TRADE

Jim Flaherty on why Ottawa modernized the General Preferential Tariff program

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A lot has changed since the 1970s in the global economy. So why would we continue to administer – virtually unchanged – a foreign aid subsidy program based on the state of the global economy of the 1970s? We shouldn't.

In the recent federal budget, our government set out to modernize a foreign aid program called the General Preferential Tariff. Created in 1974, this program was a collective commitment from developed Western countries to help the economies of the poorest Third World countries.

The program gives companies from these countries preferential access to the Canadian market and the other Western countries involved. Most jurisdictions in the West – from the European Union to the United States to Japan – that have a General Preferential Tariff program or equivalent treat it as an aid program.

Throughout the years, as some of the poorest countries grew stronger, many in the West have modified their list of countries to ensure it properly reflected changing economic realities.

Consider this: In 1980, the Canadian economy ($269-billion) was bigger than China ($252-billion), Brazil ($235-billion), and India ($189-billion).

Three decades later, the economies of China ($7.3-trillion), Brazil ($2.5-trillion) and India ($1.8-trillion) have now all overtaken Canada ($1.7-trillion).

Yet, until our recent action, for the purposes of the General Preferential Tariff in Canada, all three countries – China, Brazil, India – would continue to receive the same benefits as the poorest Third World countries.

To be clear, this is not a "free trade" program – there is no increased access for Canadian exporters to those preferred countries. In fact, many Canadian companies face hurdles when trying to enter those markets. For example, some Canadian manufactured products face a 35-per-cent tariff when trying to enter Brazil, and key agricultural exports have very high tariffs of up to 100 per cent imposed on them when trying to enter India.

It is those prohibitive tariffs and other restrictions that our government is focused on eliminating.

That is why we are aggressively opening more markets to our goods and diversifying our trade with more reciprocal trade agreements. But we cannot accomplish that by letting an outdated program from the 1970s continue indefinitely – especially when it provides nothing but a one-sided advantage.

The recent changes will provide an important incentive for many countries to open their markets to Canada through reciprocal trade agreements that will allow for more export opportunities – meaning better jobs for Canadians – and further tariff reductions for Canadian consumers.

Canada has already made great strides in eliminating tariffs recently. The government has provided more than $590-million in tariff relief through the elimination of close to 1,900 tariffs and the successful conclusion of several trade agreements.

We hope to build on that record with even more trade agreements. For example, the proposed Canada-EU free-trade deal will help create jobs and investment, and will also mean tariff savings of almost $750-million annually.

Freer trade provides better treatment for Canadian exporters, our economy, and especially consumers.

Finally, due to recent confusion, I want to be clear that the changes had no effect on iPods and other music devices and their special and long-standing tariff-free exemption.