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GENERAL AGREEMENT

ON TARIFFS AND TRADE

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NOTIFICATION IN PURSUANCE OF PARAGRAPH 3 OF THE UNDERSTANDING REGARDING NOTIFICATION, CONSULTATION, DISPUTE SETTLEMENT AND SURVEILLANCE

Communication from Canada

The following communication dated 28 April 1994 has been received from the Permanent Mission of Canada for circulation to the contracting parties.

The Permanent Mission of Canada has the honour to inform Contracting Parties that the Canadian government announced in its Budget of 22 February 1994 that it is undertaking a comprehensive review of its tariff regime.

One of the main objectives of the review of Canada's *Customs Tariff* and related regulations is to lessen the regulatory burden and associated costs to both the Canadian business community and the government by making the tariff system simpler, more transparent and predictable.

The review is scheduled to be carried out over a three year period. Canada's trading partners will be informed of developments in the course of the review and will be provided with an opportunity to consult on proposals developed to simplify the existing tariff system.

An extract of the Supplementary Information to the Budget, which describes the tariff simplification initiative, is reproduced in the Annex.

ANNEX

SIMPLIFICATION OF CANADA'S TARIFF REGIME AND REDUCTION OF INPUT TARIFFS

Introduction

The Canadian tariff regime continues to be an important element of economic, trade and industrial policies, affecting the competitive position of the Canadian manufacturing and service sectors both domestically and internationally. It is important, therefore, that the tariff system support the government's policy objectives in these areas by facilitating the operations of Canadian importers and manufacturers. While creating new opportunities for economic growth and industrial development, freer trade, particularly in the North American market, will result in new competitive pressures to which Canadian industry will need to respond. It is on the basis of these considerations that the government is undertaking a comprehensive review of Canada's tariff regime.

The Existing Tariff Regime

Over the years, as a result of successive international negotiations and unilateral measures to respond to the competitive needs of Canadian industry, the tariff system has become increasingly complex and more costly to administer. This situation has moreover created uncertainties and additional administrative costs for the Canadian business community. This trend will continue with the implementation of the North American Free Trade Agreement and the recently concluded Uruguay Round of the Multilateral Trade Negotiations.

The *Customs Tariff*, the primary instrument of the tariff regime, illustrates this situation. As a result of a series of trade agreements, it now provides preferential rates under eight tariff treatments. In addition to the Most-Favoured-Nation Tariff which is accorded to Canada's GATT trading partners and the General Tariff treatment which is applied to imports from countries with which Canada has no trade agreement.

Also, the adoption in 1988 of a new tariff nomenclature based on the international Harmonized System, while an important structural improvement, resulted in a significant expansion of the *Customs Tariff* from some 3,000 provisions to over 9,000.

In addition to these international developments, the policy of making unilateral tariff changes to assist Canadian industry in competing with imports in the domestic market, has added to the complexity of the current system by introducing a large number of special provisions which are departures from the normal tariff rate structure. As well, as new products have come on stream (particularly in the high technology area) and as trade patterns have changed, a number of tariff provisions have become redundant from standpoints of product differentiation of import levels.

Apart from these structural concerns, another aspect of the current regime that will begin to have an impact on the competitiveness of Canadian companies is the fact that the rates of duty on many goods imported from offshore for use as inputs in Canadian manufacturing operations are higher than the U.S. rates on similar goods. Over time, this could make Canada a less attractive place for investment. This situation is currently mitigated, in part, by the export duty drawback program under which duties on inputs used to manufacture goods exported abroad are refunded. However, with the scheduled elimination of duty drawback on goods exported to the U.S. (initially 1 January 1994 under the FTA but extended under the NAFTA to 1 January 1996), the problem becomes more acute. In its 1992 report, the private sector Steering Group on Prosperity recommended that import duty rates on manufacturing inputs be brought into line with U.S. rates in order to ensure that Canadian industry is in a position to take advantage of the new opportunities created by freer trade.

Tariff Simplification and Input Tariffs Reduction

A review of Canada's tariff regime is therefore being undertaken. Its main objectives are to ensure that the *Customs Tariff* and related regulations are responsive to the competitive pressures facing Canadian industry as a result of freer trade, especially in the North American market, and to lessen the regulatory burden and associated costs to both the business community and the government by making the tariff system simpler, more transparent and predictable.

To conduct this review, a Task Force has been formed within the Department of Finance. The review will be conducted over a three-year period during which time trade and industry associations, importers, manufacturers and other stakeholders will be consulted for their views on proposals developed by the Task Force to simplify the *Customs Tariff* and related regulations. While not intended to be an exhaustive listing, the review will include an examination of such issues as:

- the reduction or removal of duties on manufacturing inputs;
- the revision of the *Customs Tariff* legislative text, including such issues as the consolidation and broadening of Order in Council authorities and the consolidation of tariff treatments;
- the elimination of the concessionary codes, remissions and other regulations, or their incorporation into Schedule I of the *Customs Tariff*;
- the consolidation of Schedule I tariff items where rate differentials or product differentiations are not meaningful;
- the termination of the Machinery Remission Program;
- the conversion of specific and compound rates to percentage rates;
- the elimination of "not made in Canada" provisions;
- the elimination of provisions providing low "nuisance" rates; and
- the adoption of a simple rate structure.

The initial round of consultations with the business community will be launched soon on proposed tariff reductions on a wide range of manufacturing inputs.