken any Article XIX action since 1985. Its last action, on women's and girls' footwear, was terminated in December 1988. The majority of Canada's Article XIX measures have lasted less than two years.

Safeguard provisions are in place for CARIBCAN and GSP tariff preference schemes. Since 1980, GSP preferences have been withdrawn in eight cases; some of these preferences have been subsequently re-instituted.

For all temporary relief measures, time limits are specified for different stages of the enquiry. Duties or price undertakings are subject to sunset clauses: three years in the case of safeguards and price undertakings, and five years for anti-dumping and countervailing duties. Special temporary relief provisions and dispute settlement procedures apply under the FTA.

(iv) New initiatives

The trade policy environment for Canadian investors and traders is changing on account of several liberalization measures by the Government and its attempts to reduce the budget deficit. The budget of 1990 has eliminated straight grants, subject to some exceptions. Various assistance policies are being reviewed with the objective of imposing stricter repayment terms. The Government has stopped providing interest-free advances for certain agricultural support policies. It has recently amended the cost-sharing formula for the insurance scheme for agriculture, so that the federal Government has a lower financial burden. A major review of Canada's agricultural policies is under way, whose focus includes greater market responsiveness and lower reliance by farmers on public assistance.

The Government has adopted several policies to enhance the efficiency of the economy, including deregulation of certain sectors, tax reform, privatization and a Labour Market Development Strategy. At the request of the Government, the Canadian International Trade Tribunal has suggested a scheme for reducing textile tariffs. From 1 January 1991, the Government will substitute the current federal sales tax by a less distortionary goods and services tax.

(4) Trade Policies and Foreign Trading Partners

The new initiatives are likely to increase the flexibility and adaptability of the Canadian economy, including its responsiveness to changes in global markets. It has been estimated that the reforms, along with the Free Trade Agreement, are likely to raise Canada's potential annual growth rate by three-quarters of one percentage point in the early 1990s. As a result, the Canadian economy is likely to become more competitive in its export markets, and also to experience accelerated import growth.

However, expanding import demand is unlikely to result in the same expanding market opportunities for each of its trading partners, partly on account of the system of preferential arrangements, tariff concessions and the existing structure of protection in Canada. For example, reductions in non-tariff barriers and the elimination of tariffs in bilateral trade between Canada and the United States will strengthen the position of suppliers from the United States in competing with suppliers from third countries in the growing Canadian market. As long as some quantitative restrictions remain selective, in particular in textiles and clothing,

restrained trading partners will face an additional constraint on realizing the potential growth of their exports to Canada.

Canada's trading partners have a variety of other concerns, including financial assistance to agriculture, import restrictions in the context of domestic supply management, Government procurement policies at the federal and provincial levels, and double-digit tariff peaks and several non-tariff measures affecting trade in areas such as beverages, tobacco, minerals and base metals, chemicals, textiles, clothing and certain engineering products.

In turn, Canada's own trade performance is adversely affected by the distortions in world agricultural markets resulting from production and export subsidies, and by a range of other trade policies and practices of its trading partners, including high tariffs and tariff escalation, quantitative restrictions, product standards and other technical barriers to trade, and restrictive Government procurement practices. To these problems, the formation of the free trade area with the United States will provide only a partial answer.

Canada is very actively using the Uruguay Round to deal with these concerns, focusing on areas such as greater market access through tariff reduction, progressive liberalization of markets in services and natural resource products, a broadening of the Government Procurement Code and strengthening of multilateral rules and disciplines, including those for anti-dumping and countervailing measures. Canada is a member of the Cairns Group which is seeking fundamental reform of world trade in agriculture. However, it has particular preoccupations relating to its supply management programmes.

Canada has recently launched a new trade development strategy designed to strengthen its links with trading partners inside and outside North America. The achievement of this objective could be effectively promoted if Canada used the Uruguay Round for scaling down financial support and further reducing, or eliminating, remaining tariff peaks, tariff escalation, quantitative restrictions and other trade-distorting measures. At the same time, Canadian trade liberalization in a multilateral context could help to appease the concerns of those trading partners who do not participate in Canada's preferential or free trade area arrangements. Finally, for Canada enhanced openness, stability, predictability and discipline in the multilateral trading system would by itself make an important contribution towards its goal to intensify relations with the world economy.

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TRADE POLICY REVIEW

CANADA

OVERVIEW

Canada is an open economy with a large amount of foreign trade relative to its Gross Domestic Product. Over a quarter of GDP and some three million Canadian jobs are directly dependent on exports. Much of that trade is with the U.S.A. (which accounts for approximately 70% of our total trade). Economic efficiency and the competitiveness of the Canadian economy are dependent to a large extent on unhindered access to foreign markets, and to foreign technology, machinery, equipment and other industrial inputs. At the same time, Canadian consumers are dependent on a broad range of imported goods. Therefore policies that either limit or encourage foreign trade are of immediate importance to Canadian economic performance and the standard of living of its citizens.

In the early 1980's the government adopted an agenda for economic renewal which encompassed major initiatives in tax reform, deregulation, privatization, investment development and trade policy. Underlying this policy thrust was a renewed commitment to the pursuit of economic efficiency through the reduction of distortions and barriers to the operation of free markets at home and abroad. Over time this strategy is intended to facilitate the reaction of Canadian industries to new economic developments and opportunities. It is based on the understanding that the future prosperity and viability of the Canadian economy can only be assured by making this country's competitive position a priority for economic policy-making.

In its trade policy stance this economic strategy has resulted in two major complementary initiatives: the negotiation and implementation of a comprehensive free trade agreement with Canada's principal trading partner, the U.S.A.; and Canadian participation within the GATT negotiations to reduce barriers to world trade and improve multilateral trade rules.

Both initiatives have at their root the orderly transformation of the Canadian economy through the progressive elimination of domestic and international impediments to competitiveness, so that the Canadian economy will be able to adapt dynamically, imaginatively and competitively to the profound and insistent changes occurring in the patterns of world production, technology and trade. The Free Trade Agreement has been successfully negotiated and is now in its implementation stage. Canada is

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committed to a successful and substantial outcome for the Uruguay Round negotiations.

For Canada, the close links between economic prosperity and the maintenance of a liberal world trading system makes trade policy a key component of the government's economic development strategy which seeks to achieve a stronger, more competitive, non-inflationary and growing economy. Trade policy contributes to these objectives in a number of ways: the more efficient use of resources along the lines of comparative advantage; the greater scope for exploiting new technologies and the economies of scale which are closely related to this; and the realization of income gains, reduced prices and increased competition in the Canadian economy.

Trade policy also plays a decisive role in the creation of predictable, rules-based, transparent and secure domestic and international trading environments conducive to the taking of long-term economic decisions. This Canadian concern with the stability of the international trading system is all the more important given today's accelerating global interdependence.

TRADE POLICY OBJECTIVES

Recognition of the close links between Canadian economic prosperity and international trade has led to the following general objectives for trade policy:

- The development of a stronger, more efficient, productive, competitive, growing and non-inflationary domestic economy, the increased per capita wealth of which is shared by all Canadians from all regions of the country; and
- The promotion of a more stable and open international trading environment within which competitive Canadian and foreign firms alike are encouraged to plan, invest and grow with confidence.

These objectives are reflected in the stated objectives of Canada's two complementary trade policy initiatives, the Free Trade Agreement (FTA) with the U.S.A. and the ongoing GATT negotiations of the Uruguay Round.

Canada agreed, in the context of the FTA with the U.S.A., to:

- create an expanded and secure market for Canadian goods and services;
- adopt clear and mutually advantageous rules governing their trade;
- ensure a predictable commercial environment for business planning and investment;
- strengthen the competitiveness of Canadian firms in global markets;
- reduce government-created trade distortions while preserving our flexibility to safeguard the public welfare;
- build on our mutual rights and obligations under the GATT and other multilateral and bilateral instruments of cooperation; and
- contribute to the harmonious development and expansion of world trade and to provide a catalyst to broader international cooperation.

Canada is attempting to achieve the following objectives in the Uruguay Round negotiations:

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- the fostering of a world trading environment with sufficient stability, predictability and transparency in international trade relations to inspire confidence in exporters and importers and thus encourage job-creating investment and dynamic economic growth;
- to enhance access for Canadian exports, particularly for agriculture and food products, resource-based products, a range of manufactured products including advanced transportation and communications equipment, high technology and certain services;
- to create better discipline on the subsidy practices of our major trading partners;
- to develop multilaterally agreed rules which protect Canadian producers against injurious import competition; and
- to improve the multilateral framework of rules that will encourage further orderly structural adjustment in the world economy, including Canada.

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