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STATEMENT DISCOURS



NOTES FOR AN ADDRESS BY THE
HONOURABLE GERALD REGAN,
MINISTER FOR INTERNATIONAL TRADE,
TO THE NATIONAL FOREIGN
TRADE COUNCIL

NEW YORK,
DECEMBER 5, 1983

CHECK AGAINST DELIVERY

It is indeed a privilege to speak to the National Foreign Trade Council and to so many distinguished representatives of corporations and institutions with an interest in trade.

I want to speak to you today about Canadian trade policy and more particularly about Canada's trade relations with the United States.

Americans are not only our best friends - you are by a wide margin our best customers. Nearly 20 percent of Canada's GNP is accounted for by exports to the United States. And, at the same time, to use the title of a recent U.S. Department of Commerce publication, Canada is your premier export market. It is estimated that exports to Canada translate into jobs for 1.3 million Americans.

Last year, two way trade exceeded US\$85 billion. That makes us the two largest trading partners in the world.

Investment in each other's country is greater than anywhere else in the world. It is estimated that U.S. direct investment in Canada exceeds \$50 billion. Canadian direct investment in your country is now approaching \$10 billion.

The bond that joins Canada and the United States extends well beyond the economic sphere, of course, and is probably unique in the world. John Kennedy captured well its spirit and essence in an address to the Canadian Parliament on one of the very few occasions when a foreign leader has been invited to address that body.

I will quote briefly from his remarks that day:

"Geography", he said, "has made us neighbours. History has made us friends. Economics has made us partners. And necessity has made us allies. Those whom nature hath so joined together, let no man put asunder.

What unites us is far greater than what divides us."

These sentiments are as timely today as they were twenty years ago.

The relationship which binds us together, is an enormously rewarding one for both our countries. It is too important to be taken for granted. Perhaps too little time has been taken to maintain and strengthen that relationship -- especially in comparison to the resources devoted to dealing with the less substantial, but often

more problematic, issues that arise in our dealings with other nations with whom our trade and economic relations function less smoothly. It is vital that we manage the relationship successfully.

I have no hesitation in stating that our bilateral trade relations are generally in good shape.

Ambassador Bill Brock and I meet every few months, looking for ways to contain disputes and to improve both the bilateral and multilateral basis for expanded trade. Secretary Shultz and Minister MacEachen, the Deputy Prime Minister and Secretary of State for External Affairs, have agreed to meet four times a year to manage our relations.

I believe that over the past couple of years we have demonstrated the capacity to resolve problems, to contain irritants and to pay particular attention to each others interests and sensitivities in formulating policies. For example, we were able to find a solution to the trans-border trucking issue. We successfully avoided what might have been a major confrontation about U.S.A. actions threatening our very substantial lumber trade. By mutual agreeent, we resorted to GATT dispute settlement procedures to work out our differences concerning certain practices of FIRA, Canada's Foreign Investment Review Agency. That action, together with steps we have taken to streamline our foreign investment review procedures, has taken FIRA off our bilateral agenda as a serious issue. Your investment continues to be most welcome.

There are, of course, some current issues. It would be extra-ordinary if \$85 billion in annual trade did not generate some friction.

As a Member of Parliament from Nova Scotia, I am particularly concerned that exports of fish and potatoes, which are of vital importance to the Maritime provinces, continue to face what Canadian producers feel is harassment in the U.S.A. market. Our fish exports have been the subject of succesive investigations under U.S.A. trade laws -- another such investigation has just been initiated. Within two weeks, we will know whether anti-dumping duties will be applied on potatoes imported into the United States from New Brunswick and Prince Edward Island. It is difficult to believe that imports of potatoes from Canada, which represent less than 5 percent of consumption in New England, could be injurious to U.S.A. potato producers. Canadian farmers and fishermen can ill afford the uncertainty and legal expenses associated with these repeated investigations.

There are problems unique to trade in horticultural products because of their perishability, different growing seasons and different approaches by governments in providing assistance and support. Frankly, we are less than fully satisfied that the GATT rules on anti-dumping investigations take adequate account of the special characteristics of this trade.

I see merit, therefore, in an examination with our principal trading partners of the problem, in the hope that we could establish better guidelines for this area.

I fully expect that both our skill and our political will to manage the Canada/United States relationship will be put to the acid test over the next few months, or more precisely between now and the November elections. There are worrying indications that 1984 may be a difficult year in our trade relations.

No democratically elected government is immune from protectionist pressures. These are particularly acute in times of high unemployment. To its credit, the Administration has, with one or two notable exceptions like specialty steel restrictions, resisted such pressures.

Your legislative branch is, however, much less predictable. We have learned through long experience that there is a constant risk of unilateral and unpredictable action by the Congress which can have a deleterious impact on Canadian trade interests. It is small consolation that the target may be Europe or Japan and the impact on Canada inadvertant. As your closest neighbour and largest trading partner, trade barriers hurt us as much or more.

This presents a particular challenge for Canada. With our small population and hence small domestic market, access to export markets is an important consideration in determining location of new investment.

Take, for example, cement. We have, in recent years, witnessed a proliferation of Buy-America type restrictions at the Federal, state and local level. Such requirements were included in the Surface Transportation Assistance Act of 1982, possibly one of the most protectionist measures to be implemented by any government in recent years. It effectively precludes use of imported steel, cement and urban transit equipment for projects financed under the Act. Its effect on Canadian cement producers has been extremely damaging. You will appreciate that the economics of production and

transportation of cement are such that investment decisions must be made on the basis of regional markets on both sides of the border. These Buy-America restrictions put at risk, directly and indirectly, annual exports valued at some \$20-30 million. We are urging that these restrictions be lifted and are hopeful that Congress will approve proposals which would do just that.

Let me give you another example -- natural gas. We have producers and investors whom we do not want to see put out of business because of a temporary oversupply in the U.S.A. market. While the price of Canadian gas may seem too high now, I wonder whether it is in the long-term interest of the United States to disrupt a long-term mutually beneficial trading relationship in the interest of short-term gain. This is an important Canadian export, but accounts for less than 5 percent of your supply.

We believe that we have clearly demonstrated, through recent price cuts, our interest in remaining competitive as well as our flexibility. Still our producers need assurance of a reasonable rate of return if they are to develop gas resources and build and maintain facilities for export. We would, therefore, be concerned about any legislative action that would jeopardize our producers capacity for delivery over the longer term.

I speak here of Canadian concerns, but I also recognize that the U.S. has an agenda of bilateral issues as well. Let me assure you that your officials bring these to our attention most competently.

As I mentioned earlier, indications are that 1984 may be a difficult year in Canada/United States trade relations. I am, however, confident that we can find ways to contain problems and to improve both the bilateral and multilateral basis for expanded trade.

These efforts should be aided by the strong possibilities for continued steady growth in both our economies. Recovery is the best antidote for protectionism. And sustained growth in the United States, Canada's major market, should contribute to modest export-led growth and recovery in Canada. Current forecasts for Canada are for moderate but sustained growth, in the 4 to 5 percent range, through the end of 1984.

The very positive reaction in both Canada and the United States to the results of the Canadian Government's review of trade policy which I announced just over three months ago, also gives me confidence in our ability to maintain and strengthen our trade and economic ties.

The review represented the outcome of a comprehensive effort to define the nature, objectives, and priorities of Canadian trade policy for the 1980's. It provides a framework of basic trade policy principles which will guide future decision-making.

In announcing the results of this review of Canada's trade policy, I emphasized five points:

- (1) The crucial role of trade to economic growth and job creation in Canada.
- (2) The relationship between our competitiveness and our ability to improve our trade performance.
- (3) Our determination to work hand in hand with Canadian producers and the provinces to search out and develop new export markets and to expand existing markets.
- (4) The vital importance to Canada of an effective multilateral trade and payments system.
- (5) The priority we intend to give to effective management of trade and economic relations with the U.S.A.

I would like today to expand on the last two points - the importance of an effective multilateral trading system and possible initiatives to build on our already substantial trade relations with the United States.

The most fundamental message of the trade policy review is that the open trading system continues to be the best and the most practical option available to enable Canadian producers and consumers to benefit and to improve their standard of living. As a major trading country with limited political clout, we believe it provides the most effective means of ensuring a predictable climate and not a law of the jungle in world trade. We will, therefore, be giving first priority to strengthening the multilateral trade and payments system.

We will be attentive to and assertive about developments which threaten to damage Canadian interests. We will exercise fully Canada's rights under bilateral and multilateral trading agreements so as to safeguard access to export markets. I fully expect that new legislation will be introduced in the next Session of Parliament to ensure that adequate remedies are available to Canadian producers to deal with unfair and injurious imports in a manner consistent with our international obligations.

A second major conclusion of the review was that, in current circumstances, there is no convincing evidence of the need for a radical shift in approach in Canadian trade policy, such as pursuing the option of a full free trade arrangement or customs union with the U.S.A.

We recognize, however, that we need to do more simply to preserve our existing stake in the U.S.A. market. I referred earlier to our growing unease about pressures in the U.S.A. for trade restrictive actions. At the risk of stating the obvious to this group, certainty and predictability of markets is a key consideration in any investment decision. Access to the U.S.A. market is a vital element of the Canadian investment climate.

We have, therefore, decided to give careful consideration to the advantages and disadvantages of limited free trade arrangements with the U.S.A. in particular sectors, such as urban mass transit equipment and textiles and clothing. In addition, following the U.S.A. action to restrict imports of specialty steel, steel has been identified as a sector for priority examination. We are concerned that these restrictions might be broadened to include carbon steel, possibly disrupting Canadian exports valued at \$1 billion. Other sectors will also be examined, including petrochemicals, telecommunications, heavy electrical generating equipment. The provinces and private sector are identifying their own priorities. For example, Roland Frazee of the Royal Bank has suggested that we begin discussions with the United States on an arrangement on trade in computer services.

Such arrangements might be patterned on agreements already in place, whether bilateral like the automotive agreement, or multilateral like the GATT Agreement on trade in civil aircraft.

The widespread interest in this initiative in all regions of Canada and in many sectors of the economy is, I believe, evidence of a new confidence on the part of Canadians in our ability to compete in the North American market.

I am pleased to be able to say that this initiative has been well received by the U.S. Administration, which I understand is identifying its own priority sectors.

Our own examination of Canada/U.S.A. trade liberalization on a sectoral basis will involve close consultation with the provinces and the private sector. Therefore, it may be several months yet before the government is in a position to take a decision on whether to propose formal discussions with the United States Government. Any negotiations, depending on their complexity and whether they are bilateral or involve other countries, may not yield results for some time.

The key point is the initiative itself.

We must seek to regain the momentum we have lost. The GATT work program is a step in this direction. Proposals that we begin preparations for a new round of trade negotiations -- an initiative which Canada fully supports and in which we will participate -- would be another. Trade liberalization on a bilateral basis could be a third. Canada and the United States have a shared commitment to trade liberalization and an open multilateral trading system. We, and others, have allowed that commitment to waver in recent years. A renewed willingness to accept the obligations and disciplines of open markets is essential to the well being of us all.

Thank you