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**STATEMENTS
AND SPEECHES**

Speech by
the Honourable Pat Carney,
Minister for International Trade,
to the Conference on Business's Stake
in the Free Trade Negotiations

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Canada

Thank you. It is a pleasure to be here tonight particularly after the way my day started.. That was an interview with an American journalist .

"Canada", she said, "was dull". Canadian news -- and news-makers -- were boring.

She compared our capital, Ottawa, with Rochester, a city which I have never visited, but about which she had few kind words to say.

Canada, she said, closing her notebook, had better improve its public relations by being more controversial and more aggressive, if Canadians want Americans to pay attention.

Her comments bothered me, because they were echoed by other news media interviews during the day.

I told her I was not here to launch a trade war with our biggest trading partner. The Canadian contingent was not planning to bomb the embassies or take hostages. Nor were we here to lob retaliatory hand grenades over U.S. actions on softwood lumber, actions we feel to be bitterly unfair.

Much to her disappointment, I did not announce retaliatory measures to knee-cap Americans for discriminatory oil import measures or increases in customs user fees which are illegal under the GATT.

Instead, I was here to discuss a historic initiative between our two countries, an initiative which would strengthen and protect the world's largest trading relationship, on which four million Canadian and American jobs depend and which would open up a new and exciting opportunities for economic growth in a world vibrant with change, electric with challenge and oppressed by the forces of protectionism. Canada and the United States were joined in a formidable endeavour to take both our countries into the 21st century through the U.S.-Canada free trade negotiations now underway.

At that point, the reporter lost interest - her parting words to me were: "Why do I feel I've been had by another Canadian".

This brings me to my central point and my central challenge to you.

The point I wish to make is that the trade negotiations between our two countries are central to our economic future and in our mutual benefit.

The challenge is to enlist your help in taking that message to both Canadians and Americans.

Trade means jobs and jobs mean economic and social security. Both are necessary to reach that state of bliss so aptly described by Americans as "Life, liberty and the pursuit of happiness", and by Canadians, predictably as "peace, order and good government". Those two phrases -- one dynamic and one prudent, describe the inherent difference in our national characters.

I want to step back a bit from the details of the current trade discussions and provide a perspective in which to view longer-term issues which I believe Canadians and Americans should bear in mind when discussing the trade negotiations.

Protectionism and the Bilateral Economic Relationship

Next year, 1987, will mark the fortieth anniversary of the founding of the GATT, the General Agreement on tariffs and Trade. Four decades ago, the nations of the world, led by the United States and strongly supported by Canada, decided to build a new international trading system. They had two goals.

First, to prevent the destructive, protectionist trade policies of the 1930's from gaining the upper hand in the postwar world.

And second, to move gradually, but steadily, toward the objective of free trade.

The economic horrors of the depression years were fresh in the minds of the architects of the GATT. They understood that the disastrous consequences of the depression were due largely to the fact that virtually all nations were protectionist. The results, which seem predictable today, but were not fully understood in the 1930's, were declining world trade, stagnant economies and massive unemployment.

Since the late 1940's a lot of progress has been made in lowering trade barriers through the GATT. Indeed the eighth round of GATT negotiations has just begun. But the economic difficulties of the 1980's, which are being discussed in GATT, have made the quest for freer global trade an increasingly difficult one.

Protectionist forces and trade restrictions are on the rise in many countries today. Some people, pointing to growing levels of imports or to trade deficits, favour a decisive application of protectionist medicine. Perhaps they forget that this medicine proved near fatal in the 1930's.

Perhaps too, they fail to realize that all trading nations have grown wealthier and more prosperous, thanks to the enormous increase in world trade during the last four decades.

Unfortunately, the strong protectionist pressures buffeting the world trading system have strained the Canada-United States relationship. In some ways this is to be expected. Our two countries have developed the largest two-way trading relationship in the world. Trade in goods and services between our two countries exceeds \$145 billion U.S. annually. Each country is the other's largest export market. Citizens and businesses in both countries engage in millions of cross-border transactions every year. These include the purchase and sale of goods, rapidly growing financial transactions, and a substantial two-way tourist business.

Moreover, our trade has been growing rapidly in recent years. Many billions of dollars of investment capital are closely tied to it. In sum, the ties between Canadian and American business are extremely complex.

It is precisely because of these close ties between Canada and the United States that business leaders in both countries should worry about the trend toward protectionism. The stakes for business are clearly enormous.

If the current negotiations succeed, our trading relationship will be more secure, new markets will open up, new jobs will be created, and investment will grow in an environment of certainty.

On the other hand, if the negotiations fail, this historic opportunity will have been missed. We will have missed an opportunity to create new jobs., We will have missed an opportunity to promote new growth. And we will have missed an opportunity to show the world the way to trade liberalization in the 1990's and beyond.

In both countries, the protectionist voice is loud and clear. It's now time to hear from those who will benefit from a trade agreement. In my view, clearly the vast majority of Canadians and Americans will benefit from such an agreement, both now and in the future.

The evidence overwhelmingly shows that both Canada and the United States have prospered from trade liberalization. As we have lowered our trade barriers in cooperation with other nations, jobs have increased, business has become more efficient, national income has risen, and our consumers have benefitted. Our economies are more efficient, more competitive

and more prosperous thanks to trade liberalization both at home and abroad.

In both the United States and Canada there are people who claim that building higher protectionist walls will save jobs and allow the economy to prosper.

Yet the fact is that over the past four decades both the United States and Canada have grown stronger economically as our exposure to world trade has increased, and as our own trade barriers have been reduced.

Recent years provide an interesting example of this trend. As we all know, the United States has been running large trade deficits since 1982. These deficits have prompted numerous interest groups to demand that tough protectionist measures be taken against U.S. trading partners, including Canada. However, during the same period that you have been experiencing large trade deficits, you have also enjoyed economic growth and an enviable rate of job creation.

Those who say lower trade barriers mean economic decline have got it backwards. In fact, it's just the opposite. For all nations, cooperative efforts with their trading partners to reduce tariff and non-tariff barriers pay off. Forty years of global trade liberalization prove that international trade is mutually beneficial.

For Canadians, the threat that the United States may abandon its historic commitment to free trade is ominous. Despite President Reagan's continuing support for trade liberalization and recent evidence that the U.S. trade deficit is declining, protectionism appears to be gaining ground in the United States.

One sign of this is the increasing tendency to harass foreign producers. We view the ongoing threat to Canadian softwood lumber as a particularly unwelcome illustration of how American trade laws are often employed in an unjustified manner, creating considerable uncertainty for foreign exporters, and for the people employed in export industries.

I use the term "unjustified" because the Canadian lumber industry was exhaustively studied and given a clean bill of health by the U.S. Commerce Department only three years ago. Since then, nothing has changed.

Yet through unilateral changes in the rules used to measure subsidies, the Department completely reversed its 1983 ruling and imposed a 15 per cent provisional duty on Canadian softwood lumber in mid-October.

We reject the reasoning behind the Commerce Department's recent reversal on softwood lumber. One critical issue in dispute is

how to determine the value of a tree. Simply because other countries manage their natural resources differently from the United States does not mean that they are unfair traders.

Difference in resource management policies do not automatically constitute subsidies!

In Canada, critics argue that actions such as the softwood lumber countervail are reason to call off the trade talks. I disagree. I do not believe that either country's long-term interests will be served by walking away from these discussions. I must say however, that these actions certainly impede the process.

When I was in Washington two weeks ago I met with U.S. Trade Representative Clayton Yeutter to discuss this very subject. We recognized that trade irritants can affect the progress of negotiations which are aimed at creating a comprehensive trade agreement. We agreed, therefore, that we would meet on a quarterly basis to attempt to resolve such irritants at an early stage. Similarly, U.S. Commerce Secretary Baldrige and I agreed to keep in closer touch.

This will allow our negotiators to pursue their goal of creating a trade treaty to govern a large, complex, and sophisticated commercial relationship, within a new treaty that will reduce not just trade barriers, but also uncertainty.

As business people know better than anyone, uncertainty creates an unhealthy climate for business decisions because it chips away at the confidence that is so vital to a thriving economy.

Benefits of a Trade Agreement

The challenge facing the Canadian and U.S. negotiators is to reach an agreement that meets the key objectives of both countries. This goal is not an easy one, but it is in the interests of both countries to strive for a successful outcome.

In Canada there has been a longstanding debate over the benefits and costs of a new trade agreement. Although the subject continues to arouse controversy, a broad consensus has developed around the position that Canada would gain from a trade agreement with United States.

Most of the nation's business community and the provincial governments accept this view. And of course the Canadian Government is also convinced that a trade agreement would increase jobs and advance Canada's economic interest.

What about the United States? I cannot, of course, comment on the negotiating objectives of the U.S. Government. Nonetheless, it seems obvious that the vast majority of Americans have a lot to gain from the negotiations. Indeed, Senator Bill Bradley wrote in The New York Times that "every farmer and every worker in American export industries has a stake in making certain these talks do not stall".

Those people who reflect the interests of that majority must speak louder than the self-interested protectionists. People like you, who clearly have an interest in the negotiations, should demonstrate that interest to U.S. policy-makers.

So, as the title of the conference asks, what is your stake in the negotiations? Let me list a few reasons why the negotiations are in your interest.

First, the United States would enjoy better access to a major wealthy market which is equivalent in size to some 10 per cent of the U.S. domestic market. This would be particularly important to industries in border states that already export heavily to Canada. Canada has been an attractive and growing market for U.S. exporters. A trade agreement that phased out remaining tariffs would result in even more export sales for U.S. industry.

Second, the United States would benefit from the development of new rules to address non-tariff barriers and other policies that impede trade. For example, government procurement in both Canada and the United States is restricted in many cases to domestic suppliers. A new trade agreement could lead to the opening up of a very significant government procurement market in Canada for the United States.

Third, the establishment of new rules to regulate trade in services will be in the economic interests of both the United States and Canada. Services account for some two-thirds of GNP in most advanced industrial countries, and they are an increasingly important element of world trade. In fact the international monetary fund has estimated that 20 per cent of world exports is now of services.

At present, trade in services is not subject to GATT discipline, and the United States had identified this as a priority issue for the new GATT round. Communications, transportation, professional services and finance are among the most important service industries for the Canada-U.S. economic relationship. Services may be where the bulk of trade action is in the future.

The trade negotiations provide an opportunity to devise mutually acceptable rules and standards that will improve

the access of U.S. service industries to the Canadian market.

Fourth, the conclusion of a trade treaty can add momentum to efforts to negotiate freer trade in the wider multilateral trading system through the GATT. Both Canada and the United States have advocated world-wide trade liberalization and have welcomed the decision to proceed with a new GATT round.

A Canada-United States trade agreement will allow the two countries to devise new approaches for dealing with trade issues such as services, subsidies, government procurement, and trade related investment.

This in turn can help to push the GATT talks forward by providing models for removing and regulating trade barriers in areas that have so far escaped effective international trade regulation.

Finally, the United States will also benefit from having a stronger and more prosperous neighbour to its north. A trade agreement which established a new foundation for trade between our two countries would, over time, result in the emergence of an economically stronger and more confident Canada, one that would become an increasingly effective and valuable ally of the United States. But beyond all of these reasons, ladies and gentlemen, is the most basic one. We want to make it easier to do business between our two countries. Barriers to trade are barriers to business and economic growth.

In Canada, the trade negotiations have been a subject of intense interest and discussion in recent months. The same cannot be said of the United States. Here, the trade talks have attracted very little attention. Often, it seems that the only news that Americans hear about Canada relates to the problems and irritants that inevitably arise between our two great nations.

Unfortunately, the enormous stake which Americans have in our trade relationship is simply not well understood in this country.

American business leaders can help to repair the blind spot which so many Americans have when it comes to economic relations with Canada.

First, by recognizing the significance of Canada to U.S. business. We are your largest customer, and we continue to be a steadily growing market for U.S. goods and services.

Second, by understanding that your trade problems do not arise from Canadian actions, and will not be resolved by attacking Canada. We know the U.S. has a large deficit. We also know that some Americans like to point out your deficit with Canada.

Let's look at this myth. It is true that Canada presently has a surplus with the U.S. in merchandise trade. However, you should not forget that the United States has a large surplus in services.

It seems odd that a country that has so fervently promoted trade in services at the GATT conveniently neglects to take it into consideration when evaluating its trade relationship with Canada. When trade in services is considered along with trade in goods, the Canada-U.S. trade picture is quite balanced. Your problem is not with us.

Third, as I said before, business leaders can contribute to the progress of the negotiations by speaking out in favour of the initiative. Members of Congress who perhaps have not yet turned their attention to this initiative will be interested to hear the views of the private sector.

Finally, I would urge American business leaders to look at the trade talks in the context of the long term relationship between our two countries. A new trade agreement will not solve all of our trade problems overnight. Nor will it result in the sudden dismantling of all remaining trade barriers.

What a trade agreement can do, however, is build a firmer foundation for what is already a successful trading relationship. By defining new rules, by gradually reducing barriers, and by lessening the uncertainty that often affects our trade, a Canada-United States agreement will improve both the environment and the prospects for business on both sides of the border.

It's time to rise above parochial interests and look to those of all Canadians and Americans.

I urge you to make that clear to policy makers and the American public.

I hope I have had your attention.

Thank you.