

Forecasts detailing the many benefits of the Canada-U.S. Free Trade Agreement (FTA) should be viewed with a degree of caution. The gains from free trade will not occur just because some fancy computer, programmed with a complex econometric model has said so. The gains will have to be earned – on the shop floor, in the executive chair, and in the marketplace at the individual company level.

As well, a common perception that “the FTA will not affect my company” does not recognize your company may be exposed to increased foreign competition or that you may have the opportunity to purchase cheaper U.S. component parts or services.

The actions taken (or not taken) by individual businesses in the coming months will be critical. If the agreement becomes a reality, businesses will have to learn and abide by new trade rules. It is urgent that firms begin to evaluate the ramifications of this initiative. Clearly, the time for talking is over. The time for action is now.

The following is a preliminary list of questions which every business should address in determining the effects of the FTA:

1. What are your company goals?

This is a fundamental prerequisite to any business decision and one often taken for granted. A thorough review of business directions and opportunities is necessary before a company can begin to adequately establish plans and evaluate alternatives with respect to free trade. The agreement signals the emergence of a new commercial environment in North America, hence, the management philosophy and aims of your company should be reviewed within this context.

2. What elements of the agreement will affect your business?

The FTA will introduce a new set of trade rules which will directly or indirectly affect every business in Canada. Tariff elimination, trade-dispute settlement, technical standards, government procurement, investment guidelines, service provisions, value-added guidelines and business travel are some of the major elements of the FTA. These FTA elements should be considered and evaluated individually and in conjunction with your corporate goals and activities in order to

A Free Trade Check List

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determine the best corporate strategy for adjustment.

3. How will the purchasing side of your business be affected?

The FTA may significantly impact the purchasing decisions of your company. Acquiring component parts and services from the U.S., which are prohibitive in certain cases under existing tariff levels, may become more feasible with tariff elimination. Firms need to reassess their traditional sourcing arrangements and identify how the costs of products and services they use as inputs may be changed under free trade.

4. What are the tariff classification numbers of your products?

All businesses, whether or not they export or import, should know the tariff classification numbers of their products and purchases, as both categories of goods will be affected. Tariff classifications are important in defining exactly how the items will be handled under free trade. Small differences in products can cause different classifications that may lead to wide differences in the effects of the agreement on your company.

The tariff number of a specific product identifies: (a) the current tariff rate of the product in both Canada and the U.S., and (b) the staging category of the product under the FTA. The staging category identifies how quickly the tariff rate will be eliminated. Some tariffs will be eliminated completely on January 1, 1989, while others have a five or ten-year schedule. Those with a five-year elimination period

will drop by 20% per year commencing January 1, 1989. Similarly, a ten-year schedule will drop by 10% each year. It may be a surprise to some individuals to learn that a ten-year adjustment period does not mean no tariff reductions will occur until ten years from now.

5. Is your firm eligible for the tariff reductions?

Many exporters are under the impression every Canadian firm is automatically eligible for the tariff reductions specified under the FTA. This may not be the case, as the agreement will establish new rules of origin guidelines. These rules are complex, particularly in situations when a Canadian firm incorporates offshore component products and then exports finished products to the U.S. On some instances, even current exporters may be ineligible for the tariff reductions because they do not meet the rules of origin.

A situation could also exist where a Canadian exporter would still pay the higher “old” tariff, whereas comparable U.S. products coming into Canada would pay the lower “new” FTA duty because it meets the origin rules.

These five questions form the basis for any company to plan its free trade strategy. The European Economic market experience has shown companies that prepared business strategies for their new trading environment also benefitted the most. □

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