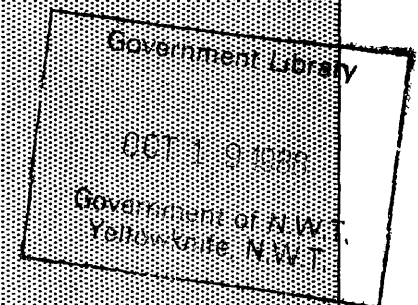


# The Canada -- U.S. Free Trade Agreement

## Review of Implications For The Northwest Territories

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## Introduction

In March 1985 at a meeting in Quebec City, Prime Minister Brian Mulroney and President Ronald Reagan launched an initiative for a bilateral trade agreement between Canada and the United States with the goal of removing all or most remaining barriers to cross-border trade in goods and services, and creating new agreed rules to govern this trade. Negotiations for the proposed agreement began during the spring of 1986 and were concluded on October 4, 1987. On January 2, 1988, Prime Minister Mulroney and President Reagan signed the Agreement, which now will be submitted for approval, along with implementing legislation, under respective legislative processes in the two countries.

A discussion of the Agreement is presented below.

### Review of the Agreement

The Free Trade Agreement builds on the trade rules and procedures of the General Agreement on Tariffs and Trade (the GATT). Both Canada and the United States were founding members of the GATT and since 1948 the GATT has provided the framework for trade negotiations and resolution of trade disputes between the two nations.

Some people fear that a "Free Trade" Agreement means that Canadian governments will be obliged to harmonize their policies and regulations with those of the United States. These concerns arise out of a misunderstanding of the GATT rules governing international trade and the formation of free trade areas.

The key concept in the GATT -- which is extended more broadly in a Free Trade Area -- is the principle of "national treatment". With a national treatment obligation, a country undertakes to ensure that foreign and domestic firms or industries will be subject to the same laws and regulations in its domestic market. There is no requirement in the GATT or in the Free Trade Agreement, that foreign (U.S.) producers receive the same treatment in Canada as they receive in their home (the U.S.) market. Thus, significant differences in Canadian and U.S. government policies and regulations are permitted under the GATT and under the Free Trade Agreement.

## Tariffs

Chapter 4 of the Agreement provides for the removal by January 1, 1988, of all tariffs, tariff-related measures, quantitative restrictions and other restrictive measures applied at the border. The cuts will begin on January 1, 1989 and after this time no existing tariff may be increased unless specifically provided for in part of the Agreement (Chapter 11 provides for temporary emergency safeguards).

Some tariffs will be eliminated immediately; others in stages over five years; and the remainder over a ten year period, as set out below:

(for the sectors listed in staging Category A, which are those viewed as ready to compete, tariffs will be eliminated on January 1, 1989; they include):

- computers and equipment
- some unprocessed fish
- leather
- yeast
- unwrought aluminum
- vending machines and parts
- skates
- some paper-making machinery
- some pork
- fur & fur garments
- whiskey
- animal feeds
- ferro alloys
- needles
- skis
- warranty repairs
- motorcycles

(for sectors listed in staging Category B tariffs will be removed in five equal annual stages beginning on January 1, 1989; they include):

- printed matter
- paper and paper products
- paints
- explosives
- aftermarket auto parts
- chemicals including resins (excluding drugs and cosmetics)
- furniture
- hardwood plywood

- most machinery

(tariffs on all remaining goods, listed in staging Category C, will be removed in ten equal annual stages beginning on January 1, 1989; they include):

- most agricultural products
- textiles and apparel
- softwood plywood
- railcars
- steel
- appliances
- pleasure craft
- tires

Goods which are already traded free of duty between Canada and the U.S. are listed in staging Category D, and will continue to receive existing duty-free treatment.

The Agreement provides for an acceleration of the elimination of tariffs if both countries agree.

The removal of Canadian tariffs on imports from the U.S. and the increased competition from U.S. sources should result in a general downward pressure on the price of a wide range of consumer goods and other products imported into the NWT from the United States and elsewhere in Canada. Table 1 is an illustrative list of Canadian tariffs whose removal could lead to cheaper prices for NWT consumers and lower input costs for NWT producers.

Canada reserves the right to impose quantitative import restrictions against USA origin products classified under these headings and sub-headings for as long as the so-called "Jones Act" Provisions apply with quantitative effort to comparable Canadian origin products sold or offered for sale into the USA market.

The removal of certain American tariffs could mean an increase in NWT exports to the United States. Table 2 provides a list of American tariffs on selected products; the phase out categories are also shown.

On October 17, 1987 President Reagan signed into law the Superfund Amendments and Reauthorization Act, which imposes additional tariffs of U.S. 11.7 cents per barrel on imported crude oil and imported petroleum products, and tax of U.S. 8.2 cents per barrel on U.S. domestically produced crude oil. These tariffs and taxes which are paid by the U.S. refiner and importer of petroleum products, became effective January 1, 1987. The provisions of national treatment would appear to preclude the discriminatory

Table 1

PRODUCT	PRESENT CANADIAN TARIFF PERCENTAGE	STAGING CATEGORY
Tableware, kitchen ware, other household articles and toilet articles of porcelain and china	11.3	C
Copper tube or pipe fittings	10.3	C
Sewing machines	12.5	B
Snow-ploughs and snow-blowers	9.2	C
Mobile cranes	9.2	B
Mobile drilling derricks	9.2	A
Fishing vessels; factory ships and other vessels for processing or preserving fishery products		
-of a registered length not exceeding 30.5m	25	C
-of a registered length exceeding 30.5m	Free	D
Dredgers	25	C
Drilling ships, drilling barges and floating drilling rigs	20	C
Buoys and beacons	10.3	B

Table 2

PRODUCT	PRESENT U.S. TARIFF %	STAGING CATEGORY
Smoked salmon	5	B
Fish sticks	10-15	C
Live foxes	7.5	A
Raw Fox furskins	8	A
Fur headgear	6.6	A
Articles of apparel and clothing accessories of furskin	3.4-5.8	A
Buffalo leather prepared & tanned	3.7	A
Chamois leather	4.9	A
Leather belts	5.3	C
Gloves, mittens & Mitts of leather	14	C
Worked Ivory, bone etc.	2.1-4.2	C
Crude oils	5.3-10.5 cents/ barrel	B
Petroleum products kerosene, moter fuel, etc.	5.3-.84 cents/ barrel	B

treatment of Canadian produced crude oil and petroleum products imported into the U.S. in support of the Superfund Act. However, the agreement does not specifically provide for the elimination of the differential treatment.

Although most mineral ores and concentrates now enter the United States from Canada either duty-free or at relatively low rates of duty, many U.S. tariffs in this area, like Canadian tariffs increase as the level of processing does.

Table 3 lists present U.S. Tariffs on some mineral ores and concentrates and the staging category. The removal of these tariffs could stimulate the mining industry in the NWT. In addition, the elimination of Canadian tariffs on U.S. products will also lower the cost of industrial equipment used in the resource industries which is now subject to a tariff of 9.2 per cent.

There are a few special exemptions from the staging process. For those specialty steel items which are now subject to temporary emergency safeguards by the U.S., tariff cuts will not start until October 1, 1989. Certain machinery, equipment repair and replacement parts which are not currently available in Canada, will continue to be exempt from customs duties. This could mean that NWT manufacturers who wish to modernize or expand

Table 3

MINERAL ORES AND CONCENTRATES	PRESENT U.S. TARIFF	STAGING CATEGORY
<b>LEAD</b>		
ores and concentrates	1.7 cents/kg on lead content	C
bullion unwrought	3.5% on the value of the lead content	C
waste and scrap	2.3% on the value of the lead content A	
<b>ZINC</b>		
ores and concentrates	1.7cents/kg on lead content	C
unwrought alloys of zince	19	C

to take advantage of various provisions of the Agreement, can purchase at competitive prices new machinery and equipment not available in Canada.

Under the Agreement duty drawbacks on goods imported from third countries will be eliminated for bilateral trade after 1994, duty waivers tied to specific export performance will be prohibited, and existing duty waivers eliminated by 1998. At present the U.S. government subjects all imports to a recently introduced import surtax or customs user fee calculated as a percentage of the value of each import transaction (currently 0.17 per cent). Under the Agreement this customs user fee will also be phased out on imports from Canada by January 1, 1994, and both countries are precluded from establishing new customs user fees on imports of goods which meet the rules of origin.

### **Rules of Origin**

Although the Agreement provides for all tariffs, tariff related measures, quantitative restrictions and other restrictive measures on trade between Canada and the U.S. to be removed over a ten year period both countries will continue to apply existing tariffs to imports from third countries. Rules of origin have been set up to determine which goods qualify for duty-free or "free-trade area" treatment when traded between the two countries.

The rules of origin contain the following elements:

- goods which are wholly obtained or produced in either Canada or the United States or in both countries will qualify for free-trade area treatment.
- goods which contain raw materials or components from third countries will also qualify for area treatment if they have been sufficiently transformed or processed in either Canada or the United States, or in both, to necessitate a change in their tariff classification.
- in some instances, goods which have been transformed sufficiently to be classified under a different tariff heading must also incur a certain percentage of manufacturing cost in either or in both countries (usually 50 percent). In addition, after having been assembled in Canada and/or the U.S., these goods must not undergo processing or further assembly in a third country.
- goods which contain raw materials or components from third countries must also undergo sufficient processing in order to incorporate significant Canadian or U.S. content. For instance, a foreign good will not qualify for area treatment simply because it has been repackaged in Canada or the U.S., or merely diluted with water or another substance which does not significantly change the character of the item.

Under the Agreement there is special treatment for some machinery parts; customary accessories, spare parts or tools delivered with any piece of

equipment, machinery apparatus or vehicle that form part of its standard equipment, will be considered as having the same origin as the equipment.

The Agreement also contains special rules for trade in apparel. In general, apparel made from fabrics woven in Canada or in the United States will qualify for duty-free treatment, whereas apparel made from fabrics from third countries will qualify for duty-free treatment only up to specified levels. Above these levels the apparel would be considered, for tariff purposes, as products of the country where the fabric originated. (The levels established for imports from Canada are significantly above current trade levels.) There is a similar quantitative limit governing duty-free exports to the U.S. of non-wool fabrics or textile articles woven or knitted in Canada from yarn imported from a third country. There may be potential for the NWT to take advantage of this agreement and produce specialized textile articles and apparel for the U.S. market, such as sweaters produced from offshore yarn which has been woven or knitted in the Territories.

Although the rules of origin criteria will mean new customs procedure for certifying that the goods concerned meet specified Canadian and/or U.S. content requirements, the removal of tariffs on both sides will result in the elimination or simplification of other customs forms and procedures, thereby reducing the cost involved in shipping to the U.S. market.

### **Quantitative Restrictions**

The GATT rules, which generally prohibit quantitative restrictions on exports and imports with specified exceptions, will apply. Existing restrictions not consistent with GATT rules will be eliminated or phased out, although some have been "grandfathered". For Example, Canada's export controls on logs and the Memorandum of Understanding on Softwood Lumber are grandfathered.

### **Agriculture**

Nothing in the Agreement prevents Canada from maintaining import quotas consistent with GATT rules in support of supply management programs. All tariffs on agricultural products will be removed by the end of ten years, but for a twenty-year period Canada may impose temporarily the existing "seasonal duties" on fresh fruits and vegetables, which are now regularly applied during the growing season. Restrictions under the meat import laws of the two countries, which have been used periodically and only for beef, will not in future be imposed on bilateral trade. Canada will be exempt from any future U.S. import restrictions on products containing less than 10 per cent sugar and on grains and grain products. Canadian import quotas on



eggs, poultry and turkeys will be increased modestly. Existing quotas on imports of eggs, chickens and turkeys will be slightly increased, to correspond to levels of actual imports over recent years. No changes will be made in the restrictive import systems of the two countries which cover all dairy products on the two sides become equivalent. (For barley and oats this may be by January 1989.) Canada retains, however, the right to control imports through "end-use" certificates, in order to protect the Canadian grain control system.

Both sides have agreed they will not subsidize agricultural exports to the other. Canada will remove subsidies under the Western Grain Transportation Act on exports to U.S. markets. The Agreement also contains undertakings to consult in order to limit damage from export subsidies to each other's exports of agricultural products to third countries. It was not possible for Canada and the United States to go further in limiting agricultural subsidies because it is the subsidy practices of the European Community which are most disruptive to global agricultural trade.

New arrangements for bilateral consultations on agricultural trade issues are created, and the two countries will join efforts within GATT to improve conditions for world trade in agricultural products during the Uruguay Round.

The removal of Canadian tariffs on U.S. agricultural imports would lead to increased competition for some Canadian producers. At the same time there would be a downward pressure on food prices in Canada. NWT consumers would benefit from lower food prices and given the specialized native agriculture in the region there would be little or no increased competition for NWT producers. The removal of American tariffs on Canadian agricultural products could mean new market opportunities for NWT producers of specialized game or fish products in the U.S.

Exports of processed food products may especially increase; at present, many U.S. tariffs in this area increase in proportion to the level of processing.

### Automotive Trade

The Automotive Agreement remains in place, but duty-free import of parts, components and vehicles from third countries will be limited to existing producing firms (mainly General Motors, Ford and Chrysler). This means that Japanese, Korean and other third country producers will not be entitled to duty remission on their imports of vehicles, parts and components. Tariffs in the automotive sector will mostly be removed over the 10 year phase out period. The rules of origin are the same as for other sectors: 50 per cent of

the direct cost of manufacturing in Canada or the United States. Canada's long existing embargo on imports of used cars will be lifted in stages by 1994. A blue-ribbon panel will be created to advise the two governments on the auto industry.

### Alcoholic Beverages

Discriminatory provincial markups for spirits are to be eliminated immediately and those for U.S. wines over a seven year period. Beer is not covered by the Agreement. The Agreement reduces other forms of discrimination against U.S. spirits and wines, and provides national treatment under future changes in distribution systems. Tariffs will be phased out for alcoholic beverages, mostly over a 10 year period, although tariffs on whiskey will be removed on January 1, 1989.

### Energy

All tariffs, non-tariff measures and trade restrictive practices will be eliminated, with some exceptions, on oil, natural gas, coal electricity and uranium. The Agreement will terminate existing U.S. restrictions on the utilization of Canadian uranium under the Atomic Energy Act of 1954 as well as Canada's processing requirement on uranium. This could enhance the viability of development of potential uranium mines in the NWT. The Agreement will also modify the U.S. embargo on exports of Alaskan crude oil, permitting up to 50,000 barrels a day for exports to Canada, if the oil is transported from the lower 48 states. Both sides have agreed not to impose import or export duties or taxes. Quantitative restrictions on energy imports or exports not explicitly grandfathered or consistent with GATT Article XX, (e.g. conservation of an exhaustible resource) are precluded. In the event of rationing of energy supplies a prorating formula will be applied, but the International Energy Agreement takes precedence in the case of oil. Regulatory measures affecting cross-border trade in energy products will also be eased and consultation between the regulatory agencies -- the National Energy Board (NEB) and the Federal Energy Regulatory Commission (FERC) is required.

### Government Procurement

The two sides enlarge the provisions of the existing GATT code governing access by their firms to non-military purchases by the federal government in the other country. The government bodies to which the Agreement applies are the same as under the GATT code, but the threshold on bidding for purchases by these bodies has been lowered from U.S. \$171,000 (about CDN

\$238,000) to U.s. \$25,000 (about CDN \$33,000). The rules regarding transparency of procedures are quite strict.

The Canadian entities covered under the Agreement are listed in Annex 1, they include 22 government departments and 10 agencies. Department of National Defence purchases of certain defined products, which are largely non-military, are also covered. The Departments of Transport, Communications and Fisheries and Oceans are not included.

As a result of the Agreement, NWT suppliers of goods to the Canadian government could face increased competition from American firms. At the same time the NWT could benefit if the Canadian government purchases goods under more competitive conditions for use in the Territories. Also, NWT suppliers will be able to compete for more purchases by the U.S. government. In the United States 11 out of 13 government departments are covered by the Agreement, the exceptions being the Department of Energy and Transport. Forty government agencies and commissions, NASA and the General Services Administration (the common government purchasing agency) are also included. Some purchases by the Department of Defense are covered within specific defined product categories such as vehicles, engines, industrial equipment and components, computer software and equipment, and commercial supplies.

### Technical Standards

Commitments on the two sides under the GATT code will be extended. Federal standards will be further harmonized, and procedures for establishing standards streamlined and for mutual recognition of product certification established. A process will be initiated to resolve long standing differences over plywood standards.

### Services

The approach followed in the services chapter is a "standstill" in the sense that existing discriminatory regulations are grandfathered. However, the Agreement establishes a set of principles to discipline future policies and practices on both sides governing trade in services. These principles include rights to national treatment, commercial presence and establishment, and cross-border sales.

Additional sectoral annexes will be prepared to clarify these principles with respect to telecommunications and computer services, tourism and architecture. Transportation services, cultural industries, social services such as daycare, and basic telecommunications services, such as long-distance

telephone services, are not covered. The Agreement contains provisions which will allow easier border crossing by business travellers, but not by skilled and unskilled workers such as construction trades.

Existing rules governing financial services will be maintained, although certain conditions of access and competition in financial services are to be improved, Canadian banks in the U.S. will be able to underwrite Canadian government securities, and Canadian financial institutions will be treated the same as their U.S. counterparts under any changes in the Glass-Steagall Act (which governs the relationship in the U.S. between banks and the securities industries). Restrictions of the assets of U.S. banking subsidiaries in Canada are lifted, as are restrictions on U.S. portfolio ownership of Canadian banks.

### Investment

As with services, the investment chapter follows the approach of grandfathering policies that depart from the national treatment obligation. Existing policies governing the granting of exploration and development permits under the Canada Lands Act are unchanged. Also special provisions restricting foreign ownership or acquisitions are retained in sensitive industries such as cultural industries, energy, transportation industries, and ownership of land.

Excluding designated industries in both countries, no general controls on cross-border investment will be permitted in future, except on the Canadian side. Canada undertakes commitments to continue existing policies of not screening new business investment; to phase in higher levels for the screening of direct takeovers (to \$150 million from \$5 million); and to phase out the review of indirect takeovers. Canada will also phase out requirements for minimum equity holdings by Canadians in U.S.-owned firms and for performance requirements applicable to foreign-owned firms which affect trade with the United States. Thus Canada cannot impose export performance requirements as a condition for investment. Several years ago Canada stopped seeking performance requirements with respect to import substitution in response to a GATT panel finding. The Agreement does not restrict performance requirements with respect to local employment, training and skills development or technology transfer and development. Thus the federal government or the territorial government could stipulate conditions for local employment and training before granting permission to foreign companies to acquire firms in Canada or, as a precondition in resource development permits.

The Northwest Territories is heavily dependent on the import of capital investment. Having of controls on U.S. investment could attract new investment to the Territories for example, in the area of tourism.

### **Intellectual Property**

The two sides agreed to resolve a long standing dispute over cable retransmission of broadcasting. Canada has indicated that it will proceed with a compromise solution on licencing of pharmaceuticals. Since the two countries were unable to agree to eliminate performance requirements and compulsory licencing of pharmaceuticals, however, there will be no exemption for Canada from the U.S. trade legislation which allows trade penalties against foreign practices which damage U.S. intellectual property rights.

### **Cultural Industries**

Government support in Canada for cultural industries (films and video, music and sound recording, publishing, cable services and broadcasting) are not affected by the agreement. However, the Canadian government will phase out some discriminatory practices, including differential postal rates for U.S. periodicals "of significant distribution". Existing Canadian rules will remain intact which deny tax deductions for advertising on U.S. border broadcasting systems, as will special provisions restricting and regulating investment in cultural industries in Canada. Since cultural industries are excluded from the agreement, new measures favoring Canadian cultural industries can be introduced, but the United States retains the right to introduce equivalent policies.

### **Subsidies, Countervailing Duties and Dumping**

No charges are required in existing laws and practices in either country governing the use of countervailing duties and anti-dumping duties. However, decisions on such measures in either country may be appealed to independent, bi-national dispute-settlement panels established on an ad hoc basis to review particular cases. Such reviews will be limited to determining whether existing domestic laws and practices have been correctly followed. Decisions of the panels will be binding, but allegations about biased decisions can be referred to a panel of former judges.

- concurrently, the two parties will work towards establishing a new regime to govern the use of countervailing and anti-dumping duties on cross-border trade. These new arrangements would be designed to come into effect within a five-year period, which might be extended to seven years.

- in addition, any changes in existing countervailing or anti-dumping rules will apply to each other after consultation and only if specifically called for by new legislation; either side can ask for a review of such changes by an independent panel; and failure to abide by the recommendations of the panel could lead to compensatory measures or to the termination of the whole agreement.

### **Emergency (Safeguard) Import Measures**

Safeguard import measures imposed on a global basis will apply to the other party only if that country is an important cause of serious injury; and any such restrictive measures will be subject to compensation and cannot reduce levels of imports below levels over a recent previous period. A bilateral safeguards track is also created which permits, during the transition period, the suspension of tariff reductions called for by the Agreement on the product concerned. However, any increases of tariffs will be capped at pre-agreement MFN levels, and will be limited to three years.

### **Institutional Elements and Dispute Settlement**

The special arrangements for bi-national dispute settlement in anti-dumping and countervailing duty cases are described above. But the Agreement provides for several other institutional arrangements and procedures for the resolution of disputes.

The Agreement will establish a "Canada-United States Trade Commission" composed of senior representatives of the two governments, including but not limited to the Canadian Minister for International Trade and the U.S. Trade Representative. This Commission will have broad functions: to supervise the implementation of the agreement, to resolve disputes arising from its interpretation of application, to oversee its further elaboration, and to consider other matters affecting its operation. The Commission is to meet at least once a year, with each party presiding in alternate years; and it may establish subsidiary standing committees or working groups. Decisions of the Commission are to be taken by consensus.

At the request of either party the Commission may make recommendations on disputes arising from the interpretation and application of the Agreement. The Commissions must refer any disputes over safeguard measures to binding arbitration; other disputes may also be referred for binding arbitration, as may be agreed by the Commission, or the Commission may seek the advice and recommendations of independent panels, on the basis of which it would then reach decisions.

Panels will be selected by the Commission as the need for them arises. They will be composed of five members, two from each country, and a fifth member from any country. Each party would choose its two members, while the Commission would choose the fifth. Failing agreement, the other four members would choose the fifth member or, if they cannot agree, the fifth would be selected by lot. Where the arbitration process finds one side in breach of the Agreement, the other country would be entitled to suspend the application of equivalent benefits.

The normal dispute resolution procedures under GATT will also continue to be available, to deal with issues covered by GATT procedures, or those under the Agreement, not under both.

### **Special Native Interests**

The Agreement does not address the special problems of trade in certain native handicraft products. At present the U.S. Marine Mammals Act restricts the marketing of any goods which are composed in whole or in part of any marine mammal. This prevents a range of NWT products, including polar bear and seal skins as well as arts and crafts which contain ivory, marine bone and furs etc., from entering the U.S. market. This U.S. legislation, however, contains an exception for any marine mammals taken by any Indian, Aleut or Eskimo who resides in Alaska. If this exemption had been extended under the Agreement to include all North American natives, NWT producers of the above items would have benefitted from new market opportunities in the U.S. including the tourist market in Alaska. This Agreement, however, does not call for any change in current U.S. legislation. Import and export controls by the two countries designed to protect the environment or endangered species can be maintained, in accordance with GATT rules.

### **Obligations of the NWT Government**

The Agreement states "that all necessary measures are taken in order to give effect to its provisions, including the observance, except as otherwise provided in this Agreement, by state, provincial and local governments". This is a stricter obligation than Article XXIV (12) of the GATT which states: "Each contracting party shall take reasonable measures as may be available to it to ensure observance of the provisions of this Agreement by the regional and local governments".

As far as we can determine, the Agreement does not call for changes in any of the existing practices or policies of the Government of the Northwest Territories. However, issues might arise in future if the NWT government intro-

duced policies affecting services trade covered by the Agreement of investment policies which discriminated against U.S. firms. Complaints about allegedly discriminatory policies could be subject to the general dispute settlement processes in the Agreement.

Also, the Agreement does not call for any changes in subsidy policies on either side, but subsidy programs will continue to face the threat of countervailing duties, if exports of the products concerned cause injury to producers on the other side.

## **Conclusions**

### **Tariffs**

The removal of tariffs should result in net benefits for the NWT. Downward pressures will be exerted on consumer prices as well as on industrial inputs by the removal of Canadian customs duties and by increased competition from U.S. sources. However, some NWT producers may face increased competition from the U.S.

### **Energy**

Tariffs, non-tariff measures and trade restrictive practices will be eliminated on oil, natural gas, coal, electricity and uranium. U.S. restrictions on Canadian uranium sales will be terminated, as will Canada's processing requirement for uranium exports. Canada will forego two price systems for energy, and must follow non-discriminatory policies in rationing energy exports should shortages arise. Regulatory measures affecting cross-border trade in energy products will be eased. Greater security of access to the U.S. market could enhance the viability of energy development in the NWT.

### **Agriculture**

Agricultural marketing boards may be continued and new ones introduced. Increases in Canadian egg and poultry import quotas are modest.

### **Subsidies and Regional Development**

There are no new restrictions in the Agreement on Canadian subsidies or regional development programs. However, such programs face the threat of existing U.S. countervailing duty laws, if the exports concerned cause injury to U.S. producers.



### **Government Procurement**

NWT suppliers could face increased competition from U.S. suppliers for government contracts over \$33,000, but could gain greater access to U.S. federal government purchases, for example in Alaska.

### **Investment**

Easing of controls on U.S. investment could attract new investment to the Territories, while conditions for local employment will not be precluded.

### **Services**

The provisions of the Agreement relating to services will probably not affect the NWT in any significant way, especially since transportation services, including air services are not covered.

### **Net Overall Benefit**

Overall, the economic benefits to the Northwest Territories, while perhaps modest and phased in over a period, should exceed any adverse economic impact of the Canada-U.S. Free Trade Agreement

It might be assumed, therefore, that the overall impact of the proposed agreement on the NWT would be positive. Increased economic growth in the rest of Canada would provide more buoyant markets for products produced in the NWT. The removal of Canadian tariffs on imports from the U.S. would exert downward pressure on prices of inputs for industry in the area. A more buoyant Canadian economy would generate higher tax revenues for the federal government, some of which could be used to finance economic development and other programs in the NWT. The removal of American tariffs would lead to new opportunities for exports of a number of products produced in the NWT, and also could open opportunities for the further processing of industrial raw materials, as well as agricultural, fisheries and other products such as native handicrafts. Moreover, the agreement might lead to the relaxation of control or restrictions on the importation of capital investment from the U.S. in Canada, providing additional sources of investment in industrial and other sectors of the NWT economy.

On the other hand, the trade agreement could lead to increased American competition for certain Canadian producers of goods and services. However, a cursory examination of the NWT industrial and other sectors suggests that this would not adversely affect NWT producers because of the specialized nature of the NWT economy. Except perhaps for some agricul-

tural production and plywood production, the NWT economy does not have any industries which are sheltered by Canadian tariff and non-tariff barriers. Thus the impact on employment in the NWT from the reduction in Canadian trade barriers will be minimal, and probably positive due to lower costs of machinery used by the resource industries as well as reduced-s for consumer goods.

The positive employment effects of removing U.S. trade barriers are likely to be small initially, but could grow over time. The removal of U.S. non-tariff barriers could stimulate the development of energy resources in the NWT by providing a more secure investment climate.

### **Canadian Entities Covered Under the Free Trade Agreement**

1. Department of Agriculture
2. Department of Consumer and Corporate Affairs
3. Department of Energy, Mines and Resources including:
  - Atomic Energy Control Board
  - Energy Supplies Allocation Board
  - National Energy Board
4. Department of Employment and Immigration including:
  - Immigration Appeal Board
  - Canada Employment and Immigration Commission
5. Department of External Affairs
6. Department of Finance including:
  - Department of Insurance
  - Anti-Dumping Tribunal
  - Municipal Development and Loan Board
  - Tariff Board
7. Department of the Environment
8. Department of Indian Affairs and Northern Development
9. Department of Regional Industrial Expansion including:
  - Machinery Equipment Advisory Board
10. Department of Justice including:
  - Canadian Human Rights Commission
  - Statute Revision Commission
  - Supreme Court of Canada
11. Department of Labour including:
  - Canada Labour Relations Board

12. Department of National Defence including:
  - Defence Construction (1951) Limited
  
13. Department of National Health and Welfare including:
  - Medical Research Council
  - Office of the Coordinator, Status of Women
14. Department of National Revenue
  
15. Department of Post Office
  
16. Department of Public Works
  
17. Department of Secretary of State of Canada including:
  - National Library
  - National Museums of Canada
  - Public Archives
  - Public Service Commission
18. Department of Solicitor General including:
  - Royal Canadian Mounted Police
  - Correctional Service of Canada
  - National Parole Board
19. Department of Supply and Services (on its own account) including:
  - Canadian General Standards Board
  - Statistics Canada
20. Department of Veterans Land Administration
  
21. Auditor General of Canada
  
22. National Research Council
  
23. Privy Council Office including:
  - Canada Intergovernmental Conference Secretariat
  - Commissioner Official Languages
  - Economic Council
  - Public Service Staff Relations Board
  - Federal Provincial Relations Office
  - Office of the Governor General's Secretary
24. National Capital Commission
  
25. Ministry of State for Science and Technology including:

- Science Council
- 26. National Battlefields Commission
- 27. Office of the Chief Electoral Office
- 28. Treasury Board
- 29. Canadian International Development Agency (on its own account)
- 30. Natural Sciences and Engineering Research Council
- 31. Social Sciences and Humanities Research Council
- 32. Fisheries Price Support Board

