

Minister of Industry,
Science and Technology and
Minister for International Trade



Ministre de l'Industrie, des
Sciences et de la Technologie et
ministre du Commerce extérieur

Statement

Déclaration

92/33

AN ADDRESS BY

THE HONOURABLE MICHAEL WILSON,

MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY AND

MINISTER FOR INTERNATIONAL TRADE,

TO THE OTTAWA CENTRE BREAKFAST CLUB

CHATEAU LAURIER HOTEL

**OTTAWA, Ontario
July 23, 1992**

Ladies and gentlemen:

Tomorrow I am leaving for Mexico for further negotiations toward a North American Free Trade Agreement (NAFTA). I will be meeting my counterparts, Mexican Commerce Secretary Jaime Serra and United States Trade Representative Carla Hills. This may constitute the final Ministerial session of these negotiations. By Monday, we may have agreed to the main elements of an accord to establish a new free trade area that includes all of North America.

If we are successful, I will be proud to return to Canada to explain the achievement to Canadians and recommend its approval to my Cabinet colleagues, and to Parliament later this year. The NAFTA we want will be a significant step forward in the government's efforts to strengthen the rules of international trade and to win new markets for Canadian goods and services.

If we are not successful this weekend, it will be because there is still work to do. We are not bound by any deadline. If the talks must continue for several months, that poses no difficulty for the Canadian government. Our desire is to obtain an agreement that will be good for Canadians.

A little more than a year ago, we embarked on these negotiations. I outlined Canada's objectives in a speech to a Financial Post Conference on North American Free Trade on April 25, 1991 in Montreal. Those objectives were clear then. We have pursued them consistently throughout the negotiations, and we have adhered to them. A successful agreement will clearly encompass them.

We wanted to expand our markets in Mexico, a growing economy of 85 million people and a springboard to the rest of Latin America. Through the NAFTA, there will be substantial and tangible benefits for a range of Canadian exporters. With these opportunities they will be able to make new business plans that will involve expansions of their payrolls.

We wanted to strengthen further our trading relationship with the United States, without in any way reducing Canadian benefits in the Canada-U.S. Free Trade Agreement (FTA). Key for us, as I said in my speech of April 25, was that Canada would not let the United States get through the back door of the NAFTA what it could not get through the front door of the FTA. We have not deviated from this promise.

We wanted also to ensure in the NAFTA that investors would be able to serve all of North America from a Canadian base. We wanted to ensure that investors locating in North America would not simply choose the United States, which they would if the U.S. had separate agreements with Canada and Mexico. We wanted instead to have an integrated market where each country could compete for investment on an equal footing. We also wanted

Canadian firms to be able to take advantage of the increased economies of scale involved in the larger North American market. It was clear that without a NAFTA, job-creating investment would have been diverted from Canada to the U.S., robbing us of jobs and technology, while generating them for the U.S.

The NAFTA now being hammered into shape will meet these objectives. Some important decisions have yet to be made, but if the political will is there to put together a balanced and fair agreement, we will have a NAFTA that will open up new opportunities for Canadians which, when taken, will enhance Canada's future prosperity.

For Canadians, keeping our trade lines free of interference and tapping into new markets are vital. We rely on trade more than most industrial economies. We have, therefore, a comprehensive trade policy agenda that seeks to provide our exporters with the widest range of opportunities. In the last year we have consulted closely with Canadians to review their ideas about how the economy can be made more competitive. We intend to act on these ideas; the government will be outlining an action plan this fall.

But for a trading nation like Canada, strengthening competitiveness at home is only part of the equation. Opening world markets allows Canadians to demonstrate they can compete and, in so doing, provide greater prosperity for all Canadians.

NAFTA is only one component within this trade strategy. We need to work on many fronts at one time. That's why, though the pace is slow, we continue to press for successful conclusion of the Uruguay Round of Multilateral Trade Negotiations. That's why we are active in trade development in many parts of the world, especially in the important Asia Pacific region. That's why we negotiated the Canada-U.S. Free Trade Agreement to secure our access to our most important market, and that's why we are now trying to build a framework of rules to include Mexico.

Many Canadians are doubtful about the Mexican market. They wonder if Mexico can be a valuable customer for Canadian goods and services. Many still have an image of Mexico as it was a decade ago: an inefficient economy, over-regulated by government, that squandered its oil riches of the early eighties and ended up paralysed by enormous debts.

This view no longer conforms to reality. Mexico has undergone a remarkable transformation in the last half-dozen years. President Salinas is successfully carrying out a major economic reform program. He has reduced his country's debts and made them manageable. He has privatized nearly 1,000 state firms. He has eliminated stacks of useless regulations. His policies have encouraged a surge of investments. And to strengthen his

modernizing project, he initiated the discussions that led last year to the North American Free Trade Agreement negotiations.

I have travelled to Mexico several times since these negotiations began. I have seen today's dynamic Mexico at work. I have especially noticed the ambitious, eager-to-do-business attitudes of Mexican business people. They were much in evidence at Canada's largest trade fair ever in Latin America, last January in Monterrey, Mexico. Our Canadian exhibitors were impressed. They concluded \$3 million worth of business on the spot, and they have projected \$80 million in sales for 1992 and the first half of 1993.

These Canadian companies are the vanguard for a new business and investment wave ready to sweep into the Mexican market. Canadian exports to Mexico were up 76 per cent in the first quarter of 1992 and this surge appears to be continuing. This trade, I should point out, is highly diversified, ranging from pork and barley, for example, to steelmaking equipment, aircraft and cellular telephone networks. And this is today, before NAFTA; our exports are bound to grow once we get rid of Mexico's tariffs and import licence systems through NAFTA.

Just consider. Mexican duties add, on average, eight per cent to the cost of doing business in Mexico. Duties on many goods are commonly as high as 20 per cent.

Worse, Mexico has a plethora of import licencing requirements that deny predictable access to the Mexican market.

Canadian-owned trucks can't carry cargoes into Mexico. They must unload their shipments at the border and transfer them to Mexican vehicles.

The Mexican Auto Decree frustrates both trade and investment in that very important sector, whereas we allow most Mexican-made auto parts into Canada duty-free. This is effectively one-way free trade.

Under the NAFTA, these obstacles to Canadians will be eradicated, either immediately, or over a period of up to 10 years.

The removal of Mexico's trade barriers on auto trade alone will be a boon to Canadian manufacturers. It will provide significant opportunities for sales of both auto parts and finished vehicles. Last year, Mexico sold auto goods to Canada valued at \$1.7 billion, but faced with Mexico's high barriers, we sold Mexico only about \$100 million. NAFTA will help re-balance this currently lopsided arrangement.

NAFTA will also offer our financial services industry promising opportunities for investment, as Mexican restrictions on financial services will gradually be phased out.

In addition, early tariff removal under NAFTA is expected to offer new markets for products ranging from fish and fertilizer to agricultural machinery and telecommunications equipment.

I don't want to exaggerate the benefits. Better access to the Mexican market won't by itself be the winning touchdown of the international trade season, but it will win us important yards on a toughly competitive field.

It has not been easy during the last year to make the case for a NAFTA. Public opinion was at first sceptical. Then it grew hostile, as so many Canadians struggled in the aftermath of the economic recession. This is starting to change as Canadians see our exports to the U.S. at record levels, proving that the FTA is working, and that this same success can be repeated with Mexico.

Many members of the public are concerned about low wages in Mexico. They fear competition from Mexican workers. Let me reassure them. Mexicans want to be part of NAFTA so they can strive toward the same level of economic development as their two northern neighbours. They know that Canada's prosperity is based on good technology, quality services, access to capital, a strong educational development and, above all, a highly skilled workforce. Mexicans know that Canadians, with their superior level of economic development, are impressive competitors. Canadians should take comfort in those record export numbers and know that we can compete -- and are competing -- successfully.

Mexico's wage levels don't threaten Canadian workers. Canada's toughest competitors are high-wage economies, like the United States, the European Community (EC) and Japan. It's been said before, but it's worth repeating: if wages were the only criterion of competitiveness, why haven't all businesses in the hemisphere built their factories in Haiti? Why haven't all the factories in Europe gone to Greece or Portugal or southern Italy, all members of the EC?

The environment is also an issue for many Canadians. They fear Mexico will become a haven for polluters fleeing tight regulations elsewhere. In the NAFTA we have made some important progress on the environment front. We have set out to explicitly recognize the right of each NAFTA partner to impose environmental regulations higher than international standards. We wish to include the appointment of environmental experts to dispute settlement panels during trade disputes that have environmental implications. We are aiming to expressly prohibit any NAFTA partner from reducing environmental standards to attract new investment. These will be precedent-setting provisions for any

trade agreement and ought to provide some assurance that these concerns are being addressed.

Beyond that, however, no one is more conscious than Mexicans of the need to improve their environment: they are the ones who have to breathe Mexico City's polluted air. My experience with Mexico in the course of these negotiations is that they are concerned about the state of their environment and wish to make it better. They have set high standards. They have expanded their capacity to enforce them. Canada is also making a contribution to this effort through a program of environmental co-operation that focuses on enforcement. We are trying to help, but we and the Mexicans believe the best way to contribute to improvement of the Mexican environment is to promote economic development. With a stronger economy, Mexico can devote more resources to preserving and improving its environment.

Although Canadians have frequently expressed concern about the wage and environment issues in these negotiations, the majority of Canadians appear to agree on one thing: Canada must be at the table to defend our interests.

I regret that this common sense view is not shared by the premiers of Ontario and British Columbia. In the last few weeks, they have both officially declared themselves opposed to the NAFTA negotiations and have urged us to abandon them because the U.S. is behaving badly. I can not, in good conscience, take their advice.

Let me make it very clear. We are at the NAFTA negotiating table not as a favour to the Mexicans, but to pursue Canadian interests. We see advantages to be gained for Canada in a possible agreement.

I find Premier Harcourt's position particularly contradictory. Mr. Harcourt has endorsed the concept of a free trade zone for the Western Hemisphere, yet he advises us to pull out of what could be the key building block for such an arrangement. Mr. Harcourt is interested in the new markets for B.C. goods and services. He's interested in new investment for his province. I know he's interested in contributing to the economic and social development of all the Americas. If he is truly committed to a western hemispheric trading relationship, he would support Canada's NAFTA objectives. So we are at the table now in order to influence the Western Hemisphere trading bloc to the maximum extent possible. We certainly will not have much influence after the relationship is built by others.

All Canada's premiers are frustrated by the unrelenting pressure of U.S. trade actions, as are we, but these are a fact of life we have to live with. The United States' trade deficit with the rest of the world has contributed significantly to protectionist

pressures south of the border. These pressures will probably continue until the U.S. experiences a stronger economic recovery. But the facts are clear: trade agreements help us defend our interests; they set out rules; they impose disciplines; they limit the scope of protectionist actions; and they offer recourse when such actions are used.

Put simply, trade protectionism is the problem; trade agreements are the solution. Leaving the NAFTA table would be surrendering to protectionism. By staying at the table we combat protectionism and further Canadian interests.

I urge Premiers Harcourt and Rae to recognize that it will not punish the United States if Canada withdraws from NAFTA. Such a rash action would simply result in the U.S. and Mexico signing a bilateral agreement tailored to their interests only. But if we are not part of NAFTA, investments that could go to either the U.S. or Canada would be diverted to the U.S. They would have better access to the Mexican market. This does not make our attachment to the NAFTA inevitable, but the premiers of B.C. and Ontario have yet to provide me with a compelling argument for turning our back on an agreement that will benefit exporters and investors and their employees.

When the Canada-U.S. Free Trade Agreement was put into force in 1989, Canadians made a commitment to a more assertive, outward-looking and competitive approach to our economic and trade relations.

The benefits of that decision are clear for those willing to look at the issue objectively. In the course of the last year, Canadian monthly exports to all countries rose more than nine per cent. In May, they set a record of \$12.9 billion, and our trade balance posted a \$1.2 billion surplus. In addition, Canadian exporters have been achieving increased shares of certain U.S. sectoral markets. This may surprise some of you, but among those sectors are manufactured products in general and electronics in particular.

The success of the FTA is told not only in numbers. It is told also in the clear victories Canadians have won in rolling back unfair U.S. trade actions. Canadians have heard a lot recently about actions initiated by protectionist-minded U.S. industries against Canadian lumber, steel and beer.

An accusation made on an industry petition or even a ruling by the U.S. Department of Commerce is not yet a defeat. Thanks to the FTA and its dispute settlement process, we have the ability to challenge such protectionist bullying and reverse unfair rulings. Just ask auto makers who established that non-mortgage interest is a legitimate cost in the calculation of North

American content. Or ask Canada's hog producers who recouped \$20 million a year ago in unfairly collected duties.

We will continue to fight U.S. action methodically and with determination. Though it will take a little time, using the uniquely powerful dispute settlement process, we intend to obtain fair rulings.

We have had three and a half years of experience with the FTA now. I am more than ever convinced that its fundamental principles of trade barrier removal and effective dispute settlement are sound.

There are always things that can be improved in detail. For instance, the U.S. Customs Administration declared that U.S.-built engines in Canadian Honda Civics could not be counted as North American content. From the absurdity of that ruling, it was obvious that FTA language needed to be clarified.

The NAFTA negotiations have provided the means to address this matter, and we have seized the opportunity. We have been able to take a good deal and make it better. As a result, NAFTA will certainly contain better rules on North American content on autos so that ludicrous actions like that against Honda don't happen in the future.

The NAFTA, which will become the new operational trade agreement between Canada and the United States, will contain other elements that will make this agreement FTA-plus. It will address intellectual property for the first time, strengthening the rights of creators to reap the rewards of their traded products, from books to computer software. It will ease business travel between the U.S. and Canada and ensure business people don't pay duty on the tools of their trade. It will provide some additional protection for Canadian exporters against U.S. emergency safeguard measures aimed at other countries.

Taken one by one, these aren't dramatic measures. But together they represent a significant improvement that will further secure our access to the U.S. market and make our trade relationship more predictable. It will build incrementally and positively on what is already a strong and effective agreement.

I stress that none of the changes erodes Canadian benefits or reduces U.S. obligations within the original agreement.

When I first outlined Canada's approach to NAFTA on April 25, 1991, in my speech in Montreal, I made clear that important issues settled in the FTA would not be re-opened in a NAFTA. I said that the Auto Pact would remain in place. I said also that the FTA exemption for cultural industries would be preserved.

I assure you here today that I have been true to my word. The Auto Pact shall remain in place; the cultural industries exemption will be preserved.

That is not all. We will not cancel our present policies on screening of foreign investment. We will not permit any weakening of the dispute settlement and panel review process. These are fundamental positions for Canada, and we are resolved not to alter them.

I leave for Mexico tomorrow to try to conclude these negotiations. It is possible to arrive at an agreement, but it is certainly not pre-determined.

We believe the NAFTA will open new markets, not just to Mexico but to the rest of the Americas.

We believe the NAFTA can further secure our vital trading relationship with the United States.

We believe the NAFTA will encourage investment in Canada to serve an integrated market of 360 million people.

We believe that a NAFTA will help the Canadian economy become more competitive.

But I will not settle for any agreement. It has to be the right agreement: an agreement that will achieve our goals; an agreement that will serve Canada's interests in a way that will strengthen our country and build a stronger base for our future prosperity.