

# GENERAL AGREEMENT ON

# TARIFFS AND TRADE

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## TRADE POLICY REVIEW MECHANISM

### CANADA

#### MINUTES OF MEETING

Chairman: Mr. Rubens Ricupero (Brazil)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman, introducing the discussion, noted that the report by the Government of Canada was contained in document C/RM/G/6 and that by the Secretariat in documents C/RM/S/6A and Corr.1 and C/RM/S/6B and Corr.1. The report by Canada followed the outline format for country reports agreed by the Council in July 1989 (L/6552), while the Secretariat report followed its usual format. In line with the Decision establishing the Trade Policy Review Mechanism, the Secretariat had sought clarification from Canada on its trade policies and practices, as far as the factual information contained in the first six chapters of its report was concerned.

2. Advance notice in writing of points by one contracting party had been passed on to the Canadian delegation.

3. The Chairman expressed appreciation for the assistance given by the two discussants. For the review of Canada, Ambassador William Rossier would open the discussion, and Mr. Elbio Rosselli would subsequently make additional remarks.

## II. INTRODUCTORY REMARKS BY THE REPRESENTATIVE OF CANADA

### Introduction

4. We welcome this opportunity as part of the TPRM process to have the Council review Canada's trade policy. Contracting parties have before them two extensive reports, one prepared by Canadian authorities, the other by the GATT Secretariat. We wish to extend our congratulations to the Secretariat for the excellent work they have accomplished in their report on Canada. We have worked closely with the Secretariat in providing comprehensive background information to assist them in their work in the form of written documentation and access to policy makers, including the Ministers for International Trade and Finance. We still have some further clarifications and revisions of specific details to offer which we shall pass on to the Secretariat, but we consider this report, read in conjunction with Canada's submission, to provide a thorough basis on which to examine our trade policies. In order to assist the Council discussion, I wish to put these policies into context.

### Importance of Trade

5. The important rôle of international trade in Canada's economic development is self evident. Canada is an open economy with a large amount of foreign trade relative to its gross domestic product. Over a quarter of our GDP and three million Canadian jobs are directly dependent on exports. The efficiency and the competitiveness of the Canadian economy are dependent on unhindered access to world markets for Canadian goods and services, and on the availability of foreign technology, machinery, equipment and other industrial inputs for domestic production. Canadian consumers benefit from a broad range of imported goods.

### Canadian Trade Strategy in Context of the Government's Agenda

6. Since 1984 the Canadian Government has followed a dynamic agenda for economic renewal designed to restore control over the fiscal situation in Canada and to implement complementary structural policies to ensure Canada's growth. This agenda encompasses major initiatives in tax reform, deregulation, privatization, investment development and trade policy. Underlying this policy thrust is a commitment to the pursuit of economic efficiency through the reduction of distortions and barriers to the operation of markets at home and abroad. This strategy is intended to facilitate the responsiveness 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 our competitiveness a priority.

7. Among the specific reforms put in place over the last five years or currently being pursued are:

- significant liberalization of direct foreign investment through the implementation of the Investment Canada Act;

- deregulation of the energy and transportation sectors, designed to encourage entrepreneurship, innovation and competition and reduce Government involvement in economic decision making;
- the privatization of 21 crown corporations;
- a labour market development strategy designed to upgrade the skills and increase the flexibility of the work force;
- reorientation of regional development to the distinctive needs and opportunities of the different regions, emphasizing local involvement and entrepreneurship;
- the reform of Canadian business legislation including the passage of a new competition act and amendments to the laws dealing with intellectual property; and
- tax reform, including replacing the federal sales tax with the proposed goods and services tax (GST).

#### Canadian Trade Policy

8. Trade policy is also, of course, a key component of the Government's economic development strategy.

9. The general objectives for Canadian trade policy are:

- (a) the development of a stronger, more competitive, non-inflationary domestic economy; and
- (b) 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.

#### Two Pillars

10. In its trade policy stance, the Canadian 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 United States; and a strong Canadian commitment to a substantive result in all areas of the Uruguay Round of the Multilateral Trade Negotiations.

11. The free trade agreement has opened up new opportunities for Canadian firms by providing them with access to a large world-scale market. It is expected that as a result of the FTA, the stock of capital will rise and that gains in productivity will be achieved through larger production runs and a more efficient allocation of resources. Similarly, a major result in the Uruguay Round, which we are seeking, should also ensure the predominant rôle of market forces in the determination of Canadian trade flows. It will enable Canada to achieve its trade strategy of expanding its participation in global markets.

Issues raised by Secretariat

12. It is against this background of Canadian initiatives that the Secretariat has provided its summary observations on Canada's trade policy. As today's meeting provides us, like others, with the first opportunity to discuss this part of the Secretariat report, I wish to offer some comments on what it has to say.

13. We consider the Secretariat report an objective review providing a generally positive assessment of Canada's economic and trade policies. The Secretariat recognizes that trade is a vital aspect of the Canadian economy and that over the past ten years, Canadian imports and exports have expanded faster than world merchandise trade, resulting in Canada becoming the seventh largest world trader, up from tenth in 1979. The report also recognizes that the new initiatives towards economic renewal are likely to increase the Canadian economy's ability to adapt to changes in the global economy, increasing its competitiveness as well as its import growth.

14. We agree with the Secretariat's observation that the multilateral trade negotiations provide opportunities to integrate further the Canadian economy into a strengthened world trading system. Our highest priority is the successful conclusion of the Uruguay Round in Brussels this December.

15. In its assessment of features and trends of Canada's trade policy, the Secretariat report, while noting Canada's support for the m.f.n. principle, observes that a large share of Canada's merchandise trade is subject to preferences. We do not consider the flow of merchandise trade with Canada under preferential rates to contradict Canada's support for the m.f.n. principle. The United States is our largest trading partner and we negotiated an agreement with them under Article XXIV of the GATT. This successful negotiation of trade liberalization with a market which accounts for greater than 70 per cent of our total trade, has as its base the elimination of tariffs between our two countries.

16. Canada's granting preferential tariff treatment, without quantitative limits, to the trade of developing countries, including better treatment for the least developed, is equally GATT consistent and trade liberalizing in nature. Canada's initiatives in the context of the Generalized System of Preferences are in keeping with the undertakings by all developed countries to enhance the trade prospects of developing nations.

17. There is, however, a clear opportunity for all of us to bring international trade more in line with the principles enunciated in Article I of the GATT. Canada is proposing the reduction or elimination of tariffs in the Uruguay Round. We have indicated our intentions to make our contribution if others will do the same.

18. The Secretariat report rightly notes that Canada's main instrument for protection is its tariff system. Canadian tariffs are generally low and almost all are bound, at ad valorem rates. The average rate of duty on total Canadian trade was 3.7 per cent in 1989. In 1988, of CAN\$130.8 billion total imports, CAN\$125.6 billion represented trade under

bound tariff items. Sixty-five per cent of the total trade into Canada in that year entered duty free.

19. The Secretariat report suggests that the Canadian tariff is complex. However, the introduction of preferential and other concessionary schemes (duty drawbacks and remissions) are intended to be trade liberalizing both for exporters to Canada and for Canadian producers and consumers. Canada's tariff structure has been greatly simplified through the introduction of the customs cooperation Council's harmonized system. We consider this simplification to have made our tariff more universally transparent.

20. With reference to agriculture, Canada has set a high priority for reform of international agricultural trade through the Uruguay Round. This reform must include the elimination of export subsidies, substantial liberalization and the establishment of new enforceable rules equally applicable to all. Distortions to international trade in agriculture have been a major factor in the significant increase in Canadian Government expenditures to the agricultural sector over recent years.

21. The Secretariat has noted that Canada's trade policy with respect to textiles and clothing has become more restrictive. Yet between 1982 and 1989 imports grew by 80 per cent on a volume basis. Put another way, over this period the share of imports in the Canadian domestic market grew from 33 per cent to 42 per cent. In negotiating agreements under MFA IV, Canada identified a number of objectives taking into consideration the market situation in the 1981-86 period. Between 1981 and 1986, imports were growing at 11 per cent a year in a domestic market growing at only 2.3 per cent a year. In order to fulfil our commitment to the sector and ensure a more orderly domestic adjustment process, Canada decided to implement a policy to moderate overall growth of low-cost imports. Canada is committed to integrating textiles and clothing trade fully into the GATT system as a result of the Uruguay Round.

#### Conclusion

22. I hope these additional comments will help today's collective appreciation and evaluation of Canada's trade policy.

III. STATEMENT BY THE FIRST DISCUSSANT

23. I should like to begin by associating myself with Ambassador Weekes in thanking the Secretariat for the excellent report it has submitted on Canada's trade policy and practices. I should also like to thank the delegation of Canada for the excellent report they submitted themselves. These two documents give us an excellent basis for our work here today.

24. In opening this debate, I wish to make a number of comments that fall into four parts. The first part consists of basic remarks of a general nature provoked by reading and studying the documents submitted. Secondly, I wish to address some considerations concerning the economic environment and objectives of Canada. Thirdly, I wish to address a number of trade policy considerations. And finally, I shall conclude with some remarks on Canada's regional strategy in relation to its multilateral strategy.

25. These few remarks make no claim to being in any way comprehensive. They will not cover all the subjects and all the questions that one might raise on reading these documents. As I see it, the trade policy review is obviously not just a matter for the discussants but essentially the business of the contracting parties.

26. Having said this, I should like to say first of all that when reading these documents on the economy and trade policies and practices of Canada one is struck by a number of quite remarkable contrasts, which call for a special angle of approach. First of all, Canada is a highly industrialized country in which the services sector is growing faster than the agricultural or industrial sectors, but Canada is also one of the biggest agricultural powers in the world. In agriculture, then, Canada is heavily dependent on the opening up of agricultural markets, but at the same time it maintains large internal aid programmes and a number of particularities as regards market access. Canada is a huge country with a federal structure and a low density of population - concentrated in certain regions of the country - and leaves broad powers to its provinces on trade, and this has major consequences for the country's international trade. Finally, the Secretariat reminds us that Canada is a country on a continental scale, almost three times as large as the whole of Western Europe, and yet in its trade relations with its large neighbour to the south, the United States, it is placed in a situation similar to that of certain smaller European countries in their relations with their big neighbour, the European Community.

27. Canada has had a growing share in international trade, in which today it occupies an important position: from tenth place in 1979 it has risen to seventh ten years later. From reading these documents, one has the clear impression that Canada has now entered a stage of redefining its economic and particularly its trade policies. In this connection there are two major factors, although they are by no means the only ones: firstly, the free trade agreement concluded with the United States and recently put into effect, and secondly Canada's very active participation in the multilateral exercise of the Uruguay Round.

28. As far as overall economic developments are concerned, Canada has undergone a period of very rapid economic growth with a very large rise in investment. The counterpart has been, in particular, a rising budget deficit and higher inflation, which the authorities are now seeking to curb by a tight money policy, with repercussions on interest rates and the current account balance. The result of this strong growth will no doubt be a need for serious macroeconomic adjustment, and in particular budgetary discipline. The high growth of investment suggests in particular that the structure of the Canadian economy will change in the years to come, and these thoughts lead me to my first consideration, couched in the form of a question: in what sectors is this investment actually taking place, and how does the Canadian Government see the future in the light of this large, concentrated investment; what, in the view and wishes of the Canadian Government, will the country's economy be tomorrow as a result of the large flows of investment currently taking place?

29. These reflections lead me to a second consideration in the form of a question. Canada's policy in recent years has been characterized by many liberalization measures. Ambassador Weekes has just recalled this in his opening remarks. There can be no doubt that Canada's firm commitment to the Uruguay Round, to which he referred, is an integral part of this liberalization policy. Nevertheless, one is at the same time struck by the fact that Government action remains important in influencing trade flows of both imports and exports, through the various instruments employed at both federal and provincial level. What are the fundamental reasons underlying such an involvement by the Canadian Government, at both federal and provincial level, in the management and marketing of the country's resources, whether agricultural products, raw materials or manufactures? Is this merely an impression? Is this impression of a strong presence mistaken? If not, is it intended to maintain it? Will the deregulation to which Ambassador Weekes referred a moment ago also concern this aspect of Canada's national policy in future?

30. Finally, a third general question, although somewhat more specific: we note that the Canadian Federal Government is in the process of withdrawing from a number of its aid programmes for agriculture. On the other hand, the Secretariat report indicates a considerable rise in financial aid to non-agricultural sectors. There would thus seem to be in fact a double shift rather than a reduction, i.e. a shift from agriculture to the non-agricultural sector, and from the federal to the provincial levels. What is the philosophy underlying this particular action?

31. Lastly, I should like to address a number of specific questions. The first concerns the regional development programmes that absorb a large amount of federal spending. This federal spending has increased strongly in recent years. What are the real effects of these regional development programmes on Canada's international trade?

32. Secondly, in connection with the question I mentioned a moment ago, what is striking is the importance of the direct and indirect powers of the provinces with regard to trade policy. To what extent do the trade aspects of federal and provincial policies overlap or even conflict? In what

sectors is this most to be feared? What efforts are being made to improve the coherence between the trade aspects of federal and provincial policies, for example as regards technical standards, government procurement and aid to agriculture?

33. Thirdly, one point that is particularly striking when looking at the Canadian case is the very large number of marketing boards in the country. These are entities that exist in very few other contracting parties, certainly on such a scale. Their activity clearly has an important effect on the country's foreign trade, both for exports and for imports. How can their effects be assessed? How is the transparency of their activities ensured?

34. A fourth specific question: in a number of areas Canada still maintains substantial protection. I have in mind dairy products, meat, fish, textiles and clothing and footwear. At the same time, the developing countries' share in Canada's foreign trade is smaller than in their trade with other industrialized countries. How does Canada see the development of trade flows in these products in coming years?

35. Finally, and this will be my last substantive remark, Canada is today undertaking major liberalization efforts through important measures in two directions: at the multilateral level through its participation in the Uruguay Round, and at the bilateral level with the United States - I refer to the conclusion and implementation of the free trade agreement. To what extent does Canada consider these two strategies complementary? Is there not a risk of greater discrimination in this twofold strategy, between regional trade on the one hand and all other trading partners on the other, bearing in mind that significant MFN protection could continue to be applied in a number of sectors, in particular those I mentioned a moment ago, towards parties that are not participants in the free-trade agreement?

IV. SUPPLEMENTARY REMARKS BY THE SECOND DISCUSSANT

36. I associate myself with Ambassador Rossier's words of thanks both to the Government of Canada and to the Secretariat for the studies they have given us. We thank them not only in our capacity as discussants today, but also because this documentation is a very useful instrument to enable the Council, at this special session, to consider the elements forming the purpose of this trade policy review mechanism.

37. It is always worth recalling that the purpose of the mechanism is to contribute to improved adherence by all contracting parties to GATT rules, disciplines and commitments; to ensure the smoother functioning of, and greater transparency in, the multilateral trading system and allow contracting parties a better understanding of the trade policies and practices of other contracting parties; and to examine the impact of a contracting party's policies on the multilateral trading system in general.

38. In the specific case of Canada, we are dealing with one of the major trading partners. Canada is the world's seventh importer/exporter, accounting for almost 4 per cent of total trade in goods in 1989. Consequently, a whole set of questions that can be raised in the abstract concerning trade policies in general is of particular relevance to Canada. Those abstract questions include the following: what are the main trade policy measures applied by a country? What are the tendencies with regard to the use of particular instruments? Is there a preference for one instrument or another? What is the pattern of protection by sector? How do trade policies and practices affect the various groups of trade partners? What is the country's impact on the functioning of the system? What influence does it have on the trade of other contracting parties?

39. In the case of Canada, to follow up on Ambassador Rossier's opening remarks, we could consider in particular, for example, the question of the existing pattern of protection. Is its protection uniform or to some extent selective? What possible factors underlie sectoral protection? What relationship is there between those factors of sectoral protection and the principles and objectives of the multilateral trading system? We note from the documents submitted by Canada and the secretariat that two sectors often seem to come to the fore as regards protection, namely agriculture and textiles. It is also interesting that these sectors are almost always present both when one looks at the instruments of protection used and when looking at protected sectors. In other words, as we see it, in these two sectors there is a combination or complementarity of protective instruments and measures that have a large cumulative result.

40. In the specific case of agriculture, it is clear that the main instrument of protection is the support given to the sector. As Ambassador Rossier said in his opening remarks, that support is provided at both federal and provincial levels, by means of quite a wide range of measures: price support, internal subsidies, transport and credit subsidies, but also border measures, particularly in the form of quantitative restrictions, import licensing, etc. Table V.4 of the statistical appendix shows, for example, that half of the agricultural support is in the form of market

support policies, particularly by the Federal Government. It may be seen that within agriculture one sector, the dairy industry, is very insulated from the international market through the combination of domestic supply programmes and the use of quantitative restrictions on imports of certain products. Some quantitative restrictions, such as for cheese, maintain the 1978 level. In its report, the GATT secretariat points out in two separate paragraphs (168 and 358) that although quantitative restrictions remain at the same level as in 1978, higher domestic demand has been met by a rise in domestic production. This necessarily raises the question of the compatibility between this situation and the principles which quantitative restrictions must satisfy, in particular that they must not reduce the ratio that exists between total imports and domestic production.

41. Another interesting point is that these quantitative restrictions on access for cheese to the Canadian market mostly concern a single provider, the European Economic Community, on which almost 60 per cent of these quotas are concentrated.

42. We were saying that the main instrument of protection in agriculture appears to be support policies, but even in the relative support received through tariffs there is significant tariff escalation in the sector.

43. The reader is struck by the fact that, supplementing these elements of protection, marketing boards play a fundamental rôle, not only through their large number but also on account of their broad powers in negotiating prices and fixing production and marketing quotas, export support, limits on imports and so forth.

44. To some extent, this rather wide use of various instruments of protection is also reflected in the area of trade in textiles. It should be pointed out that the Textiles Surveillance Body concluded in its report that Canada is one of the countries with the largest number of agreements under the fourth as well as the third Multifibre Arrangements, and one of the few countries applying restrictions on products based on the so-called new fibres. The Textiles Surveillance Body concluded that contrary to the trend followed in most other importing countries, Canada was one of the countries that was using the Multifibre Arrangement most restrictively. The use of broader protective measures, quantitative restrictions such as those of the Multifibre Arrangement, is accompanied by a considerable degree of tariff escalation throughout the sector, particularly in fabrics. It is clear that these restrictions under the Multifibre Arrangement affect only one kind of supplier, i.e. suppliers from developing countries, and this further affects another element to which Ambassador Rossier drew attention, namely, the small share of developing countries in Canada's trade. This impact of protection on the exports of developing countries is particularly important since other suppliers who share in the large increase in textile imports in Canada in recent years have greater access, from the quantitative standpoint, and from the tariff standpoint there may be cases of significant differences among suppliers in the rate applied.

45. Mr. Chairman, we believe that these elements that we have just highlighted may provide food for thought in the coming discussions.

V. STATEMENTS AND QUESTIONS BY MEMBERS OF THE COUNCIL

46. The representative of the United States noted that Canada and the United States were each other's most important trading partners, and the trade between their countries was the largest volume crossing any one border in the world. Their extensive and long-standing links had been strengthened through the recent conclusion of their bilateral Free Trade Agreement, and by Canada's initiatives to liberalize its economy. Trade between the United States and Canada had increased rapidly in recent years, at a similar rate to Canada's overall trade.

47. Without taking issue with Canada's expressed goals of building on the achievements of the Free Trade Agreement and liberalizing world trade in the Uruguay Round, he mentioned five main policy areas of concern regarding Canadian trade policies and practices: tariffs and non-tariff barriers; safeguards and retaliatory authority; import restrictions through supply management programmes; sectoral policy and financial assistance to agriculture and other industries; and non-tariff measures at the provincial level.

48. While Canada's average applied tariffs had fallen over the last decade, they were still high by OECD standards, and market access in various sectors, especially dairy products, footwear and travel goods, and textiles and clothing, was severely affected by tariff peaks. These peaks, together with higher levels of average tariffs, led to inefficiencies in certain sectors, higher prices for consumers, and complicated schemes of duty waivers and remissions to reduce their economic consequences. He was in full agreement with the Secretariat's assessment that Canada's tariff regime was "complex and lacking in transparency".

49. Regarding non-tariff measures, the Government report (paragraph 179) indicated that Canada's import prohibitions were in accordance with Article XX or XXI of the GATT, or covered by the Protocol of Provisional Application. However, he hoped that the provisions of Article XX or XXI did not permit Canada's import prohibitions for margarine and Life magazine. Similarly, trade barriers for patent medicines were created by Canada's extensive price controls in this field, and by the requirement that firms wishing to establish production facilities for these goods in Canada conduct a certain amount of research and development locally. Furthermore, the impression created by paragraph 253 of the Government report that the Free Trade Agreement had resolved the issue of payments for broadcast signal retransmissions, was incorrect.

50. He requested information on the conditions for the activation of two safeguard provisions in Canadian law, namely Section 60 of the Customs Tariff and Section 5 of the Export and Import Permits Act. He sought clarification of the possible range of situations that could be covered by Canada's legal authority under these provisions to withdraw trading rights, or to apply surcharges or quotas in retaliation for practices of other countries discriminating against or adversely affecting Canadian trade. He asked whether such action would be limited to situations in which a GATT

Panel had made a ruling, or whether they could be taken independently of the GATT dispute settlement process.

51. The representative of the United States said that Canadian supply management restrictions were anachronistic for an economy of Canada's size and level of development. These schemes had resulted in significant inefficiencies and distortions in local trade, with high net producer subsidy equivalents of 12 per cent for poultry, 25 per cent for eggs, and an astounding 68 per cent for milk. Although the CONTRACTING PARTIES had adopted a GATT Panel report ruling that Canada's new import restrictions on ice cream and yogurt were inconsistent with the GATT, Canada had failed to implement the findings, or even to declare clearly its commitment to comply with its GATT obligations by implementing the Panel's recommendations. Canada was now considering establishing a marketing agency for fresh apples, which would extend quantitative import controls to yet another segment of Canadian agriculture.

52. The representative of the United States acknowledged that all nations use policy measures to favour certain industries over others. Canada did so for sectors such as agriculture, natural resource-based industries, and footwear.

53. Noting that Canada's duty drawback programmes were often linked to export performance requirements, he sought more information on these aspects.

54. Commenting on provincial non-tariff barriers, the United States representative noted that discriminatory price mark-ups and restrictions on distribution by provincial liquor boards persisted, despite a 1988 GATT Panel ruling that these practices were inconsistent with the GATT. Canada had still to take adequate measures to ensure national treatment for imported beer. He raised similar concerns about other trade susceptible to inter-provincial barriers and provincial investment policies.

55. The Canada-United States Free Trade Agreement was of great importance to the multilateral system. It focused on trade creation, not on trade diversion. Particularly in the context of the Uruguay Round, it provided many useful precedents such as elimination of tariffs, non-tariff barriers, and agricultural subsidies; bilateral discipline in trade in services; an investment agreement including the GATT principle of national treatment; liberalization of standards and Government procurement barriers; and a strong and expeditious dispute settlement mechanism. All these aspects of the bilateral Free Trade Agreement were also vital elements of a successful conclusion of the Uruguay Round. The objective of both the United States and Canada was to extend such liberalization to the multilateral framework. He acknowledged that despite the Free Trade Agreement, the United States continued to have problems in their trading relationship with Canada, but this was to be expected given their vast bilateral exchange. His comments should not be taken as showing dissatisfaction with the United States' relationship with Canada.

56. As repeatedly noted, a key feature of the TPRM exercise was an examination of the trend of policies. In this connection, the United States representative commended Canada for the positive trend of its policies and noted that, during the last ten years, dramatic changes had occurred in attitudes and policies in Canada.

57. The representative of the European Communities said that Canada was regarded by the Community as an increasingly open economy. One indicator of this was seen in the ratio of foreign trade to GDP. The Community had traditionally been Canada's second largest trading partner, absorbing about 10 per cent of Canadian exports and supplying about 12 per cent of its imports; since the implementation of the Canada-United States Free Trade Agreement, the Community was the first m.f.n. trading partner of Canada. It was also Canada's second largest source of foreign investment; 25 per cent of foreign investment in Canada came from Community members. Consequently, the Community had a major interest in the fundamental soundness of the Canadian economy, and in policies which might affect this soundness.

58. Canada participated fully in, and benefited fully from, the GATT system. Canada's interest in, and contribution to, the liberalization of world trade under the GATT were commensurate with its extensive participation in world trade. Canada had, particularly since 1984, taken major steps towards deregulation and privatization, and among external measures had, for example, reduced restrictions on foreign investment. Canada participated very actively in trade liberalization, especially in the current round of multilateral trade negotiations. There was, however, further scope for liberalization. For example, tariff levels could be lowered, banking laws liberalized, barriers to exports of such products as uranium eliminated, the highly protected sector of textiles could be freed, and restrictions on foreign investment could be further reduced.

59. The current review highlighted a difficulty faced by the Federal Government of Canada when conducting international negotiations. Because of Canada's constitutional structure, it was not clear how far the Federal Government was able to implement its international obligations in areas within, or perceived to be within, the jurisdiction of the provinces. Although Canada had recently faced this problem, and to some extent resolved it, in negotiations with both the United States and the Community in the area of spiritous beverages, the potential for further difficulties resulting from the federal-provincial division of powers remained. The Community sought Canada's comments on this issue. She hoped that Canada could confirm that its participation in the GATT, based on Article XXIV:12, in no way limited the full applicability of the GATT to Canada.

60. As an example of the problems arising from dual federal-provincial responsibility, the representative of the European Communities noted that average annual federal assistance of CAN\$4 billion to agriculture over the last few years had been supplemented by assistance of CAN\$2 billion from the provinces. Information was sought on provincial support measures other than the tripartite price stabilization schemes; whether the federal Government was always informed of these measures; and whether it could

ensure corrective action if provincial policies had any effects on trade. The Uruguay Round was unlikely to solve this constitutional problem, which underlay much of Canadian participation in the GATT. Moreover, problems arising from the division of competence between the federal Government and the provinces would become more acute as the GATT was extended to a number of other areas where compliance with an international agreement was not ensured at the level of local Government bodies. Instances of such areas were technical standards and certain services; for example, though Canada strongly favoured a strengthened and broadened GATT standards agreement, it was questionable whether provinces could be committed to comply with the rules. An absence of direct obligations for the provinces could mean that Canada would be less bound than non-federal partners under international agreements.

61. Several other Canadian agricultural policies were also of concern to the Community. Both under the supply management system and in sectors which are virtually free, like cereals, Canada applied rigid import restrictions or outright bans on imports. The level of support per Canadian producer considerably exceeded that for most other trading partners. A large part of this support could not be seen as responding to activities of other trading partners.

62. In the area of Canadian Government procurement, the coverage of the GATT Code in total procurement was low, and external participation even less; within GATT Code procurement, only 6 per cent went to non-Canadian firms in 1988. While this might have been due to the greater competitiveness of Canadian firms, she wondered whether it might also have been a result of Canada's pursuit of other objectives through procurement, such as promotion of small and medium enterprises, development of domestic manufacturing sectors and regional development.

63. Commenting on Canada's countervailing duty system, the representative noted that self-initiation of any case should be on exceptionally strong grounds. Some concern was expressed that Canada had self-initiated an investigation on arguably inadequate grounds. Since the appreciation of the grounds for initiation is possibly influenced by criteria which differ across contracting parties, this was a general problem that GATT had to address. In another case, Canada had rejected a GATT Panel recommendation because it no longer agreed with the GATT provision in question. Though the issue was under discussion in the Uruguay Round and the provision might change after 1990, rejection of the 1987 Panel finding on these grounds, if widely emulated, would have dramatically reduced the general level of GATT compliance over the past few years.

64. Regarding anti-dumping actions, the Community expressed concern about the Canadian practice of accepting undertakings before a preliminary determination of dumping had been made. This could distort the purpose of the system and be unfair to exporters.

65. Finally, the Communities' view on the Canada-United States Free Trade Agreement was that if any such free trade agreement respected the relevant provisions of the GATT, it was beneficial to the multilateral trading

system, and did not conflict with a complete commitment to multilateralism. However, the Agreement had yet to be reviewed under Article XXIV of the GATT. An early opportunity for doing so was important. Clarifications were sought regarding certain provisions of the Agreement. The Agreement eliminates customs duty reimbursements and duty remissions applying to goods imported into Canada. Unlike the United States, the Community was of the view that such remissions were liberalizing measures, and was concerned that exports from the Community which previously entered duty free, would now bear duty. This would go against the provisions of Article XXIV that duties and other commercial regulations applied to non-members should not become more restrictive as a result of a free trade agreement. It was thus not clear that the Agreement would contribute to global trade liberalization.

66. The dispute settlement procedures under the Free Trade Agreement gave rise to the possibility that a Canada-United States dispute settlement Panel reached conclusions different from those reached by a GATT Panel on a similar issue. She asked which decision would take precedence in the case of a conflict.

67. While the Community remained preoccupied with the problems referred to in its comments, it accepted and congratulated Canada on its overall approach to trade and trade policy, which confirmed the high degree of its participation in the GATT system. In recent years, Canada had made remarkable progress in many areas to reduce significant restrictions.

68. The representative of Nigeria said that there was a potential for increased trade between Africa and Canada, especially in tropical products. Canada's commitment to the Uruguay Round could be an opportunity for increasing trade between these two regions. He remarked that the rules of origin applied to developing countries for preferences under GSP were more onerous than those for other preferences. These rules should be made more favourable towards developing countries.

69. The representative of Chile sought information on the organization, selection of members and operation of the Canadian International Trade Tribunal. In response to the Canadian delegate's opening remarks that Canadian tariffs were not as complex and lacking in transparency as suggested by the Secretariat, and that with the introduction of the Harmonized System and other measures, the tariff system had become more universal, he observed that the Secretariat had taken into account tariffs subsequent to the adoption of the Harmonized System. He wondered how Canada's recent liberalization in a number of sectors of the economy was consistent with an increase in the coverage of import licensing, the continuation of internal support to various agricultural products, and the presence of more than a hundred marketing boards. Nonetheless, he congratulated Canada on its liberalization over the last few years.

70. The representative of Switzerland, referring to the Government report, wondered how the Free Trade Agreement reflected Canada's commitment to global liberalization, and questioned Canada on its perception of the relationship between regional and global trade liberalization. Pointing to

the need for tariffs to be transparent, she noted that Canada maintained non-tariff measures and preferential tariffs based on different rules of origin, some seasonal and unbound tariffs, and had various possibilities for duty drawbacks and remissions. She asked if Canada intended to simplify these complex measures affecting market access. Information was also sought on the legal basis for the Australia and New Zealand preferential tariffs.

71. Regarding voluntary export restraint agreements on products exported to Canada, the representative of Switzerland said that though VERs on cars with Japan and the Republic of Korea had been terminated by Canada, "prudence" had been subsequently exercised by these countries. The latter had also unilaterally fixed a voluntary restraint level of 6.6 million pairs of leather footwear exports to Canada in 1990 under its internal monitoring programme. She questioned the meaning of "exercising prudence", and noted that the rationale was difficult to comprehend, especially because Korea's footwear industry was facing certain difficulties. Information was also sought on various aspects of Canada's Crown Corporations, including their definition, their legal, financial and political background, whether they were the same at both the federal and provincial levels, their business activities, and their impact on the Canadian economy.

72. Recognizing the great contribution of Canada to multilateral liberalization, especially through the Uruguay Round, the representative of Australia commended Canada for using fiscal and monetary policy measures to deal with its fiscal and current account deficits, rather than resorting to trade restrictions. He hoped that Canada would benefit from further restructuring in sectors relying heavily on Government support, particularly agriculture. Some specific questions had been given to Canada in writing.

73. The extent and complexity of preferential treatment in Canada's import system was of concern to Australia because of its effects on the operation of the m.f.n. principle. Preferences for developing countries appeared to be surprisingly limited for an industrialized country and international trader of the size of Canada. Further, many products of interest to developing countries were excluded from the GSP system and were subject to import restrictions or quotas. The lack of neutrality and transparency in the Canadian tariff structure seemed at odds with Canada's broad objectives of increasing flexibility in the economy. Specialist knowledge was required to interpret the tariff in order, for example, for a partner to obtain its full preference entitlement. This complexity might have contributed to the slowness with which Canada had restored margins of preference which were lost when the Harmonized System was introduced. The complexity of Canada's tariff structure, and the fact that many products of interest to developing countries bore high protection, might also be a reason for the low share of developing countries in Canadian trade.

74. The proposed tariff régime for textiles in Canada was laudable as it would lower effective rates of assistance. However, the value of this policy was reduced by the presence of quotas and bilateral restraints on

these products, and the lack of tariff bindings. He sought information on whether the effectiveness of the financial assistance to the textiles and clothing industry extended since the early 1980s had been assessed, and whether this assistance had been used to help structural adjustment or to prop up ailing firms.

75. The Canada-United States Free Trade Agreement would lead to bilateral trade liberalization. He expected that trade agreements with other trading partners would be respected. The implementation of the FTA would place Canada's other suppliers at a disadvantage. He encouraged GATT efforts to monitor the effects of the FTA on other contracting parties. He was disappointed with the slow progress in this regard. With the Free Trade Agreement coming into effect, he wondered how beef and veal quotas would be administered under the Canadian Meat Import Act. He hoped that imports from the United States would be excluded when determining whether to impose voluntary export restraints on other suppliers.

76. Canada was a prominent advocate for reform in international trade rules and disciplines, and was taking an active role in the Uruguay Round, including as a member of the Cairns Group. It had undertaken significant unilateral trade liberalization and deregulation of its domestic economy in recent years. However, he noted that Canadian policy changes aimed at encouraging more competitive industry did not appear as yet to have resulted in a significant decline in overall domestic assistance, or in opening up Canadian markets to imports. Several restrictions imposed to cushion domestic industry against poor domestic and international market conditions remained in place. Canada continued to maintain quantitative restraints under its supply management programmes. Its Multifibre Arrangement agreements had been tightened, and the coverage of the import control list had increased.

77. Other areas of concern to Australia included provincial policies and Government procurement. Canadian Government procurement policies were complex, and only a small share of Government imports was covered by the GATT Code. The fact that the United States, Canada's major trading partner, had only 2.5 per cent of this market suggested that there could be some barriers or that other objectives were being fulfilled through Government procurement.

78. There was room for improving and increasing the market orientation of the agricultural sector. Considerable support was provided to the dairy, grains, beef, veal, pig-meat and eggs sectors. Australia was concerned about the additional federal funds of CAN\$5 million provided in 1990 to improve farm incomes. It had been suggested that these funds might be used to subsidize grain exports. He sought information on the major review of Canada's agricultural policies which was in progress and asked about the Government's intentions to make the agricultural sector more market-responsive. He wondered why high levels of budgetary assistance to industry were being offered when the Government's priority was to reduce the fiscal deficit. The recent rise in financial assistance to industry more than outweighed the fall in assistance to agriculture.

79. In conclusion, the representative of Australia recognized the direction and trend of Canadian policy towards greater liberalization and the fact that Canada was making a major contribution to multilateral trade.

80. The representative of Finland, speaking on behalf of the Nordic countries, noted that there was evidence of Canadian efforts to liberalize. However, for some sectors, barriers had increased.

81. Canada was recognized to be highly dependent on the United States' market. The report gave the impression that Canada was striving towards a more diversified geographical distribution of its trade. In this context, he sought information on the extent to which international marketing assistance programmes and other support programmes were allocated among different markets, and which markets were targeted. There was little evidence on how far market diversification programmes had succeeded. The share of the United States in Canada's trade would increase with the FTA coming into effect. He asked whether Canada had made any estimates of the effect of the FTA on third countries.

82. Agriculture and food products had been the main beneficiaries of the Canadian Programme of Export Market Development. Were there any plans to intensify programmes for industrial products, or were initiatives left to the industry? Such encouragement to these products was questioned, especially since one aim of this programme was to define new products for exports.

83. The Canadian tariff structure was complex. He wondered whether there was any intention to provide more uniform treatment, especially if there were cases where the applied rates would anyway be the same. In his view, there was in general a case for more uniform and rationalized tariff treatment.

84. The Auto Pact contained discriminatory features. He sought information on the competitiveness of the Canadian car industry in markets other than the United States, and wondered whether the remarkable progress of this industry was due to favourable discrimination towards it (while at the same time penalizing other branches of industry).

85. The representative of Brazil noted that the Secretariat report devoted considerable space to policies in agriculture, though it was not subject to GATT rules yet, and had a relatively small role in Canada's output, employment and international trade.

86. Noting Canada's encouragement of the domestic processing of its natural resources, he remarked that countries with weak marketing capacity for their resources could learn from Canadian policies. Referring to Canada's restrictions on foreign investment in some sectors, he stated that Brazil shared Canada's view that these policies should be brought under the disciplines of the General Agreement. Other policies such as import prohibitions, licensing and quotas should also be made compatible with the GATT.

87. The representative of Brazil said that developing countries should be treated as a uniform group for special and differential treatment. He complimented Canada on its policy of not graduating developing countries in its preferential tariff schemes. However, preferences provided to developing countries should have more stability and predictability. For example, Canada had cancelled certain preferences extended to Brazil.

88. Commenting on the 15 per cent export charge on certain exports to the United States, he noted that this policy could be used to avoid tariffs being imposed in the importing country.

89. Canada's legislation on export controls was similar to that in the United States, both countries being members of the co-ordinating committee of COCOM. The proscribed list of COCOM could change as a result of political changes in several of the affected countries. Brazil would encourage such a revision. At the same time, he hoped that these controls would not become a device to control trade and transfer of technology to developing countries.

90. The representative of Hungary called attention to the statement in the Government report that economic efficiency and competitiveness depended to a large extent on unhindered access to foreign markets, technology and inputs. This was applicable to all participants in the international trading system. He appreciated Canada's efforts to strengthen the multilateral system and its active participation in the Uruguay Round. While acknowledging the dominant role of the United States in Canada's trade, he felt that a number of elements of the Free Trade Agreement deserved careful examination. Special attention should be paid to effects on third countries. He regretted that the Working Party established by the Council to examine this Agreement had scarcely begun its work.

91. Major changes had taken place in Canadian policy since 1984, including greater market orientation and a reduction in financial assistance. Though Canada's laws were transparent, they were complex in their totality. The wide scope of bindings offered security to trading partners, but the tariff structure seemed complicated, and tariff peaks were relatively high in certain sectors. He hoped that these tariffs would be substantially reduced as a result of the Uruguay Round.

92. Regarding sectoral policies, he was concerned about the various forms of assistance given to agriculture, as well as market access barriers in this field. He hoped that the Uruguay Round would reduce trade-distortive agricultural support and protection. Canada's application of the Multifibre Arrangement was restrictive and severe. The Canadian reply in this context was not satisfactory, and raised doubts about Canada's readiness to contribute to the integration of the textiles and clothing sector into the GATT.

93. Canada's trade with Hungary was below its potential. He hoped that liberalization in the two countries would help to fulfil its potential. He appreciated the addition, in December 1989, of Hungary to the list of countries benefiting from the General Preferential Tariff. He hoped that

changes in the political situation would result in a substantial easing of export controls applied to Hungary under the Export Control List.

94. He concluded by agreeing with the Secretariat report that a successful conclusion of the Uruguay Round would benefit Canada and its trading partners. Canada's own trade performance could improve if its trading partners' policies became less restrictive and distortive. Canada should also use this opportunity to reduce or eliminate trade-distorting measures.

95. The representative of India noted with satisfaction that Canada's economic and trade policies had been moving towards greater liberalization since the mid-1980s. He commended Canada for its low level of tariffs, high level of bindings and its commitment to the m.f.n. principle which was reflected in its active participation and keen interest in the Uruguay Round. It was however a matter of concern that the share of exports of developing countries to Canada was lower than the corresponding share of exports of these countries to the rest of the industrialized world. This could be due to quantitative restraints and quotas on items of export interest to developing countries. It was disturbing that items of export interest to developing countries like textiles and clothing, leather and footwear were subject to protective tariffs which were disproportionately high compared to Canada's normal tariff structure. These items were also subject to significant tariff escalation. He commented adversely on the fact that restrictions on textiles and clothing in the Canadian market had become stricter since 1986. He hoped that a considerable lowering of tariffs on these items, along with other results of the Uruguay Round, would lead to an increase in the access to the Canadian market for products of interest to developing countries.

96. He observed that textiles, clothing and footwear which were items of export interest to developing countries had been excluded from Canada's General Preferential Tariff which resulted in making the scheme not very attractive for developing countries and keeping imports under this scheme to a surprisingly low level.

97. He observed that anti-dumping measures could be used for selective protection. It was disturbing that Canada had used this measure on such a large scale. He however noted that no Article XIX action had been taken by Canada since 1985.

98. Finally, he emphasized the need to examine the Canada-United States Free Trade Agreement in the GATT Working Party, and to ensure it resulted in greater trade creation and liberalization rather than diversification. M.f.n. trade accounted for a small proportion of Canada's total imports, and with bilateral tariff elimination under this Agreement, there would be further adverse effects on m.f.n. trading partners.

99. The representative of Japan welcomed the trend of sustained, non-inflationary growth and liberalization seen under Canada's 1984 Agenda for Economic Renewal. Canada was a major economic partner of Japan and their bilateral relations were developing well. Japan welcomed the greater importance attached by Canada to its links with the Asia-Pacific region.

100. There was, however, room in Canada's trade policies for improved transparency and greater market access for its trading partners. Canada's complicated tariff system could potentially affect the stability and predictability of international trade. While the overall average tariff was 3.7 per cent, some products had considerably higher tariffs compared with those in other industrialized countries. In the Auto Pact, some tariff agreements were confidential. He sought Canada's views regarding transparency in this area.

101. Provincial Government measures on a number of trade-related issues, based on separate legal authority, could have restrictive effects. Examples included Government procurement. Canada had actively used anti-dumping measures. Japan was concerned about the possible abuse of these measures. In this context, clarification was sought on the status of bilateral discussions on anti-dumping and countervailing measures under the Canada-United States Free Trade Agreement.

102. Japan had already posed a number of questions to Canada and the United States regarding the Free Trade Agreement and would follow developments under the Agreement closely. An early response to these questions and an early review by the GATT Working Party would be appreciated. The agreement should be implemented in a manner fully consistent with the General Agreement, and interests of third parties should not be adversely affected.

103. About comments on Japanese tariffs and non-tariff measures mentioned in the Government report as obstacles to Canadian exports, he noted that these questions would be addressed in the Uruguay Round, and the outcome would depend on the readiness of the trading partners to respond to matters of interest to Japan.

104. The representative of the Republic of Korea appreciated Canada's commitment to the fair, open, and multilateral trading system of the GATT, and its various initiatives for liberalization. He would raise only two issues, as Korea shared a number of questions raised earlier by the discussants. The first was Canada's relatively high level of protection for products of interest to developing countries. More information was sought on future policy on these products, particularly in the context of the Uruguay Round.

105. Secondly, he asked how the Free Trade Agreement would be consistent with the multilateral trading system. Since the Agreement's GATT compatibility would be assessed by a Working Party, he sought information only on aspects of its practical implications for third countries, including the possibility of trade diversion, especially in those areas such as textiles, clothing and footwear where barriers were relatively high for third countries. He also expressed serious concerns regarding the rules of origin under the Free Trade Agreement.

106. Korea's export monitoring programme for leather footwear was only an internal monitoring system applied to some sensitive export products, and had nothing to do with voluntary export restraints. When Korea had



provided the information on the system to the Secretariat at its request, it had requested the Secretariat not to include it in the report. This was to avoid any misunderstanding, since the internal monitoring had no restrictive effect on exports to Canada.

107. The representative of Bangladesh recognised that Canada had set itself on a course of liberalization since the mid-1980s. Canada's average tariff was 3.7 per cent, but since 65 per cent of imports came in duty-free, the average level on dutiable items was higher. He expected Canada to continue on its course of liberalization.

108. He expressed gratitude for tariff preferences provided by Canada through its General Preferential Tariff and the scheme for least developed countries. He asked Canada whether, in its liberalization efforts, including those in the Uruguay Round, greater flexibility of rules of origin for the least developed countries was being considered, and whether there would be advance implementation of liberalization measures affecting exports of least-developed countries.

109. He requested the Working Party evaluating the effects of the Free Trade Agreement to consider the effects on third parties.

110. The representative of Morocco said that the information made available helped a better understanding of Canadian trade policies, which were complex and sometimes lacking in transparency. He noted the dynamism of Canadian trade, and the openness of the Canadian economy. Since 1984, Canada had turned towards liberalization. These efforts deserved encouragement. However, there was still some way to go in terms of trade diversification. Trade with African countries was low despite the potential for growth. Trade between Canada and Morocco, though small, was increasing, but it would increase even more if there were no seasonal tariffs on fruits and vegetables; if high tariffs on textiles, clothing and footwear, and some other manufactured products were decreased; and if further efforts were made to reduce subsidies and non-tariff measures. He noted that the 60 per cent GPT origin requirement for developing countries was high, and hoped that Canada would consider reducing it. As a large trading partner, Canada had special responsibility and could make a major contribution to the multilateral trading system. On the basis of the Canadian proposals in the Uruguay Round, he had no doubt that such a contribution would be made by Canada.

VI. RESPONSES BY THE REPRESENTATIVE OF CANADA

111. The representative of Canada expressed his appreciation for the favourable comments on Canada's direction of trade policy, its role in the Uruguay Round and its commitment to strengthening the multilateral trading system. He agreed that it was important that the Canada-United States Free Trade Agreement be properly examined by a GATT Working Party. Internal analysis in Canada found that the Agreement will create trade, but it was too early to measure its impact at this point of time. Regarding the relationship of this bilateral agreement with the multilateral system, Canada wished to use the Uruguay Round to build on the Free Trade Agreement, transferring into a global context what it had done bilaterally as reflected in, for example, Canada's Uruguay Round market-access proposal.

112. He expressed some surprise at the comments that Canadian tariffs were complex and lacked transparency. Tracing the historical evolution of their tariff system, he explained the reasons for the existence of the various types of tariff rates. He noted that with the advent of the GATT, the m.f.n. tariff became the principal tariff extended to other countries by Canada. General tariffs applied to a few countries, and applying m.f.n. rates to them would require an exchange of concessions. Canada's importers and suppliers to its market had no difficulty in identifying which tariffs to apply. Although contracting parties were concerned with differences in tariffs, the representative of Canada did not think that suppliers and importers had found these differences an impediment to trade.

113. Tariff peaks, in the 20 to 30 per cent range, were not too inhibiting to trade compared to those in other countries. Furthermore, all tariffs introduced subsequent to Canada's previous tariff system of general tariffs and British preferential rates were designed to provide for liberalization.

114. Canada's response to the question of why more analysis was not provided on applications of trade policy to the industrial sector was that it was basically an open régime. While barriers had been identified in the Secretariat Report, it was clear that the tariff was the principal element.

115. Concerning aspects of sectoral trade policy, the representative of Canada agreed that the régime for textiles and clothing was protective, but it did not compare unfavourably with those of other countries. During the period 1981-1986, the volume of textiles and clothing imports into Canada rose by 11 per cent, while the domestic market increased by 2.3 per cent. Concurrent with the provision of additional protection for the industry, an industrial and labour adjustment programme under the Canadian Industrial Renewal Board was also implemented. Canada was committed to the integration of textiles and clothing into regular GATT disciplines as a result of the multilateral negotiations.

116. Quantitative restrictions on footwear had now been removed. Furthermore, though tariffs in textiles, clothing and footwear were higher

than the average of Canadian tariffs, all except one were bound against increase.

117. Explaining Canada's trade policy in the steel industry, he observed that, during the early 1980s, there had been considerable market distortions in this sector as a result of special extra-GATT measures in some countries. Instead of following this path, Canada introduced a monitoring system for data collection, which did not restrict trade. Canada used measures permitted under GATT to deal with the distortions. This explained the resulting number of anti-dumping actions for these products.

118. A comprehensive review of agricultural policies was launched in November 1989, with four main objectives: to develop a agricultural sector in Canada which was more market responsive, more self-reliant, recognized Canada's regional diversity, and was environmentally sustainable. Eleven task forces were at work, and all agricultural task force reports were expected by early 1991. Their implementation would take place as consensus developed on the policy changes required. Though the review dealt with domestic issues, solutions emerging in international fora would be taken into account.

119. The review tended to exaggerate the rôle of Canadian marketing boards in trade. The term "marketing board" applied in Canada to a wide variety of agencies with many different functions. In other countries, most of these boards would be called co-operatives. The large number of marketing boards stemmed from the fact that agriculture was a shared constitutional responsibility between the federal and provincial Governments. Of over 100 boards, only six were federal. Except for the national boards, the majority of marketing boards did not have any implications for trade.

120. He acknowledged that Canada provided significant domestic support to agriculture. The present "bulge" in expenditures had been caused by two exogenous factors. One was export subsidy competition among the major industrialized countries, and second was the drought conditions in Canada persisting for two consecutive years. He noted that financial assistance to agriculture was decreasing at present. Supply management or production control policies were GATT-consistent, maintained under Article XI. Canada believed that they did not disrupt the international market.

121. Financial assistance to the non-agricultural sector in Canada was small overall, and was decreasing as a proportion of GDP. An increase had occurred in regional programmes, resulting from the creation of the Western Diversification Programme and the Atlantic Canada Opportunities Agency. These had involved reorienting financial assistance to education, science and technological innovation. Most direct grants had been eliminated with the federal budget earlier in the year, and more rigorous repayment schemes had been instituted for other forms of assistance.

122. Annex VII of the Government report gave information on the Program for Export Market Development.

123. With regard to anti-dumping actions, he said that Canada was a small and open economy, with imports contributing significantly to enhance competition. However, this also resulted in domestic producers being particularly vulnerable to dumping. Anti-dumping actions by Canada had declined substantially during the past four and a half years. Price undertakings had not been used extensively by Canada. Regarding outstanding cases, he emphasized that Canadian law contained a sunset provision of five years, and the Canadian International Trade Tribunal was reviewing a large number of cases. Since 1988, of the 42 findings reviewed, 26 had been rescinded.

124. Section 60 of the Customs Tariff was a legal instrument designed to provide for the enforcement of Canada's trade-agreement rights. It allowed Canada to implement its GATT rights. For example, prior to the passage of this legislation, there was no provision in Canadian law to implement Canadian rights under GATT Article XIX:3:A in response to safeguard actions by other countries.

125. Canada gave effect to its quantitative restrictions through licensing. Licensing without any restriction existed only in the case of steel, which had been mentioned earlier.

126. Regarding the federal nature of Canada, he emphasized that trade policy power was held by the federal Government, which worked actively with the provinces in the trade policy area, including in the development of the Canadian position for the Uruguay Round. Current efforts included discussions on a range of trade policy matters such as services, agricultural support and procurement. Canada would be in a position to implement any agreements that it undertook.

127. Concerning comments on trade relations with developing countries, he said that Canada imported more from developing countries than it exported to them. One reason for the low share of developing countries in Canada's trade was the large share accounted for by the United States. Regarding the utilization of General Preferential Tariffs, he noted that 75 per cent of the exports from developing countries to Canada entered either under these tariffs or duty free on an m.f.n. basis. Canada was actively negotiating in the Uruguay Round, and hoped that the prospects of developing countries exporting to Canada would be further enhanced as a result of these negotiations. In addition to preferential tariffs, Canada was also active in providing technical assistance to a number of developing countries, including several African countries.

VII. FURTHER STATEMENTS

128. The representative of New Zealand disagreed with Canada's position that Canadian dairy policies were GATT-consistent and did not disrupt international trade. For example, Canada's ice cream and yogurt restrictions had been found GATT inconsistent by a Panel, but the report had not been implemented. Furthermore, Canadian notifications to the GATT showed that Canada was a larger exporter of skimmed milk powder than Australia in many years. Significant exports of Canadian cheese had given New Zealand, as an unsubsidized exporter without a protected market to support its dairy industry, considerable problems in competing in third markets. Data suggested that some Canadian dairy industries such as concentrated whole milk, were set up mainly for exports. Hence Canada's supply management policies were not non-disruptive to overseas markets. However, New Zealand was working with others, including Canada, towards a more integrated reform of agricultural policies than had been possible in the GATT in the past.

129. The representative of Switzerland asked for information on the criteria used for providing Government assistance in Canada, and for evaluating these programmes. Information was also sought on provincial programmes.

130. The representative of Chile recalled that the question of how the members of the Canadian International Trade Tribunal were selected had not been answered.

131. One of the discussants stated that the the general assessment regarding the trend of Canada's trade policies was positive. He asked for additional clarification regarding certain points. These included the real or apparent complexity and transparency of the customs tariff; the possibility of rationalization of tariffs and reducing tariff escalation and financial assistance; further explanation of the rules of origin; some detail on the sectoral distribution and treatment of foreign investment; and provincial policies concerning investment.

132. In his reply, the representative of Canada stated that some of the questions were fairly technical, and he would respond to them in writing. He agreed that there was escalation in the Canadian tariff, but this was not a phenomenon unique to Canada. Canada's proposal in the Uruguay Round contained a formula which had a harmonizing effect. Furthermore, for certain major sectors, including a number of resource sectors, Canada had proposed global free trade; this proposal included processed products.

133. Commenting on the considerable increase in financial aid to the non-agricultural sector mentioned in the Secretariat document, he said that the Canadian Government was committed in its recent budget to reduce financial aid. Some consolidation of various federal programmes had led to considerable amounts provided for scholarships and R&D being registered under industrial assistance. Thus the financial assistance shown by the data was not similar to that which normally comes to mind in this regard.

134. The Canadian Government believed that economic decisions should be made by the private sector. Current grant programmes were designed to create an environment so that the private sector could make decisions based on its own economic perception of market conditions.

135. Commissioners of the Canadian International Trade Tribunal were selected by the Government. The annual report of the Tribunal, containing more detail, could be made available to the representative of Chile who had sought this information.

VIII. CONCLUDING REMARKS BY THE CHAIRMAN

136. The reviews undertaken by the Council in the framework of the Trade Policy Review Mechanism aim to provide a collective evaluation of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. In my closing remarks, I wish to highlight, on my own responsibility, the main points to have emerged from this review. In doing so, I want to emphasize that these remarks are not a substitute for the assessment made by the Council of Canada's trade policies and practices.

137. Members of the Council noted Canada's commitment to the GATT system, also reflected by its very active participation in the Uruguay Round.

138. Members of the Council noted Canada's current macroeconomic problems, especially the inflationary pressures in the economy, and the high public debt and current account deficit. They commended Canada on its attempts to tackle these problems through monetary and fiscal policies, rather than by resorting to trade restrictions. It was generally appreciated that the direction of Canada's trade policies since the early 1980s had been towards greater liberalization in a framework which recognized the links between trade policy reform, economic efficiency and broader macroeconomic objectives. The comprehensive approach taken by the Canadian Government to improve resource allocation, promote structural change and increase fiscal discipline was mentioned in this context.

139. Members acknowledged that many of the recent changes in Canada's trade policies had enhanced the market responsiveness of the Canadian economy. More information on the likely changes in policy as a result of ongoing reviews in the area of agriculture was requested.

140. Many members of the Council noted the overall level of openness of the Canadian market for most imports. Tariffs were low for many items. The large number of bindings in Canada's tariff was noted with appreciation. The recent move to consider tariff reductions in the area of textiles was commended.

141. Members also referred to the decline in the use of anti-dumping measures in the latter half of the 1980s. The fact was noted that no Article XIX action had been taken by Canada since 1986.

142. Members requested information on the composition and operation of the Canadian International Trade Tribunal, a quasi-judicial body for assessing injury from imports and hearing certain trade-policy related appeals. Questions were raised regarding the potential rôle of the Tribunal in the domestic assessment of trade policies.

143. While appreciating these aspects of Canadian trade policy, members of the Council identified several areas of concern. Among these:

- (i) The complexity of the Canadian tariff régime on account of the different tariff schedules, the various preferential

arrangements, differences in rules of origin among trading partners, and duty drawback and remission schemes was widely noted. The Canadian Government was encouraged to rationalize, and increase the transparency of, the tariff system.

- (ii) High tariffs for product categories such as textiles, clothing and footwear; tariff escalation, in particular in natural resource-based sectors; and high tariff peaks for a variety of individual items.
- (iii) It was noted that some of these products were also subject to other restrictions, in particular under the MFA. Textiles, clothing, footwear, and natural-based products were of particular interest to developing countries. It was suggested that the protective policies in these areas might be a factor explaining the low share of developing countries in Canada's merchandise imports, and that these policies appeared to be inconsistent with Canada's policy to assist developing countries by way of preferential market access. It was suggested that improved market access in these areas could help to boost trade between Canada and the developing countries.
- (iv) While recognizing the recent decline in recourse to anti-dumping measures, concern was expressed about the large number of outstanding measures, and the possible use of this instrument for protectionist purposes.
- (v) Lack of transparency in the levels, and the impact on trade, of certain measures and forms of assistance, such as standards, Government procurement, especially at the provincial level, and regional development programmes. Mention was made of the limited coverage of Canadian Government procurement subject to the GATT Code and of the limited import-content of such procurement.
- (vi) The high levels of assistance provided to several agricultural products through the multiple use of trade measures such as tariffs, quantitative restrictions and financial support, and the distortionary effect of Canada's supply management programmes for items such as dairy and poultry were highlighted. It was also noted that there was a large number of marketing boards in agriculture, and that their extensive powers were sometimes exercised in a non-transparent manner. Attention was drawn to the costs to consumers of arrangements of assistance provided to certain agricultural producers.
- (vii) The substantial sectoral assistance provided by provinces. The point was made that reduced support at the federal level could be frustrated by provincial policies.

- (viii) Information was sought on how the Canadian Government could ensure the implementation of international commitments in trade-related areas where provincial Governments had jurisdiction. It was noted that this issue could become of special importance as multilateral rules were extended to new areas such as services.
- (ix) Canada's recent difficulties in implementing the recommendations of certain GATT Panels were noted. In the context of dispute settlement, the question was raised whether the results of bi-national procedures under the Free Trade Agreement would take precedence over the recommendations of GATT Panels, in cases where there may be a conflict.

144. Several Council members drew attention to the fact that the share of Canada's merchandise trade receiving most-favoured-nation (m.f.n.) treatment was low, and could become even lower as a result of the recent Canada-United States Free Trade Agreement. The possibility of trade diversion was addressed. Some members expressed concern about the effects of such regional arrangements on the multilateral trading system. Members of the Council urged that the examination of the Canada-United States Free Trade Agreement by the GATT Working Party established for this purpose should be expedited.

145. In reply, the representative of the Government of Canada underlined the general thrust of Canada's trade policy which had been in the direction of liberalization. The Free Trade Agreement with the United States was an important element in this. Canada would welcome a thorough and expeditious examination of this Agreement by the GATT Working Party. Canadian analyses suggested that the Agreement would be trade creating, but in view of a phase-in period of ten years it would be too early to make any definitive statement.

146. The representative of Canada expressed surprise about the frequent references to the complexity of Canada's tariff system by members of the Council. He gave the historical background to the Canadian tariff régime and noted that suppliers to the Canadian market had no particular difficulties in identifying under which tariffs their exports would enter into Canada. As for tariff peaks, these ranged between 20 and 30 per cent which was not unusually high.

147. With respect to sectoral aspects of Canadian trade policies, he noted that the tariff was the principal instrument governing trade for most industrial sectors. He recognized that the Canadian Government intervened actively in the areas of textiles, clothing, footwear and agriculture. In footwear, quantitative restrictions under Article XIX had been removed in 1988. In agriculture, a comprehensive policy review had been launched in November 1989, with the objective to bring about a comprehensive redesign of Canada's agricultural policies, thus promoting, among others, the market responsiveness of the sector. Policy changes would be implemented as

required, following completion of reports by a number of task forces in early 1991.

148. Marketing Boards had a smaller rôle and less impact on trade than suggested by comments of members of the Council. The Boards reflected the shared responsibilities between the Federal and Provincial Governments in agriculture, and only a small number had supply management powers.

149. Financial support to agriculture had declined over recent years, and support to other sectors had decreased as a proportion of GDP. Some of the support outside agriculture was devoted to education and training.

150. Turning to anti-dumping practices, the representative of Canada pointed to the decline in the use of this measure. Outstanding cases were subject to a sunset clause which provides for review after five years. Since 1 January 1988, 26 out of 42 cases reviewed had been rescinded.

151. Finally, the representative of Canada noted that the low share of Canada's imports sourced from developing countries reflected Canada's high share of trade with the United States. Canada's trade with developing countries was in deficit, and, in any case, looking at import-shares would provide a wrong picture of the significant market opportunities offered developing countries in Canada. Canada was prepared to improve market access for imports from developing countries, in the framework of both its own trade policy reforms and through its efforts in the Uruguay Round.

152. Members of the Council recognized that the meeting had promoted greater understanding of Canada's trade policies and practices. The Canadian Government was commended for its comprehensive and substantial economic reforms in recent years. The hope was expressed that, through the Uruguay Round and through domestic trade policy reviews, greater trade liberalization could be brought about in certain areas, including agriculture, textiles, clothing and footwear, and that the recent policy of reducing sector-specific financial support would be continued and extended to the provincial level. The Council welcomed Canada's determination to intensify its global trade relations and encouraged Canada in its efforts to expand these in a multilateral context.