

Indecent Proposal: The Case Against a Canada-U.S. Customs Union

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Summary

SINCE THE SEPTEMBER 11, 2001 TERROR ATTACKS, pressure has been mounting for a new deal between Canada and the United States to ensure unimpeded flows of trade and investment in the future. A new wave of pro-integration literature has emerged with hypothetical proposals for a “strategic bargain” (in the words of the CD Howe Institute) with the U.S. across a number of policy areas, including border security, defence policy, and immigration.

Among the deep integration proposals is a call for a Canada-U.S. Customs Union (CUCU). This paper examines the arguments made in favour of a CUCU and subjects those arguments to critical scrutiny.

For supporters of free trade, customs union is a natural extension of the same liberalization logic. However, the term “customs union” is occasionally used by pro-integration forces in a broad sense to include much more economic integration than the standard economic definition.

The key features of a customs union are the creation of a *common external tariff* that applies to all nations not part of the free trade area, and the establishment of a *common trade policy*. It also involves the elimination of *rules of origin*. Rules of origin appear in free trade agreements to ensure that exports from country A to country B originate in A, or at least have substantial value added to them in A.

The principal source of benefit accruing to a customs union would be the elimination of rules of origin that, it is argued, pose administrative

costs to exporters and distort trade patterns. It is worth taking such arguments with a healthy dose of skepticism. These are largely theorized costs and benefits in the economics literature. They do not seem to be a major irritant to exporters.

One oft-cited estimate is that rules of origin cost about 2-3% of NAFTA GDP. The source of this is a PhD thesis that uses computable general equilibrium (CGE) model — a quasi-empirical approach with a number of shortcomings that tend to bias results in favour of free trade. This is in part due to its grounding in the assumptions of neoclassical economics, and in part due to data and modeling issues. It essentially models rules of origin as if they are huge costs to exporters that undercut the gains from tariff reductions. Moreover, the thesis produces a range of results, of which only the top end has been cited.

There is no reason to expect major economic benefits from the elimination of rules of origin because they are not really that costly. Businesses would save some money by not having rules of origin in place. But this would do little to ease

A crucial downside of a customs union would be the need for a common trade policy with the U.S. vis-à-vis the rest of the world. In practical terms, this would mean surrendering Canada's trade policy to the U.S. Trade Representative. Such a move would have sweeping implications for Canadian institutions and how we manage our place in the world.

congestion and delays at the border, as some have argued. Indeed, the rules of origin process as applied at the border is extremely straightforward, whereas the concerns of U.S. authorities about immigration, drugs, arms, security and smuggling that consume most border resources would not go away if rules of origin were eliminated.

Because they create an incentive to source inputs domestically or within the NAFTA area, rules of origin may actually have benefits to the Canadian economy that are not being considered, and eliminating them would be a cost. As a result, any incremental gains fashioned from the move from the NAFTA to a customs union are likely to be extremely small, if there are positive gains at all.

There are likely to be costs as well as benefits from a CUCU. A crucial downside of a CUCU would be the need for a common trade policy with the U.S. vis-à-vis the rest of the world. In practical terms, this would mean surrendering Canada's trade policy to the U.S. Trade Representative. Such a move would have sweeping implications for Canadian institutions and how we manage our place in the world.

In both countries there are politically sensitive sectors that have been protected from the full force of international trade agreements. In Canada, these include public services, Crown corporations, agricultural marketing board, the Canadian Wheat Board, cultural industries, telecommunications and banking. Many of these have been targeted for dismantling by Washington, and would be put on the table should Canada seek to negotiate greater economic integration.

Over the course of history, Canada and the United States have also developed different trade ties and political relationships with other countries. Reconciling these within the context of a customs union could prove to be difficult. The U.S. has embargoed trade relations with some countries — such as Cuba and Iran — while Canada continues to maintain trade relations (often in spite of U.S. pressures to follow its lead).

Even when embargoes are not involved, Canada and the United States have differing relationships with other countries. Canada has a different set of international trade agreements than the U.S., and different trade preferences granted to developing countries. Reconciling these differences would be complicated and difficult.

Moreover, a common trade policy with Washington would foreclose on all kinds of independent policy initiatives for Canada. For example, what if Canada wants to move ahead with the generic production of AIDS medication for poor countries in Africa that do not have domestic manufacturing capacity? After a long fight at the WTO, this could become practice in Canada, but under a common trade policy with the United States it would likely never happen, due to the powerful influence of brand-name pharmaceutical companies in that country.

The expansion of Canada-U.S. trade to a customs union is a major proposition in terms of Canadian trade and foreign policy. If anything Canada needs a more multilateral trade policy — the gains from more trade are not with the U.S.

but with the rest of the world. Yet, a customs union would not only be a shift away from multilateralism – at the same time as Canada fails to diversify multilaterally, the very tools needed to pursue a multilateral trade diversification strategy would be given away.

There could be benefits for Canada in achieving some sort of agreement on trade remedy measures (such as antidumping and countervailing duties) — though these are not considered part of a customs union. The failure of Canada to secure exemptions from U.S. trade remedy laws has proved to be a major weakness of the Canada-U.S. Free Trade Agreement from Canada's point of view. However, given prevailing attitudes in the U.S. Congress, changing trade remedy laws or even negotiating an exemption is essentially a non-starter. That is, this source of gain for Canada is, for all intents and purposes, off-limits.

Ultimately, what is politically feasible would determine the outcome of a new round of negotiations with the United States. Canada would be seeking particular gains from Washington, and in turn would need to make concessions to seal a

deal. The history of such negotiations is cause for concern. There is a great danger that Canada would have to give up a lot to get little in return. In a negotiation that is broad, even if couched as a customs union, Canadians would have no real idea where it would lead, what the final package would look like, or what surprises (like the revolutionary investor-state dispute settlement mechanism that came with the NAFTA) might be in store.

When benefits and costs are laid out, there is little case for entering into a new negotiation with the United States over a customs union, and great risks entailed in a broader negotiation that would include a customs union as one component. Closer economic ties to the United States via a customs union would likely lower Canadians' standard of living, not raise it, due to negative consequences for public services and sovereignty that underpin quality of life in Canada. Hopefully, good sense will prevail, and a new national debate will not be necessary because Canada chooses to chart a different course than deeper economic integration with the U.S.

1. Introduction: From NAFTA to CUCU?

THE POTENTIAL SHUTDOWN OF THE CANADA-U.S. BORDER is a prospect that sends shivers down the spine of corporate Canada. These fears crystallized in the days after the September 11, 2001 terror attacks. Since that time, pressure has been mounting for a new deal between Canada and the United States to ensure the border stays open in the future. A new wave of pro-integration literature has emerged with hypothetical proposals for a “strategic bargain” (in the words of the C.D. Howe Institute) with the U.S. across a number of policy areas, including border security, defence policy, and immigration.

For Canada’s proponents of deeper integration, however, economic issues carry the day. Safeguarding Canada’s trade and investment relationship with the U.S. is the top priority, even though achieving this goal would likely require that Canada make commitments in more political policy areas. And it is possible that a new round of Canada-U.S. negotiations is sold to the public on economic grounds, even if in reality it goes well beyond.

Among the deep integration proposals is a call for a Canada-U.S. Customs Union (CUCU). While the North American Free Trade Agreement (NAFTA) has already achieved a high level of economic integration, it can be viewed as one large step towards deeper integration, encompassing both economic and non-economic factors. In

terms of economic integration, the next step beyond NAFTA is a customs union.

Proposals for a CUCU could form a new front line in the battle for Canadians’ minds over Canada-U.S. integration. For supporters of free trade, customs union is a natural extension of the same liberalization logic. As a result, there are many prominent supporters of the customs union concept among Canada’s business élite, politicians, and bureaucrats. But there are many dissenters as well.

The divisions among Canada’s élite were evident in the hearings of two Parliamentary committees over the past couple years. The House of Commons Standing Committee on Foreign Affairs and International Trade released a report in December 2002, noting the differences of opinion on a customs union, and recommending the

government undertake “a detailed review of the advantages and disadvantages of the concept in the North American context” (Canada 2002: 194).

The second report, from the Standing Senate Committee on Foreign Affairs, recommended that Canada not enter into discussions with the U.S. on customs union. In its report, the Senate committee states: “After seriously examining both sides of the issue, the Committee has concluded that upgrading NAFTA to a customs union would not be in Canada’s best interests. We are not prepared to make the sacrifices in Canadian sovereignty that would be required to realize the economic benefits of a customs union” (Canada 2003:69).

Outside elite policy circles, the idea of a CUCU is still below the radar of public opinion, the subject of internal debate not extended to the general public because of its potential to polarize (as in the case of the last great debate on the Canada-U.S. Free Trade Agreement). This paper aims to fill the gap by setting out the arguments made in favour of a CUCU and subjecting those arguments to critical scrutiny. It moves ahead on the presumption that there are both costs and benefits associated with a customs union. We need to carefully assess whether the benefits outweigh the costs, as well as who the winners and losers would be.

In fact, the likely benefits of a customs union are quite small, and frequently overstated by pro-

motors of the idea. There are non-trivial economic and political costs associated with a customs union, plus risks entailed in an actual negotiation. Expanding the scope of a negotiation could offer greater gains — such as exemption from U.S. trade remedy laws — but would entail higher costs and bigger risks that Canadians are unlikely to support.

What precisely is being proposed under the banner “customs union” is not necessarily clear and consistent. Proposals typically include more economic integration than the standard economic definition. The next section pins down the debate by looking in more detail at the differing degrees of economic integration, from free trade areas to customs unions to single markets — and how these relate to the proposals seen to date. Section 3 looks at the case for a customs union — namely, the elimination of rules of origin — and critically assesses its potential benefits. Section 4 considers the implications for Canada of having a common trade policy with the United States. Section 5 looks at the issue of trade remedy measures, a major irritant for Canada with regard to U.S. trade. Section 6 brings costs and benefits together with an overall assessment of political feasibility and negotiation *realpolitik* to assess whether a strategic bargain would be in Canada’s interest.

2. Customs Unions and Economic Integration

TERMINOLOGY IS IMPORTANT TO THIS DEBATE. There is a fairly clear economic meaning to the term “customs union” that differs from the specific proposals being made under the banner “customs union.” This section looks first at traditional economic definitions of customs union and other economic integration arrangements, then turns to proposals in favour of a customs union.

Conceptually, it is best to think of integration as a process that occurs in, and is formalized in, stages. The 1989 Canada-U.S. Free Trade Agreement (CUFTA) was such a stage, as was the move to the 1994 North American Free Trade Agreement (NAFTA). NAFTA not only extended the trade bloc to Mexico, but also deepened the liberalization of CUFTA. Hence, the question is not so much whether we want a customs union to clean up the “unfinished business arising out of NAFTA,” as former Trade Minister Michael Wilson put it (Wilson 2003), but whether we want a customs union as another step towards ever-increasing integration.

Defining Terms

At the outset, it is worth distinguishing among types of economic integration arrangements, in increasing order of integration: free trade area; customs union; common market; and single mar-

ket (or economic union).¹ All of these arrangements are considered preferential agreements that exist within the bounds of the multilateral trading system of the World Trade Organization (WTO). The WTO allows preferential trading agreements as set out in Article XXIV of the GATT (1947), so long as they do not raise barriers to trade with other parties.

In a *free trade area*, strictly defined, tariffs are eliminated on imports of goods and services among the nations, although each country may maintain differing external tariffs that apply to other countries. In practice, free trade agreements can go far beyond this definition. NAFTA, for example, encompasses policies regarding investment, intellectual property rights, government procurement, standards, and competition policy, elements typically associated with a common market.

A *customs union* is the next step past a free trade area towards deeper economic integration. The key features of a customs union are the crea-

tion of a *common external tariff* that applies to all nations not part of the free trade area, and the establishment of a common trade policy. It also involves the elimination of *rules of origin*. Rules of origin appear in free trade agreements to ensure that exports from country A to country B originate in A, or at least have substantial value added to them in A. This is to ensure that country C, which is not party to the free trade agreement, does not export only to the country with the lowest tariffs on its product as a means of serving the entire trade bloc. (More on the pros and cons of rules of origin in the next section.)

In NAFTA, for example, rules of origin stipulate that exported goods within the free trade area should have at least 60% North American content (62.5% for automobiles) to benefit from tariff-free access. NAFTA also sets up a process to determine that exported goods within the NAFTA region containing non-North American content are substantially transformed in order to qualify for tariff-free status. The rules vary slightly from sector to sector, although for autos and textiles there are some additional specific requirements.

A stage beyond customs union is the establishment of a *common market*. At a theoretical level, this means allowing the free movement of all factors of production — capital, labour and technology — across borders. In practice, it also includes harmonization of regulations, standards, and other economic and social policies across the area. A full common market would eliminate trade actions against partners, and could subsume trade remedy measures (such as anti-dumping and countervailing duties) to a common competition policy.² New supranational institutions would need to be created to oversee the common market.

The end-point of economic integration is a *single market* or *economic union*, within which producers and consumers are governed by the same overarching rules, with highly harmonized fiscal and monetary policies. The European Union

(E.U.) is the most significant modern example of a single market, where a common currency has been established (though not applicable to all E.U. members) and rules govern the ability of individual countries to run deficits (though currently being broken by Germany and France). The E.U. has also evolved joint supranational political institutions and has eliminated internal border checkpoints. The E.U. is now expanding its membership and contemplating full political union as expressed in a draft E.U. constitution — another illustration of the dynamic process of deepening integration.³

Back in North America, a key consideration is whether a new integration arrangement, whatever its specific form, would include Mexico or not. That is, would the proposed customs union become a tri-partite extension of NAFTA, or would it include only Canada and the United States? It appears that at this point Canada's customs union proponents, while paying some lip service to Mexico, are focused narrowly on a new Canada-U.S. bilateral agreement. Such a negotiation would already be quite complex, and adding Mexico could overly compound the difficulty of reaching an agreement.⁴

What do Canadian Proponents want?

Just as NAFTA should be viewed as an economic integration agreement that goes beyond a free trade deal, so should customs union proposals. The term “customs union” is occasionally used in a broad sense to include some of the policy terrain of a common market. Ultimately, any negotiation between Canada and the United States for deeper integration will be driven by perceived problems and issues in relation to the border and Canada-U.S. relations, not by theoretical stages of integration. The issue is whether Canada enters into another round of negotiations with the

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U.S. that is likely to include an array of non-economic issues, regardless of what it is called.

Among the customs union supporters is David Dodge, the Governor of the Bank of Canada and former Deputy Minister of Finance. In his remarks to the Couchiching Institute on Public Affairs, an élite gathering held annually outside of Ottawa, Dodge outlined an extensive economic integration agenda that starts with a customs union and then goes much further (Dodge 2003). Dodge views a common external tariff (a traditional customs union) as a step towards harmonization of commercial policies and regulations, ending the application of trade remedy measures within North America, and uniform rules on subsidies. Dodge has also advocated labour market integration, and even delicately supported the idea of a currency union if “we were well on the way to achieving a true single market for goods and services, labour and capital.”

At the political level, Pierre Pettigrew, when he was Canada’s Trade Minister, came out in favour of deeper integration. In a major speech to business leaders in September 2003 (fittingly, at the Empire Club in Toronto), then Trade Minister Pettigrew outlined a plan for the future of Canada-U.S. trade relations that included broader and deeper regulatory cooperation, addressing

trade remedy measures, reviewing rules of origin, facilitating the travel of business professionals, and new security measures (Pettigrew 2003). At a subsequent meeting of NAFTA trade ministers, Pettigrew reiterated support for addressing rules of origin (the key benefit of a customs union), but at the same time argued that a customs union would not represent a true deepening of integration with the NAFTA area (NAFTA Commission 2003: 13-16).⁵

Former Canadian trade officials and pro-integrationists Michael Hart and William Dymond argue that, “if the bilateral CUFTA and trilateral NAFTA have benefited both Canada and the United States, more effort along the same lines should be even better” (2001:6). They call for an initiative that is broad in scope leading to a formal agreement. This includes custom union proposals, plus a new deal on trade remedies, national treatment for government procurement, elimination of other border restrictions, cooperative enforcement of competition policy, and harmonized standards and regulations.

In a series called *The Border Papers*, the C.D. Howe Institute is championing more economic integration with the United States. Wendy Dobson (2002) calls for a “strategic bargain” that would be a “pragmatic mix of customs union-like and common market-like proposals plus Canadian initiatives in areas of strength that are of particular interest to the Americans” (p. 20) in exchange for market access guarantees to the U.S. market. This would include greater cross-border labour mobility, harmonization of corporate income tax bases, and dispute settlement procedures around the application of trade remedy laws.

A more recent C.D. Howe study by Danielle Goldfarb (2003) considers three stylized variants of the customs union idea.⁶ She distinguishes between a “basic” customs union consisting only of a common external tariff, a “deep” customs union that includes a common external tariff plus common trade and commercial policies, and a

“sectoral” customs union with common external tariffs in only some sectors. Interestingly, due to political and logistical challenges and concerns over the loss of policy space, Goldfarb ultimately recommends a sectoral approach as a practical option to improve the status quo.

Another key contributor to the proponents’ side is the Canadian Council of Chief Executives (or CCCE, the lobby group formerly known as the Business Council on National Issues). CCCE President Tom d’Aquino (2003) argues for “a *customs initiative* designed to reduce differences in Canadian and United States treatment of third country trade and eliminate the need for rules of origin and other burdensome customs requirements on most goods.” However, this is but one small point in an expansive “new partnership” agenda that includes: harmonization of standards,

regulations, inspection and certification procedures (“tested once” principle); more integrated resource sectors; and common security measures for the external border. He does not call for new supranational institutions, and thus argues CCCE is not seeking a common market.

Hence, it is not always obvious precisely what is on the table when the term “customs union” is invoked. Much has to do with the perceived issues on the part of Canada, and thus which Canadians are the *demandeurs*. Most are seeking an integration package that goes further than a customs union. Calling for a common market, however, is likely beyond what Canadians would be prepared to accept, whereas the administrative-sounding term “customs union” could have greater sale-ability to a skeptical public.

3. Eliminating Rules of Origin

THE PRINCIPAL SOURCE OF BENEFIT ACCRUING TO A CUSTOMS UNION would be the elimination of rules of origin. Goldfarb (2003) suggests that rules of origin could cost as much as 2-3% of NAFTA GDP. This is an implausibly large number to expect from elimination of rules of origin. As we will see below, it does not hold up to serious scrutiny.

The case against rules of origin is threefold: first, rules of origin pose administrative costs to exporters; second, rules of origin distort trade patterns as companies source materials and intermediate inputs from higher-cost North American sources to meet content requirements; and third, rules of origin can be used as protectionist barriers (and protection is “bad”). Hence, eliminating rules of origin, the theory goes, would lead to economic benefits, including increased efficiency, administrative savings, fewer delays at the border, and larger economies of scale.

It is worth noting upfront that these are largely theorized costs and benefits in the economics literature. They do not seem to be a major irritant to exporters. This begs the question: If rules of origin are such a massive burden, why are we only hearing about this now? In the 15 years since the 1989 CUFTA, we heard not a peep about the allegedly large costs attributable to rules of origin, only breathless praise about how wonderful CUFTA was. Nor did the proponents of CUFTA consider these allegedly huge costs to business when making their original case, even though now they are considered to be significant. It is worth

noting that these “barriers” did not impede the expansion of exports from Canada to the U.S. in the 1990s. If these costs were so large, Canada and the U.S. had an opportunity to set things right a few years later when NAFTA was being negotiated (in fact, rules of origin were made more stringent) – but again, not a word was voiced.

Administrative Costs

Rules of origin do pose some costs to businesses. There are administrative and legal requirements that must be accounted for by exporters. As a result, there are benefits for exporters in eliminating rules of origin. But it is not obvious that these costs really are that large, especially relative to the other legal and administrative costs faced by businesses, and they are much smaller than their predecessor: the tariffs existing before the CUFTA.

Much has been made of the alleged complexity of rules of origin — several commentators note that some 200 pages of NAFTA text are devoted to spelling out rules of origin — and the administrative burden this poses. While this may sound terrifying, it misrepresents rules of origin in prac-

tice. The vast bulk of these 200 pages is an annex containing a long list of the specific rules on a product-by-product basis. Not every exporter must understand every rule for every product, only those for specific products they are exporting.

The main legal text on rules of origin in NAFTA (Chapter 4) is 26 pages in length — six of these are devoted to definitions, and another three specifically refer only to the auto industry. Thus, the legal aspect of rules of origin is no greater than anywhere else in NAFTA. Even counting the entire 26 pages, this is shorter than the chapters on Investment (Chapter 11) and Intellectual Property Rights (Chapter 17), neither of which seems to be under attack for being overly complex, despite being quite prescriptive.

To the extent that rules of origin mean additional paperwork for exporters, much of this is a one-time cost in terms of getting the paperwork right and ensuring that the product supply conforms to specifications. In practice, the NAFTA certificate of origin that accompanies exports across the border is a one-page document (Mirus 2003). There may be some legal and accounting cost that goes along with this, but it is unlikely that it is greater than any of the other legal and accounting work that companies must comply with as part of doing business. Compared to the resource requirements dedicated to payroll, general administration, tax filing, applying for permits, and so on, the costs of rules of origin are a drop in the bucket.

Trade Distortion and Protectionism

An additional cost of rules of origin, it is argued, is the distortion in trade patterns that occurs in response to them. If companies must source primary and intermediate inputs from within the trade bloc rather than from lower-cost third parties, this poses costs to exporters and undermines efficiency. In the case of Canada and the United

States, however, there is little reason to believe that trade distortion is a problem, and to the extent that it exists at all, it supports economic activity in North America.

Following the methodology of Cadot et al (2002), which looked at U.S.-Mexico trade, Goldfarb (2003) uses a “revealed-preference mechanism” to consider trade distortion impacts in Canada-U.S. trade.⁷ This methodology compares the percentage of Canadian exported goods being admitted to the U.S. under the NAFTA zero tariff (i.e., with rules of origin) with the percentage under the most favoured nation (MFN) tariff, for different sectors. If a substantial amount of exports enter under the MFN tariff, it is reasoned, there must be large enough costs to rules of origin for companies to avoid the zero-tariff NAFTA route.

Goldfarb finds that, overall, only 55% of Canadian exports entered the U.S. under NAFTA, although she notes that one-third of U.S. MFN tariffs are zero, so there is no incentive for these to enter under NAFTA. An interesting finding is that many industries have utilization rates well below 100%. Goldfarb suggests that this is indicative of the costs of rules of origin.

However, a more plausible explanation is that exporters may be paying the tariff because they do not actually qualify for tariff-free treatment, i.e., the exports in question have not been sufficiently transformed, perhaps because they do not have readily available North American input substitutes at a cost less than paying the tariff. But when all other factors are considered, there is still a business case for going ahead and paying the MFN tariff (or preferential tariff, depending on country of origin).

We need to think through what the utilization numbers really mean. The theoretical argument is that rules of origin create an incentive for producers in one country to source higher-cost materials from inside the free trade area rather than via cheaper rest-of-the-world sources, so that

the finished product can be exported to the partner country tariff-free.

In practice, the fact that utilization numbers are generally less than 100% is evidence of the opposite. Clearly, there are lots of exports to the U.S. from Canada that do not meet the standards for NAFTA treatment, not because of administrative or compliance costs, but because there are lots of materials, components, and supplies imported from non-NAFTA countries, presumably at costs low enough to justify paying the MFN tariff on the way into Canada and the outgoing MFN tariff on the way to the U.S. market.

One factor is that both Canadian and U.S. MFN rates, for the vast majority of goods, are already quite low (i.e., less than 10%). There are many other factors — such as labour costs or access to skilled labour — that play into the game as well. Ultimately, in many cases it will be advantageous to go the MFN route: costs of production in Canada are sufficiently low and prices received in the U.S. sufficiently high to give them decent profit margins.

Under a customs union, companies now paying the MFN tariff instead of entering under NAFTA would save the cost of the MFN tariff when exporting. However, some caution is required here. A common external tariff could increase or decrease effective levels of protection, depending on industrial sector and which tariff becomes the standard (likely the U.S. tariffs). The actual cost savings would also depend on what levels the common external tariff was set at for the customs union — if harmonized upwards, this could increase exporters' costs via higher input costs that would erode or even outweigh the savings of not paying the MFN tariff when re-exporting.

Moreover, it is important to remember that rules of origin were put in place for a reason as part of the negotiation of CUFTA and NAFTA. Presumably, this situation is better for exporters than the tariffs that prevailed before CUFTA.

While precise numbers are not available, rules of origin likely support economic activity in Canada, and in North America, specifically because of the incentives created to source inputs on a continental basis, even if deemed “inefficient” by some economists. Eliminating rules of origin would likely pose economic and social losses in vulnerable sectors, and these costs would have to be considered alongside any benefits.

Given the above figures, it does not seem very likely that rules of origin are engendering protectionism, anyway. Such a scenario only makes sense if MFN tariffs were relatively high, which they are not for Canada and the United States. There are a few sectors that have quite restrictive rules of origin, such as textiles and autos. But consider that auto exports boomed in the years following CUFTA and NAFTA, as much as any sector.⁸

Economic Benefits from Eliminating Rules of Origin

This analysis that rules of origin are not very costly is at odds with an estimate that rules of origin cost 2-3% of North American GDP, cited in Goldfarb (2003).⁹ This estimate derives from an unpublished PhD thesis by Alex Appiah (1999) at Simon Fraser University under the supervision of Richard Harris, the professor who produced massive estimates of the gains from CUFTA 15 years before. Most estimates of economic gains from the original FTA as a whole were much less than the 2-3% now attributed to rules of origin.¹⁰ One major outlier was Harris and Cox (1984), which produced the astounding prediction that the gains would be 8-10% of GDP.¹¹

Appiah uses a computable general equilibrium (CGE) model to generate his results. This approach solves a complex system of equations that purports to represent 26 sectors of the economy. The model is then “calibrated” to reproduce the macroeconomic outcomes of the pre-free trade

North American economy. Changes in the equations are then made to simulate the move to free trade. This becomes the base for comparing additional simulations that include free trade with rules of origin (in several different formulations) and a customs union (no rules of origin and common external tariff).

There are some major problems with Appiah's approach that suggest his numbers should not be taken too seriously. First, CGE modelling for trade policy analysis has a number of shortcomings as a methodological approach.¹² Unlike econometric analyses, CGE modelling is a quasi-empirical approach that tends to bias results in favour of free trade. This is in part due to its grounding in the assumptions of neoclassical economics, and in part due to data and modelling issues.¹³

Second, Appiah uses a particular methodology that is prone to producing unrealistically large estimates. Appiah follows his supervisor, Rick Harris, in using a model that assumes large unexploited economies of scale and a form of imperfect competition that generates large gains from small cost savings to exporters, which are then magnified by general equilibrium "virtuous circles."¹⁴

Third, Appiah produces a range of estimates under different scenarios. In one section, he simulates the impact of moving from no free trade to (a) free trade and (b) free trade with rules of origin. He finds that rules of origin shave 0.3-2.8 percentage points, depending on the scenario, off the estimated gain of up to 6% of GDP from going from no free trade to "pure" free trade. Thus, citing 2-3% GDP gains from eliminating rules of origin as a plausible estimate is problematic, especially without reference to the nuanced findings in the thesis.

Finally, it is worth noting that benefits in this model accrue to one representative consumer. This technique calculates the total growth of the "pie" that would result from the policy change, but fails to consider the reality of winners and losers that

There is no reason to expect major economic benefits from the elimination of rules of origin because they are not really that costly. Businesses would save some money by not having rules of origin in place, but this would do little to ease congestion and delays at the border.

matters for most working people. This approach turns a blind eye to distributional effects of the policy change among workers in different industries, and does not consider the differential impacts on capital (profits) and labour (wages). Nor does it account for claims on income due to foreign ownership (i.e., increased profits that would flow out of the country).

Appiah essentially models rules of origin as if they are huge costs to exporters that undercut the gains from tariff reductions. The assumption is that eliminating these costs would induce structural change in the Canadian economy similar to that predicted for the CUFTA — it would reduce input costs, increase productivity, enable exporters to capture previously unexploited economies of scale, boost foreign investment, and so forth.

While it is fair to say that CUFTA did structurally change the Canadian economy, for better or for worse, the major structural changes have already happened. Eliminating rules of origin is not likely to spark another round of major structural changes. And if it did, we would have to consider the costs associated with these changes.

In sum, there is no reason to expect major economic benefits from the elimination of rules

of origin because they are not really that costly. Businesses would save some money by not having rules of origin in place, but this would do little to ease congestion and delays at the border. Indeed, the rules of origin process as applied at the border is extremely straightforward, whereas the concerns of U.S. authorities about immigration, drugs, arms, security, and smuggling that consume most border resources would not go away if rules of origin were eliminated.

Moreover, rules of origin may actually have benefits to the Canadian economy that are not

being considered, and eliminating them would be at a cost. As a result, any incremental gains fashioned from the move from NAFTA to a customs union are likely to be extremely small, if there are positive gains at all. There are likely to be costs as well as benefits, as we will see in the next section, and to the extent that we desire to eliminate rules of origin, there will be negotiating trade-offs that will have to occur for the U.S. to accept such a change.

4. The Downside of a “Common” Trade Policy

A CRUCIAL ASPECT OF A CUSTOMS UNION and the implementation of a common external tariff is the need for a common trade policy with the rest of the world. In practical terms, this would mean surrendering Canada’s trade policy to the U.S. Trade Representative. Such a move would have sweeping implications for Canadian institutions and how we manage our place in the world.

Consider even the most basic implications of having a common external tariff with the United States. Both countries would need to set common tariffs by harmonizing tariff schedules, establishing uniform customs procedures, and determining how to share tariff revenues. It is hard to imagine that the U.S. would enter into a negotiation with Canada to jointly set common tariffs; rather, given the highly asymmetric differences in economic size and power, Canada would adopt U.S. tariff rates, convert to U.S. customs procedures, and take whatever share of tariff revenues the U.S. deemed appropriate.

The history of the South African Customs Union (SACU) gives pause for thought. Founded in 1910, the SACU is the longest standing customs union in the world, consisting of South Africa, Botswana, Lesotho, and Swaziland. It is one of highly asymmetric economic and political power — perhaps as asymmetric as Canada and the U.S. — dominated by South Africa. The result, according to McDonald and Walmsley

(2001), is that: “Historically, the RSA [Republic of South Africa] enjoyed *carte blanche* over the setting of tariff and excise duty rates for SACU, and used implicit threats, not least over transit rights, to reinforce its control. Consequently, the development of trade policies within the SACU was determined by the ‘development’ agenda of the RSA.”

In many areas, where Canadian and U.S. MFN tariffs are very close (less than two percentage points apart), a move to a customs union would not be too difficult. However, in both countries there are politically sensitive sectors that have been protected from the full force of international trade agreements. In Canada, these include public services, Crown corporations, agricultural marketing boards in eggs and dairy (protected by 200-300% tariffs), the Canadian Wheat Board, cultural industries, telecommunications, and banking. Many of these sectors have been targeted for liberalization by Washington, so it is hard to believe that, if they survived a customs union ne-

gotiation, they would be given preferential treatment by a U.S.-set trade policy in the future. Moreover, the threat to these industries — cultural industries in particular — comes from south of the border. Even if the U.S. were to give preferential treatment in these areas with respect to countries *outside* the customs union, this is of little consolation.

On its side, the U.S. also has key sectors that have been protected. These include tobacco, peanuts and peanut butter, footwear, porcelain and glassware, tuna, brooms, dates, sugar, bovine meat cuts and carcasses, trucks, sweet corn, and dried onions (Goldfarb 2003). Given the U.S. Congress's tendency to protect these areas in the first place, Canada could be asked to substantially raise its tariffs to U.S. levels to meet the common external tariff.¹⁵ Moreover, in certain areas, the United States has pressured trading partners like Japan to accept voluntary export restraints (VERs), effectively quotas, for its domestic mar-

Adopting U.S. standards and regulations would mean accepting that Canadian standards and regulations could never exceed those in the United States in the future. What would this mean, for example, in the case of the Kyoto Protocol, which Canada has ratified but the U.S. has not? Under a common regulatory regime, Canada would not be able to use regulatory powers to meet its targets.

ket. Would these VERs be extended to Canada under a customs union? If not, Japan could route its exports to the United States via Canada to end-run the VER, something Washington would not be happy about.

It is also unclear how far such arrangements would go in terms of the vast scope of modern trade policy. The concept of a customs union leading to a joint trade policy was obvious when most trade discussions focused on goods sectors and the principal barriers to trade were border measures like tariffs. This alone — the loss of capacity to set external tariffs or at least to negotiate their levels in international negotiations — is a huge loss of autonomy in trade policy. But the scope of “trade” policy in modern times includes a wide variety of measures taken by governments inside their borders. Services negotiations are explicitly about removing perceived barriers in the form of domestic regulations and standards, temporary work arrangements, access to network infrastructure, and public services. Trade agreements also cover investment, competition policy and intellectual property rights, and food safety standards.

Some proponents of a customs union have argued for greater harmonization between U.S. and Canadian regulations and standards as part of deeper integration. A customs union could force those changes onto the agenda due to the desire to harmonize trade policy in services industries. Again, this would likely mean Canadian adoption of U.S. standards and regulations. In some areas this could actually increase the level of Canadian regulations (certain environmental regulations, for example). But adopting U.S. standards and regulations would mean accepting that Canadian standards and regulations could never exceed those in the United States in the future. What would this mean, for example, in the case of the Kyoto Protocol, which Canada has ratified but the U.S. has not? Under a common regulatory regime, Canada would not be able to use regulatory powers to meet its targets.

Full integration of regulations may not be possible, much less desirable. Even within Canada, there are differences among provinces in terms of regulations for environmental protection, labour and employment standards, and consumer safety. Indeed, these differences are attacked from time to time by corporate Canada as allegedly massive “inter-provincial barriers to trade.”¹⁶ The question remains: how far does a common trade policy reach inside Canada’s borders? Ultimately, there is much more to this than setting a common external tariff.

Then consider that, over the course of history, Canada and the United States have developed different trade ties and political relationships with other countries. Reconciling these within the context of a customs union could prove to be difficult. The U.S. has embargoed trade relations with some countries while Canada continues to maintain trade relations (often in spite of U.S. pressures to follow its lead). The U.S. also restricts the trade of certain products (defense industries, satellite, nuclear, encryption technology) in general, and in particular with specific countries. Canada may not be willing to sign on to such restrictions on our trade.¹⁷

Cuba stands out as an example in the Americas. In the years following the Cuban revolution, Washington restricted trade with Cuba, and over the 1960s tightened its embargo on trade with that country. The U.S. does not permit U.S. citizens to travel to Cuba, and has sought to rope in other countries in support of its embargo through extraterritorial means, such as the Helms-Burton Act of 1996 and its predecessors. The U.S. has also balked at the inclusion of Cuba in the negotiations towards an FTAA.

Canada, on the other hand, maintains trade ties with Cuba. Canadian companies invest in Cuba, and thousands of Canadians travel to Cuba each year. Two-way trade (imports and exports) between Canada and Cuba was \$753 million in 2001 (with a peak of \$815 million in 1998)

(DFAIT 2003a). Mexico is also a major trading partner with Cuba.

Another example is Iran. The United States prohibits most trade with Iran, as commercial relations are restricted by U.S. sanctions (U.S. Department of State 2003). In contrast, two-way Canada-Iran trade was about \$700 million in 2000, and Iran is one of Canada’s major export markets for wheat (DFAIT 2003b).

In the event that economic sanctions were imposed on other countries by future U.S. administrations, under a common trade policy Canada would have to go along for the ride. Even though the common trade policy is ostensibly limited to trade, it would likely creep into foreign policy as a whole. Adding these together, we can anticipate a relatively significant impact on Canada’s trade relations with other nations.

Even when embargoes are not involved, Canada and the United States have differing relationships with other countries. Canada has a different set of trade agreements than the U.S., and different trade preferences granted to developing countries. Reconciling these differences would be quite complicated and difficult.

A common trade policy with Washington forecloses on all kinds of policy initiatives for Canada. For example, what if Canada moves ahead with the generic production of AIDS medication for poor countries in Africa that do not have domestic manufacturing capacity? After a long fight at the WTO, this could become practice in Canada, but under a common trade policy with the United States it would likely never happen, due to the powerful influence of brand-name pharmaceutical companies in that country. On a similar note, Canada extended duty-free and quota-free access to 48 less developed countries as of January 1, 2003. Such an international development move could not be done unilaterally under a common trade policy with the U.S.

Parties to a customs union must present a united front on trade policy when negotiating in

fora like the WTO. It is far from clear how this would work in practice, given the asymmetrical balance of power between Canada and the United States. But it likely involves the devolution of substantial power at the negotiating table to Washington. This, of course, begs a number of questions: What role would Canada have in setting trade policy and priorities? What capacity would Canada have to defend significant interests to which U.S. negotiators might be indifferent? Would all final negotiating decisions affecting Canada be made in Washington?

In the past, Canada has often coordinated with the United States in areas of joint interest at the WTO. But the difference is that this was in the perceived interest of Canadian negotiators (often to the dismay of civil society organizations). Further, it was done on a voluntary basis, and could be changed due to a shift in government or policy priorities (if, for example, the government was persuaded by arguments from civil society). Arguably, Canada's trade policy has not been particularly progressive — Canada has championed trade liberalization, investment liberalization, and so on — but even so, Canada needs to maintain

control over its international trade relations. Were Canada to effectively hand over this role to the United States, it would be a substantial loss of democratic space, and would lock in place a particular trade agenda that has been strongly opposed by many Canadian critics.

Canada could probably negotiate some form of process by which its views would be heard, but the likely consequence would still be living with whatever U.S. negotiators decided was in their best interests. This could result in all kinds of decisions that Canada would have to adhere to that internally we would disagree with.

Thus, the expansion of Canada-U.S. trade to a customs union is a major proposition in terms of Canadian trade and foreign policy. If anything, Canada needs a more multilateral trade policy — the gains from more trade are not with the U.S., but with the rest of the world (Helliwell 2003a). Yet, a customs union would not only be a shift away from multilateralism: at the same time as Canada fails to diversify multilaterally, the very tools needed to pursue a multilateral trade diversification strategy would be given away.

5. U.S. Trade Remedy Laws, Retaliation and Harassment

MOST PROPONENTS OF A CUSTOMS UNION would like Canada to negotiate some form of exclusion from the application of U.S. trade remedy laws (including countervailing and anti-dumping duties, safeguard measures, and other means such as Super 301 actions related to perceived non-compliance with intellectual property laws). More broadly, some suggest the replacement of these mechanisms in favour of a common competition policy regime. These proposals go beyond the definition of a traditional customs union, but are clearly of policy significance to Canada. The major stumbling block is in the U.S. political arena.

The desire for an exemption from U.S. trade remedy laws has a long history in Canada. It was one of the main objectives for Canada, and a key selling point to the public, in entering the CUFTA negotiations. Canada put trade remedies on the table early on, but Washington deferred the issue until the very end of the negotiation, when Canada was already so committed to securing an agreement that the perceived costs of failure were high. The result was a weak agreement to a binational panel that would assess whether trade remedies were appropriately applied in accordance with the laws in that country (Ritchie 1997).

The failure of Canada to secure exemptions from U.S. trade remedy laws has proved to be a major weakness of CUFTA from Canada's point of view. It is most visible in recent trade harassment over softwood lumber, wheat, tomatoes,

potatoes, and so forth. Often the U.S. Congress will set down sweeping duties that apply to all countries, including Canada, and Canada must grovel for an exemption. This is pretty much the same as before CUFTA.

The diffuse nature of power in the United States is at the crux of the problem. As Robert Wolfe (2003:15-16) notes:

Power is everywhere in the United States, and no central institution can be created to manipulate it on Canada's behalf. The fragmentation in Washington does not apply merely to political control of the levers of power, it is in the nature of the levers themselves. . . . A foreign country is but a minor special interest, because it sends no one to Congress.

Certainly, it may be in Canada's interest to achieve an agreement on trade remedies. For example, negotiating clearly defined rules on what constitutes a subsidy (this was supposed to happen as a result of CUFTA but was dropped by the U.S. once the deal was in place) would cut to the heart of the dispute over softwood lumber. Dealing with anti-competitive practices under competition policy rather than anti-dumping would raise the bar in a way that would likely make most anti-dumping cases against Canada go away.

This is all in the realm of theory, however, because barring a sea-change in attitude in the U.S. Congress, changing trade remedy laws or even negotiating an exemption is essentially a non-starter. That is, this potentially huge source of gain for Canada is, for all intents and purposes, off-limits. Even if such political will existed south of the border, Canada would probably have to pay a very high price to get a deal.

6. Assessing the Bargain

ULTIMATELY, WHAT IS POLITICALLY FEASIBLE would determine the outcome of a new round of negotiations with the United States. Canada would be seeking particular gains from Washington, and in turn would need to make concessions to seal a deal. The history of such negotiations is cause for concern. There is a great danger that Canada would have to give up a lot to get little in return. In a negotiation that is broad, even if couched as a customs union, Canadians would have no real idea where it would lead, what the final package would look like, or what surprises (like the revolutionary investor-state dispute settlement mechanism that came with NAFTA) might be in store.

What might Canada give up in order to seal a new deal with the U.S.? Hart and Dymond (2001) suggest that Washington would be focused on the following list of issues were it to enter into a new negotiation with Ottawa: agricultural supply management; Canadian content provisions and other cultural policies; border measures (including refugee policies, entry, and customs procedures); provincial and federal agricultural programs and practices; intellectual property rights issues; telecommunications policies; and foreign investment and ownership restrictions. Canada would be required to make serious commitments in these areas — commitments that many Canadians would find unacceptable.

Dobson (2002) suggests a number of things Canada could bring to the table as part of her “strategic bargain.” At the top of her list are Canada’s energy resources. While critics of CUFTA and NAFTA rightly point out that Canada has already given up a lot in the energy sector, the U.S. ob-

session with acquiring cheap energy to power its economy means that Canada could offer a deal that included greater energy integration. Other initiatives include enhanced border security, harmonization of immigration and refugee policies, and an enhanced defense policy under the U.S. umbrella.

These hypothetical concessions go much deeper than a customs union and would greatly intrude on Canadian policy-making space. There seems little notion among proponents that increasing levels of integration with the United States may deliver few added benefits (i.e., diminishing returns to further integration). Ultimately, given that the original CUFTA negotiations were supposed to guarantee our market access but failed to do so, will Canada really secure that objective this time around?

This is not to rule out space for some pragmatic initiatives. Under NAFTA, for example, there is already an agreement to waive rules of

Ultimately, the issue before Canadians is not whether we must take the next step, but whether this is the correct road to be on in the first place.

origin for most computers and parts.¹⁸ If it is in the interest of companies on both sides of the border, there seems to be little problem in negotiating sectoral agreements where there is the most to gain. There are a large number of sectors where MFN tariff rates are already identical or close enough that they could be harmonized on a sectoral basis. Autos and steel, for example, represent sectors where Canada and the U.S. could gain from a common trade policy. As long as costs to Canadian industry and workers are taken into account, such an approach could harvest the “low-hanging fruit,” reaping most of the benefits, but without the dramatic loss of sovereignty.

Ultimately, the issue before Canadians is not whether we must take the next step, but whether this is the correct road to be on in the first place. As economist John Helliwell (2002 and 2003a) argues, there are diminishing returns to further

integration with the United States and attempts to increase north-south trade flows. The gains for Canada from trade are more likely to be found in enhancing trade with Europe or the global South, which suggests a multilateral approach to trade policy rather than a narrow bilateral one. And Canada’s concerns would be better addressed via multilateral institutions and international cooperation with other countries that share those concerns. This is the only way to get the leverage necessary with Washington to make changes on issues of real substance, like its punishing trade remedy laws.

Moreover, improvement in our quality of life is about much more than GDP per capita. Helliwell’s research points out that, beyond per capita incomes of about US\$15,000 per year, there is little gain in measures of subjective well-being (how people personally rate their quality of life). Further increases in well-being are more closely linked to levels of health and education, quality of communities, and participation in public life. One of the key reasons why Canada will likely face costs that exceed benefits of further economic integration is that there are a number of institutional differences that underpin higher levels of well-being in Canada. Deeper integration would undermine these institutions, and thus our standard of living.

Conclusion

The next great debate in Canada could be over whether Canada should enter into a customs union with the United States. In this paper, I have noted that the potential gains from doing so are rather small, and nowhere near some of the incredible numbers being cited in favour of a customs union. And to bring about a customs union, Canada would have to forgo its independent trade policy, and potentially sovereignty in a variety of other areas.

The net result is unlikely to be more secure access to the U.S. market, in any event, because Washington will not give up the ability to use trade remedy measures. Nor would a customs union facilitate border traffic. The certificate of origin

accompanying NAFTA goods across the border is perhaps the most straightforward part of crossing. The border will not go away because U.S. authorities will be concerned with immigration issues, drug trafficking, smuggling, and other security matters.

When the facts are laid bare, there is little case for entering into a new negotiation with the United States over a customs union, or a broader negotiation that would include as one component a customs union. Hopefully, good sense will prevail, and the debate will not be necessary because Canada chooses to chart a different course than deeper economic integration with the U.S.

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Endnotes

- ¹ I follow the taxonomy used by Anne Krueger (1995).
- ² International trade rules permit the application of *antidumping duties* in cases of dumping, when a good is sold for export at a price lower than cost of production and/or the price of sale in the domestic market. When a good is deemed to be subsidized by a foreign government, a country is allowed to impose *countervailing duties* to offset the impact of the subsidy. Trade rules also permit temporary tariffs to be put in place as *safeguards* against import surges or for balance of trade purposes. In practice, rich countries often use these trade remedy measures to protect domestic industries. The U.S. is generally considered to be one of the worst offenders. The recent Canada-U.S. dispute over softwood lumber is a case in point.
- ³ A “layer” down, the 19th Century German Zollverein began as a customs union (like the E.U.) and evolved a few decades later into the German nation-state.
- ⁴ In the remainder of this paper, Mexico as a potential third party to the customs union is left out of the analysis in order to focus more directly on Canada-U.S. relations. This presumes that a new bilateral arrangement between Canada and the U.S. can be done independently of Mexico, and that it would not involve renegotiation of the NAFTA in a way that would require Mexican approval.
- ⁵ It is difficult to gauge Pettigrew’s support for a customs union. He appears to support liberalizing rules of origin but has steered away from endorsing a customs union, perhaps because he understands the political consequences of such an endorsement. Pettigrew and U.S. Trade Representative Robert Zoellick both made the spurious argument that a customs union would entail raising a common barrier to the rest of the world (this would be against WTO rules).
- ⁶ These stylized variants follow Dobson (2002) and are not consistent with the standard economic definition of customs union.
- ⁷ Goldfarb refers to these trade distortion costs as “administrative costs,” which is not technically correct, whereas Cadot et al call them “compliance costs.”
- ⁸ Though this was really due to the 1965 Auto Pact and a falling dollar rather than the CUFTA/NAFTA. Still, rules of origin do not seem to have made a difference.
- ⁹ Goldfarb notes that there are no studies that specifically address a move to a Canada-U.S. customs union, only a North American one. In addition to Appiah (1999), Goldfarb also cites Brown et al (2001), which models a move to a common external tariff, finding minimal long-run changes, but not elimination of rules of origin.
- ¹⁰ Of note, these CUFTA estimates did not consider rules of origin as offsetting costs, a point made by Appiah in the thesis.
- ¹¹ See Hazledine (1990) for a review of the alternative specifications used by modelers that come to such a wide range of forecasts about the impact of Canada-US free trade, and a methodological critique of Harris and Cox (1984). He finds that “only a model with an extreme combination of non-competitive product market and free entry (as well as unexploited scale economies) can generate substantial gains from free trade.” Other forecasts ranged from net losses to gains of 0.7% and 1.2% of GDP.
- ¹² The computable general equilibrium (CGE) approach is grounded in neoclassical economics — a world where wages and prices always adjust so that supply equals demand (i.e. there are no unemployed workers or underutilized resources). Making a general equilibrium model computable involves a number of specific problems including data limitations, issues around modeling the structure of the economy and specific industries, the “calibration” of the model to one point in time as a reference case, and rules around closure of the model. Furthermore it may require making a series of implausible assumptions such as no capital mobility, no transnational companies, a full employment economy, no finan-

cial markets, etc. See Hazledine (1992) and Stanford (1993) for an overview of these problems.

¹³ CGE modeling is just a tool that under standard assumptions leads to biases. Stanford (1993) develops a CGE model of the impacts of the NAFTA using “real-world” assumptions and finds a negative impact on GDP and employment.

¹⁴ Recent evidence suggests that the Harris and Cox assumption about unexploited economies of scale was wrong — that productivity increases from the CUFTA came not from economies of scale but from weaker companies going out of business. See Gu et al (2003) and Trefler (1999). General equilibrium modeling then exaggerates these gains. According to Hazledine (1990), “general equilibrium brings into play a ‘virtuous circle’ of events: the initial cost reduction reduces the supply price of domestic exports, resulting in an appreciation of the exchange rate to maintain external balance, which reduces further the domestic market price of imports, forcing additional domestic output price and cost reductions, and so on”(p. 795).

¹⁵ This would be an ironic outcome. However, WTO rules would frown on one or both countries raising tariffs to form a customs union. To the extent that this was possible, compensation would be required for WTO Members experiencing adverse effects.

¹⁶ See Lee (2000) for an overview.

¹⁷ I am not arguing here that Canada should be an arms dealer of last resort, only that decisions about who we trade with and what we trade should be made by Canadians not our neighbours to the South.

¹⁸ NAFTA Annex 308.1 provisions on “certain automatic data processing goods and their parts.” This includes automatic data processing machines, digital processing units; input or output units; computer parts; computer power supplies; storage units; diodes, transistors and similar semiconductor devices; and electronic integrated circuit and microassemblies.

