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## **BRIEFING NOTE: CANADA-UNITED STATES CUSTOMS UNION AND ‘SOCIAL CANADA’**

### ***Issue:***

Is it likely that a customs union between Canada and the US would have an effect upon Canada’s

countries, the customary meaning of the term has these four elements:

1. An agreement to common tariff and non-tariff barriers to apply to countries external to the customs union area.
2. An institutional arrangement to decide upon what tariff and non-tariff barriers to impose upon countries external to the customs union area, and to resolve any disputes that might arise.
3. Agreement on how to divide tariff revenue among the countries in the customs union area.
4. The elimination of any ‘rules of origin’ between countries within the customs union area.

While non-tariff barriers are not always explicitly mentioned in the context of a customs union, obviously these too must be the same between countries in a customs union area, or it will not be possible to eliminate fully rules of origin. For example, say country A and country B are in a customs union. If country A embargoes goods from country X but country B does not embargo goods from country X, it would be simple enough for country X to circumvent the embargo by shipping goods through country B to country A. This applies similarly for almost all other non-tariff trade restrictions. For this reason the implication of the four elements of a customs union is that countries within a cust







- **Possible elimination of quasi-social managed trade sectors**

Canada has a number of managed marketing programs meant to stabilize rural incomes and farm marketing. Prime among these is dairy marketing, eggs and chickens, and the Wheat Board. Although these are not social programs *per se*, they do have a significant social component. The US might insist on lowering barriers to the entry of US firms into these sectors or, in the case of the Wheat Board, allowing farmers to market directly wherever they please.

It would be difficult to maintain a barrier to US entry if Canada has to have the same tariff and non-tariff structure with respect to outside goods as the US. For example, if the US wants to eliminate tariff barriers to Mexican dairy products (assuming for the moment that Mexico is not part of the Canada-US customs union), would this mean that Canada would permit Mexican dairy products to enter with little or no restriction while imposing barriers against US products? This does not seem possible.

Of course, it is theoretically possible to exempt certain products from a customs union, and Canada would no doubt attempt to do so with respect to its managed agricultural sector, but how could concessions of this kind be obtained in a one-sided negotiation? Moreover, to the extent that there are exemptions, any possible benefit from a customs union is reduced.

***Conclusion:***

A Canada-US customs union is extremely unlikely and there are many reasons to suppose that it is not necessarily a good idea anyway. But should a Canada-US customs union be implemented its direct effects on social programs in Canada are likely to be minimal or non-existent. A Canada-US customs agreement could have *indirect* effects by increasing the political demands for Canada to duplicate US patterns of taxing and spending. A Canada-US customs agreement could also require opening Canada's public sector to greater commercialization in a variety of ways. Neither of these effects are a necessary result of a customs union. A customs union would, however, probably require that some quasi-social managed markets in Canada open to competition.

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