



# Statements and Speeches

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## NEW CLIMATE FOR INVESTMENT IN CANADA

Notes for a Speech by the Right Honourable Brian Mulroney, Prime Minister, to the Members of the Economic Club of New York, New York, December 10, 1984.

...I would like to stress at the outset that, as Prime Minister of Canada, I place the highest priority on retaining good relations between Canada and the United States.

President Kennedy once described the relationship between our two countries in this way: "Geography made us neighbours, history made us friends, economics has made us partners, and necessity has made us allies."

My government has just embarked on a new direction, one which I believe will instill in Canadians a new sense of national purpose; a direction which will restore Canada as a more dynamic force in the international community; a direction which will put our economy firmly on the road to economic renewal.

Tonight I want to talk to you about that new direction, and share with you the goals and hopes that we in Canada have set for ourselves.

It is my fundamental belief that the challenge to our two countries is to improve and strengthen the mutual benefits from our roles as friends and partners. To this end we must minimize friction, remove needless irritants, and maintain a healthy and vigorous relationship based on mutual understanding, constant and open communications, and a respect for our individual needs and interests.

In 1983 there was a national convention of my party, at which I sought and won the party leadership. During the campaign that preceded the convention, and in my speech to the convention, I pledged to re-establish that special relationship of trust with the US and with all our allies.

Three months ago, there was a general election, in which I repeatedly stated my intention as head of a new government to restore harmony and co-operation with the US. Last month, when Parliament reconvened, the Speech from the Throne underlined not only the importance of this relationship to Canada's security and prosperity; it pointed out that the source of our relationship lies in shared values and wellsprings of trust between two peoples. In the minds of some Canadians, such statements are tantamount to servility. Simple acts of friendship are ridiculed because they are instantly equated with a loss of sovereignty. By and large, Canadians are unimpressed and unmoved by these reactions.

The statements that the new government have made were overwhelmingly endorsed by the people of Canada who, with maturity and strength, have made it known they wish the Canadian-US relationship to be a privileged one, as befits true friends and trusted allies. Our purpose is noble, our course is

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clear: two sovereign democracies, sharing the same continent, have much that will benefit each other and even more that will enhance the cause of a durable peace in the world.

Because of your enormous size and influence, the government of Canada must always be vigilant to ensure the protection of our integrity and interests. This government shall enhance Canada's sovereignty and independence at all times and in all circumstances. We shall do so with strength and resolve — in a manner free from malice — in the certain knowledge that a stronger Canada can contribute to a more equitable world.

I have had two excellent meetings with President Reagan, who has shown a great warmth for Canada and a deep understanding of our problems. He has quite properly pointed out the enormous benefits that accrue to both sides from a sound association and has committed his Administration to resolving many of those matters that trouble us both.

Many US citizens are aware of the similarities between our two countries: a common heritage of individual liberty, shared democratic values of freedom and justice, vast commercial links, an immense geography spanning a continent with an open and undefended border. Today the most noteworthy measure of our relationship is in our economic ties — in investment, in trade, in technology flows.

After all, almost one fifth of your exports go to Canada.

Canada is the largest trading partner of the United States.

The United States is the largest market for Canadian goods, services, and investment.

In 1983 total trade between Canada and the US exceeded \$90 billion (US). That amount exceeds more than \$27 billion (US) trade with Japan.

In 1984, Canada-US trade is likely to exceed \$110 billion (US). In fact, your trade with Canada exceeds total American trade with Germany, France, and Great Britain by almost \$34 billion (US) in 1983.

To put the matter in a different context, Canada is the leading trading partner of the US, and your second largest trading partner is not Germany or Japan but Ontario, a province of Canada.

The restoration of good and sound relationships between our two countries is clearly a top priority. This relationship, spanning 170 years of uninterrupted peace, billions in two-way trade and investment, and reciprocal agreements covering a multitude of subjects, is incontrovertible evidence to the world of a vibrant and mutually productive relationship. To all who seek a definition of peaceful association between nations I say look no further — it is unlikely you shall find a better illustration than the simple story of friendship and prosperity that has marked the evolution of our two countries over the years.

So how do we manage our bilateral affairs? I have suggested several initiatives, both to President Reagan

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and to his cabinet colleagues. The most important of these is the yearly meetings with the president of the United States and the prime minister of Canada — a process already begun. For my part, I visited President Reagan in Washington very shortly after my election as prime minister. I am pleased to announce tonight that President Reagan has accepted my invitation to make a working visit to Canada in March 1985.

Second, regular meetings of senior ministers to be held alternately in the US and Canada.

Third, we favour an accelerated rhythm of bilateral parliamentary and congressional meetings in order to cover a wider range of topics of interest to our two countries, from steel imports to acid rain.

Fourth, our provincial governments can and should meet more frequently with their geographical counterparts in the state governments.

In addition there have been various proposals for new and improved institutional mechanisms for investigation, analysis and resolution of bilateral disputes, possibly modelled on the International Joint Commission. These are worthy of study. This does not suggest an exclusive or narrow focus in our involvement in world affairs. Indeed, in trade liberalization as in defence, disarmament and international development, we attach great importance to our role in sound multilateral institutions.

We believe these institutions offer us the best opportunity to exert a constructive Canadian influence on the international scene. There have been changes in Canada over the last decade. Canadians have come through a difficult period in their history. Canadians in the mid-1980s have a renewed sense of confidence in themselves as a nation. People across the country are persuaded that the future lies in working together. They used the power of the vote to express a strong desire for an end to confrontational politics in our dealings with each other in Canada. They voted for a start on a new era of conciliation and co-operation.

Canadians wanted the offshore impasse in Newfoundland regarding oil and gas resolved. It is being resolved now. Canadians wanted the West to have a full voice in Confederation. They now have it.

Last Thursday, I had a significant meeting with Premier Lévesque in Quebec City. The people of Quebec overwhelmingly supported our program of national reconciliation and economic renewal in last September's election. Let me tell you there is a new mood there. The people of Quebec are seeking to ensure that they now assume a full and unequivocal role in the affairs of Canada.

I want to tell you something about the financial state of Canada as we found it following our election on September 4. We found that the projected federal deficit for the current fiscal year was \$34.5 billion. And we found that, even assuming reasonable growth projections, the yearly deficit would remain between \$34 billion and \$38 billion between now and the end of the decade, adding to an already staggering national debt load.

Let me put this in other terms. In 1967, when our country celebrated its one-hundredth birthday, our

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national debt represented \$4 000 for every Canadian family. Seventeen years later, the national debt represents \$24 000 per family.

And, by 1990 – only five years hence – If we do not take action now, the national debt will be the equivalent of every Canadian family owing \$54 000. And we inherited also an economy that has relegated to the unemployment rolls close to a million and a half Canadians.

There is no human tragedy more debilitating than that of a person unable to find gainful employment. My government considers the creation of jobs as its top priority. It is for us a moral imperative.

I need not dwell at length on the policies that created this situation in Canada. Simply put, at a time when the world economy was becoming more interdependent and open, Canada turned inward and interventionist.

In 1974 we started down this costly path with the Foreign Investment Review Agency, and in 1981, we continued this approach with the National Energy Program. Such a direction ignored the basic lesson of our history, namely that free and unfettered access to world markets has been a boon to strong and dynamic economic growth in our country. It was indicative of the misguided belief that regulation by politicians and bureaucrats was superior to the decisions of individuals and firms competing in the global marketplace.

At the same time that Canada was turning inward economically, we were also giving other signals that led our friends and allies to question our commitment to the international agenda. Our support for the North Atlantic Treaty Organization dropped to an embarrassingly low level, to the point that only tiny Luxembourg was contributing less on a *per capita* basis than Canada. We wound up with more cooks than gunners in the Canadian Armed Forces.

So these are the main reasons that my new government is so committed to rebuilding Canada's image in the world:

- as a free, tolerant and independent nation;
- as a reliable trading partner;
- as a good place to invest and do business;
- as a people committed to the entrepreneurial spirit; and
- as a nation that honours its commitments to its allies.

Our new government has embarked on a fundamental change in our economic direction. Our strategy consists of four challenges for this government, and for the Canadian people. Our first and most immediate challenge is to restore fiscal responsibility in the federal government.

Rising deficits have been recorded in each of the last ten years, and the legacy of these deficits is that our national debt is rising much faster than the economy is growing. Growth itself will not solve the structural imbalance between government revenues and expenditures. Restoring fiscal flexibility will require difficult decisions. And we have begun that process.

After only two months in office we were able to announce expenditure savings and revenue enhancement measures of over \$4 billion on an annual \$100-billion budget. This is a beginning.

The second part of our strategy for economic renewal is that we intend to redefine the role of government itself. Traditionally, government has had a much more activist role in Canada than in the United States. From railway building to television broadcasting to hydro development, government involvement has been a historical necessity in Canada, and it has been on the whole a positive factor in our national life.

Today's reality, however, is that government in Canada has become much too big. It inhibits and distorts entrepreneurial activity. Some industries are over-regulated, others are over-protected.

In the past, government has built up an intricate web of regulations, subsidies and other forms of intervention, which have become a major obstacle to adjustment and growth in the private sector. Getting the economy back on course means that we must adopt an approach that rewards entrepreneurship and risk-taking, and facilitates adjustment to the changing realities of new markets and technologies.

The third part of our strategy is that we must adopt policies that foster higher investment, greater innovation and increased international competitiveness. Investment contributes directly to the growth of output and employment, and is central to ensuring that Canadian business responds rapidly to new technology and new market opportunities. Greater innovation, enhanced productivity and increased competitiveness are essential if Canada is to compete effectively in the world marketplace.

Finally, the changes we are proposing are fundamental to the economic, social and political structures of our society. National consensus is essential to economic renewal. Our new national government can and will achieve that consensus with the provinces, labour, the private sector and others whose efforts energize our society.

Let me touch now on three areas in our strategy for economic renewal which impact directly on our relations with the US — trade, foreign investment and energy.

Trade is Canada's life blood. Our objective is to strengthen Canada's stature as a first class world trader. We intend to take a careful look at all federal government programs and policies to determine how industry can gain and secure access to markets. Protectionism is our mutual adversary. The longer-term upshot of protectionist tendencies in the United States, Canada and elsewhere would be to move against the trend to liberalization of access to national markets. In the short-term, restrictions on trade reduce real growth prospects in both the industrialized and developing countries. The implications for the latter are even more profound, and could have serious ramifications for international financial markets.

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I know that the President is committed to keeping trade channels open. I share that commitment. Central to Canada's trade policy is a commitment to an open multilateral trade regime. We will continue to support a multilateral system and trade liberalization. We will work through multilateral organizations to keep the world trading system open. Protectionism poses a serious threat to world recovery and to international stability. It must be opposed, in your Congress and in our Parliament.

The government has given notice of its intention to address these issues, and their implications for Canada, in documents to be made public over the coming months. Canadians have some important, even historic, policy choices to make in the near future, and these choices will be the subject matter of public discussion led by the government.

The maturity and self confidence of our country make it possible for us now to confront issues in a realistic manner, and to examine options that a few years ago produced emotional reflexes that made rational discussion difficult. Nowhere is this more true than on the subject of our bilateral relations with the United States. The US has been and will be the dominant market for our exports.

By 1987, some 80 per cent of Canadian exports to the US will be duty free. Yet there remain some significant tariff barriers and a growing array of non-tariff measures which impede bilateral trade, including US buy-American provisions.

Proposals for attacking these barriers have included sectoral free trade arrangements, a variety of private sector recommendations for trade enhancement and secure market access. I exclude none of these from consideration.

Our desire to examine all approaches for closer economic co-operation with our major partner stems from a prudent and pragmatic judgment about how and where interests vital to Canada's economic development can best be served. We seek trading arrangements which provide fair but also secure access to the US market, unfettered by initiatives aimed at problems caused by other countries but inadvertently hurting Canadian companies.

Our status as a North American nation is a source of strength. We are mature enough as a nation and confident enough in ourselves to recognize this reality and to take pride in an amicable relationship with a neighbour as powerful as the United States.

The message to prospective foreign investors in Canada is the same message we send to our trading partners: a world economy more open and interdependent is in Canada's interest and every nation's interest. We want an environment conducive to dynamic growth in trade, investment and development on a global basis.

One immediate contribution to the creation of this climate is to change the Foreign Investment Review Agency. My government has just introduced legislation, the specific purpose of which is to close down the old agency and to put in place a new body called Investment Canada, whose mandate will be to encourage and facilitate investment in Canada. Only those foreign investment proposals that are of

major national significance will be reviewed. The new act will eliminate from review, with very few exceptions, all investment to establish new businesses in Canada.

Investment Canada will be governed by two fundamental operational objectives: first to facilitate investment in Canada; and second, to limit government intervention in the foreign investment area.

Our message is clear: Canada is open for business again. The government of Canada is there to assist — and not harass — the private sector in creating the new wealth and new jobs that Canada needs. You have the assurance of the government that Investment Canada will be administered in a fair and objective way.

I would like to say a few words about the directions we will be taking in the energy sector. Many Americans are unaware of the importance of Canada's energy sector to your economy. Canada is the largest exporter of energy to the US. We supply virtually 100 per cent of your natural gas and electricity imports. We are your largest supplier of uranium. We are your second largest source of oil, at a rate of 580 000 barrels a day, ahead of any OPEC [Organization of Petroleum Exporting Countries] country.

A healthy energy sector is essential to economic renewal. Energy investment accounts for 30 per cent of total business investment in Canada. The spin-offs to the rest of the economy from a healthy and expanding energy sector are enormous.

As many of you are aware, the goals of the National Energy Program [NEP] are commendable: its methods and its results clearly are not. Simply put, the NEP has failed to meet its three stated objectives of fairness, security of supply, and Canadianization.

Our immediate objective is to build a dynamic and growing energy sector. We want to build an understanding that Canada's energy sector offers outstanding opportunities to do business. We believe in the free market. But to succeed, we need a new approach. We believe in the free marketplace. We believe in the free world, and idealism in the world, which individual nations

We are undertaking now the consultations necessary to remove controls on energy exports. The same philosophy is being applied to our energy exports. Since November 1980, the first Secretary-General of the United Nations, the first Secretary-General, has begun moving south at market-oriented prices set by the buyers and seller, rather than the collective will of the

There are already signs that, after several years of decline, our exports of energy are recovering through which the nations can regain their historic market share. The value of natural gas sold to the United States and experience, to the untold higher than it would have been under the old government-set prices. The reality lies

We intend to make changes in the back-in, the Crown interest payments, which has obviously not yet scaled the energy market, discarded or broken. The reality lies in all interests in the Canada lands for the government.

Canada was not built by expropriating retroactively other people's property. We have had a General Assembly which shall not be followed by the new government of Canada. The nations of individual member states, even the most formidable declaration on the economic

Finally, in view of the major changes in the energy price outlook, we will be undertaking a comprehensive review of federal energy taxation. Our objective will be to ensure that appropriate investment incentives are provided in the taxation system. Canadianization remains an objective.

But the system must be fair — and it shall be — to all who invest in the growth of our economy.

There shall be one game — building Canada — and one set of rules. These shall not be changed after the game has started to the detriment of any of the players.

Canada is confronted with serious problems and brilliant prospects. Canada surpasses almost all others in the resources with which nature has endowed us. Our riches are not ours to dissipate and mismanage. They are, in a sense, a trust; and they place a special obligation on those who are chosen to govern our nation.

We must strive to achieve a standard of living that is second to none in the world. And we must share that prosperity with others who need our assistance. We owe it to our citizens to ensure opportunity, fairness and justice for all. And we must attempt to see these principles respected elsewhere in the world. We owe it to our friends and allies to carry Canada's fair share in providing for our collective safety and security. In short, Canadians have an obligation to help make the world a better and safer place. Not least, we owe it to ourselves to honour excellence and pursue it relentlessly. Canada must stand for the best in all fields of human endeavour. And we must be uncompromising in the pursuit of these values that are the moral foundation of all great nations.

My dream for my country: a Canada fair and generous, tolerant and just.

Our desire to ensure that economic development can be sustained, access to the US market, and to avoid inadvertently hurting Canada.

Our status as a North American nation, confident enough in ourselves, and with a neighbour as powerful as the United States.

The message to prospective foreign partners: a world economy more open to our interest. We want an environment conducive to growth on a global basis.

One immediate contribution to the creation of a new Agency. My government has just introduced the old agency and to put in place a new one to encourage and facilitate investment in Canada.