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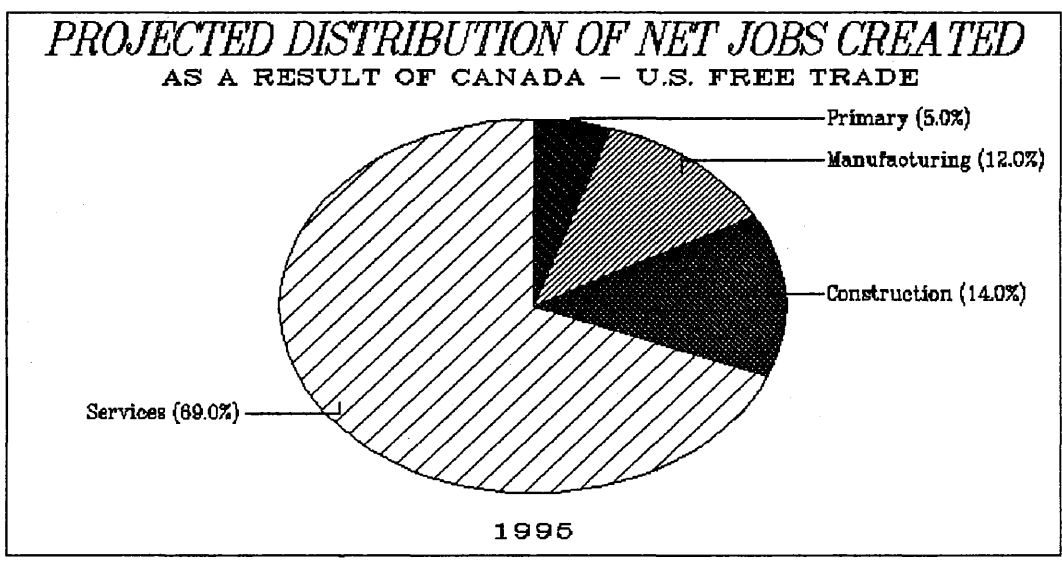
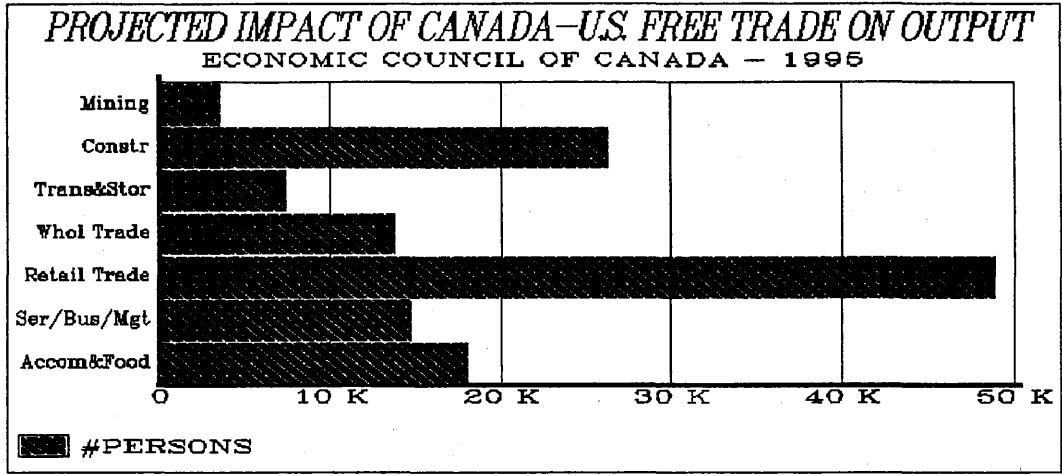
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Canada-United States Trade Agreement Highlights for NWT

BACKGROUND

The Economic Council of Canada recently conducted a study measuring the impact of free trade with the USA on various sectors of the Canadian economy. The impact on those sectors which are significant within the NWT are reproduced in the two figures below.



Overview of the Agreement

In general, the agreement will remove all tariff and many non-tariff barriers to cross-border trade; it will also establish new rules in other areas including services, private direct investment and government procurement; and it creates new institutional arrangements and procedures. Few immediate changes are made in the troublesome "trade remedy" ("contingent protection") systems in either country, but the use of those systems will be subject to a "binding" independent review process. The objective is to negotiate new rules on subsidies and dumping to govern the antidumping and countervailing duty procedures within five to seven years.

Tariffs Elimination Will Reduce Consumer Costs

The average level of American duties on Canadian products entering the States is about 5%, while the average of Canadian duties on American products is about 8%. But these averages mask much higher (10-15% or more) tariffs on both sides of the border. A principal aim of the Agreement is to remove all tariff and many non-tariff barriers to trade between Canada and the United States. Some barriers will be removed when the Agreement comes into effect January 1, 1989, some will be removed after five years, and the balance after 10 years. Representative tariff rates are shown in the chart below.

Eventually, tariff removal can be expected to provide overall benefits to the NWT economy by making our exports more attractive to Americans and reducing the cost of many imports from the United States.

| Product | Canadian Tariff (%) |
|-------------------------------|----------------------------|
| Clothing | 22.5 |
| Man-made textile products | 25.0 |
| Gloves and mittens | 25.0 |
| Blankets, wool and synthetic | 22.5 |
| Hats and caps | 20.0 |
| Footwear | 23.4 |
| Glass tableware | 20.0 |
| tablespoons, knives and forks | 17.5 |
| Skis and fittings | 13.6 |

Mining

Though U.S. tariffs on Canadian minerals are modest, their complete removal can be expected to boost northern mineral sales in the States, and the removal of Canadian tariffs on American products used by northern mining companies should lower exploration and production costs in the northern mining industry.

Uranium and tungsten operations will particularly benefit.

| U.S. Tariffs on Mining Products From the NWT | | |
|---|--------------------------------------|------|
| Lead | | |
| ores | | free |
| bullion unwrought | 3.5% on value of lead content | |
| waste and scrap | 2.3% on value of lead content | |
| Zinc | | |
| ores | | free |
| unwrought alloys of zinc | | 19% |
| pipe and tube fittings | | 3.8% |
| Tungsten | | |
| ore | 17 cents per lb. on tungsten content | |
| waste and scrap containing by weight 50% tungsten | | 4.2% |

Energy

The Agreement proposes a continental energy market which would do away with all taxes, discriminatory prices, and quotas on export or import of oil and gas, uranium and electricity, subject to considerations of conservation or national security. Canada would no longer be able to charge Americans higher prices for energy and would have to continue supplying American customers in periods of energy shortage. If, for example, the States were consuming 10% of Canadian production under normal circumstances, Canada would be obliged to continue selling 10% of its production during periods of shortage. Without price increases, the Americans have the same commitment to Canada, although our consumption is less important. (Canada was already committed to supply the States in periods of emergency through its participation in the International Energy Agency; the new deal strengthens and expands the previous commitment.)

For the NWT, the long term positive effect of freer trade will be more secure access to the U.S. market and increased petroleum and uranium exports. One possible negative effect could be American political pressure on Canada to accelerate the pace of petroleum development in the North beyond the pace which native organizations or the Government believe is manageable.

Water

Some observers have also suggested that the Americans will consider water resources part of the proposed continental energy deal. If this came to pass, the NWT would likely be viewed as a major source of water. However, on November 6, the Government of Canada announced a water policy which precludes large scale exports, although it does allow for the export of bottled water and tanker shipments.

Fur

The NWT's fur industry would likely be enhanced by the removal of tariff and non-tariff restrictions on exports and imports. As the Agreement stands, however, there would be no change in the profitability of the NWT's marine mammals industry. The United States rejected Canadian negotiators' request for an exemption from the Marine Mammals Act, which prohibits importation into the United States of products derived in whole or part from polar bears seals, walrus, wales or any other marine mammal. In rejecting Canada's request, the Americans argued that the Marine Mammals Act is a conservation, as opposed to a trade, issue.

| <u>Representative US Tariffs on NWT Renewable Resource Products</u> | |
|--|--------------|
| Processed fish | 3.0-13% |
| Game animals - fresh, chilled, frozen (including reindeer but excluding all other deer) | 2.5 cents/lb |
| Live animals - silver and black foxes and other foxes | 7.5% |
| Leather - rough, finished or partly finished | 2.4-4.9% |
| Furskins - dressed or undressed | 2.2-8.0% |
| Mocassins | 8.5%-15.0% |
| Fur and leather headwear | 6.0-6.6% |

Fur (continued)

However, the Department of Economic Development and Tourism has pointed out to Canadian negotiators that Alaskan native people are exempt from the provisions of the Act, and has asked the negotiators to pursue a similar exemption for Canadian native people. Should NWT native people be granted parity with Alaskan natives, they would benefit significantly both from valuable new market opportunities for the sale of arts and crafts and products in the States, and from the removal of laws prohibiting the importation of sport hunt "trophies". (See the previous page)

Subsidies and Regional Development

One of the biggest uncertainties surrounding the Agreement is how it will affect the federal government's ability to provide regional development incentives. Canada had hoped to resolve disputes of this nature by replacing existing American countervailing duty and anti-dumping laws by negotiating a new set of mutually-acceptable trade rules, but the Americans refused. The Agreement does commit both parties to negotiating new rules within five to seven years, and in the meantime it provides for a binational panel empowered to review countervail and anti-dumping penalties imposed by either country, to determine whether the decisions are in fact legal under the laws of the respective countries.

At present, the American laws are subject to a great deal of interpretation and are therefore subject to influence by lobbyists and politicians, and ultimately, the courts. The result, according to Canada, is that the rules have been interpreted arbitrarily, unfairly and in a way that has been damaging to Canadian interests. The panel would be empowered to recommend changes to either country which are "arbitrary, capricious or otherwise not in accordance with" the appropriate laws.

Canadian negotiators hope the presence of an impartial tribunal will force the American officials who interpret the rules to be less capricious in their judgments.

Whether or not the tribunal will be successful is impossible to predict, but in assessing the impact of this facet of free trade on the NWT it is important to bear in mind that we would certainly be no less subject to American trade laws without an Agreement, whereas with an Agreement there is a better chance that American trade rulings will be impartial. There is also the possibility of negotiating favourable trade laws within seven years.

Further, it costs an American industry a minimum of \$1-2 million to launch a countervailing or anti-dumping suit, and there are only two NWT industries -- mining and petroleum -- with U.S. sales high enough to make it worthwhile for an American competitor to launch a suit.

Although the NWT mining industry receives very little in government subsidies, there is a possibility that NWT minerals could fall victim to countervailing duties arising from subsidies given to other Canadian mines. In fact, if they can raise enough money, American lead/zinc industries might soon launch a suit in response to the Canadian Government's subsidy of operations, similar to Curragh (Faro) Mines in the Yukon.

Native Claims

Native land claims may be subject to countervail suits. It is quite possible, for example, that relatively large businesses (e.g. mines or drilling companies) created with settlement money would be viewed by the Americans as unfairly subsidized, and therefore subject to countervailing duties. On the other hand, the Alaskan natives are operating under similar circumstances, and it might be argued that NWT settlements receive the same treatment. The Department of Economic Development and Tourism is seeking clarification on this issue.

Agriculture

Agricultural marketing boards are exempt from the agreement. Changes in Canadian egg and poultry quotas are modest. There are no ramifications for the NWT on this issue.

Investment

The preliminary transcript of the proposed agreement states that:

"The Parties will not impose export, local content, local sourcing, or import substitution requirements on each others' investors, and will not place such requirements on third-country investors when any significant impact on U.S./Canada trade could result." (pg. 23)

This provision could facilitate, and might encourage, American investment in the NWT. However, this provision may limit the GNWT's ability to negotiate northern purchase and employment quota's with regard to major investments. The Department is seeking clarification on this issue.

Government Procurement

The Government of Canada currently has a "buy-Canadian" policy for all procurements of \$171,000 or less. Under the Agreement, the limit would be lowered to \$25,000; above that amount suppliers from both countries would compete on an equal footing (as prescribed by the GATT procurement code).

As with most of the Agreement, the procurement clause affects only the federal government. It is not clear whether provincial/territorial procurement policies will be affected, or whether the NWT, by virtue of its status as a territory, will be forced, legally, to adopt the federal policy. The Department of Economic Development and Tourism is seeking clarification of the issue.

Preference Policies

Under the Agreement, Canada and the United States would make it easier for business people and professionals to work in either country. This clause would in no way affect the GNWT's preference policy.