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MINISTER  
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EXTÉRIEUR.

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Notes for Remarks by  
The Honourable James Kelleher,  
Minister for International  
Trade, to the International  
Law and Business Association,  
Univeristy of Western Ontario

London, Ontario

January 22, 1986

Before I begin today, I have an announcement to make. Dr. Pedersen, I know that you have been wanting to establish a new chair at Western, the William G. Davis Chair in International Trade. As Minister for that subject, I need no convincing of the importance of developing Canadian expertise in international trade, and neither do my colleagues in the Department of External Affairs.

I know you have been able to gather considerable private sector funds to support this initiative, and I am very pleased today to bring you some material support from the Government, as well. Please accept this cheque for \$15,000 toward the establishment of the William G. Davis Chair in International Trade.

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It was almost precisely one year ago that the Government raised the possibility of negotiating a bilateral trade agreement with the United States. I have to take some of the blame for that, since I was the one who raised it -- in a white paper that listed four options for our trade with the States. One of the options was bilateral trade negotiations, and it certainly got everybody's attention.

"Attention" may be an understatement. The idea that we might negotiate a better trade deal -- with the country that is our biggest customer by far -- set off a barrage of charges and countercharges across the land.

For the first few months, we in the Government were not in a position to join the debate. We were consulting Canadians on the question. We were listening rather than talking. Then, in September, when we decided that bilateral negotiations were the best option for

Canada, we decided to take a Biblical approach to all the flying debris. It was a New Testament approach. Rather than answer all the charges -- and some of them were off the wall -- we decided to turn the other cheek.

Well, that approach has not noticeably lowered the noise level. All it seems to have done is leave the field to those who oppose to doing any kind of a deal with the States. So today I'm going to switch from the New Testament back to the Old. Today, it's an eye for an eye and a tooth for a tooth.

I wish I could have made that "a truth for a truth" but that won't wash. The truth is that many of our most vocal critics just haven't done their homework. Their charges are backed by their emotions, not by studies and research. They have left the homework to us.

How much homework? Let me give you an idea. Between the middle of February and the second week in May I was criss-crossing the country to get the opinions of all Canadians who wanted to express them. I was here in London on April 22nd, for example.

And when the cross-country consultations were over, I came back to Ottawa to listen to the views of a score of delegations representing interest groups. Altogether, I've heard from business groups, consumer groups, labour unions, economists, academics, journalists, artists, musicians, publishers, film makers and, oh yes, the man in the street. And my officials have compiled studies on every sector of the economy.

We were not the only ones doing our homework, of course. The Macdonald Commission compiled a massive and impressive study. A Parliamentary

Commission did a good piece of work. And, outside the government, so did the C.D. Howe Institute, the Canadian Chamber of Commerce and, of course, the Wonnacotts right here.

And I'll give you one guess what we all have in common. On the basis of the homework, we all came out for bilateral trade negotiations with the United States.

There are a couple of other studies around that come to different conclusions. One that was played up in all the papers was by the Electrical Workers Union. It was not so much a study as a manifesto of old-time Socialist doctrine. It called for pulling up the drawbridge on trade with the U.S. -- and for state control of the economy, including exchange controls. The other study was by the Government of Ontario, and I'll get to that a little later.

I know you're expecting a long speech today, but I'm not going to give you one. In fact, I'm going to stop here -- and go straight to question period. But, with your permission, for the first part of the question period, I'm not only going to answer the questions: I'm going to ask them. And, since this is the day when eye meets eye and tooth meets tooth, the questions I am going to ask myself are the ones that the critics have been firing in their attempts to shoot down negotiations with the States.

May I have the first envelope please?

Question: Wouldn't it be a violation of the Constitution for the Federal Government to enter trade negotiations with the United States? Wouldn't all the provinces have to be involved as well?

The answer is no and yes. No, it's not unconstitutional and yes, from a

practical standpoint, the provinces should be involved. Let me spell this out a little bit.

Canada's constitution specifically reserves for the Federal Government the powers to negotiate for all of Canada and to sign treaties for all of Canada.

However. The Constitution also specifies that it is up to the various legislative bodies in the country to enact any legislation necessary to put a treaty in force. In some cases, that means the Parliament in Ottawa. In many cases, it means the provincial legislatures.

To be purely practical about it, this means that the provinces must be consulted about matters at the negotiating table that would affect them. Not only consulted, but convinced of the wisdom of whatever position the Federal negotiators take on the matter.

This, incidentally, is our intention and our practice. Under the structure we have set up, all provinces will have a say in all matters that may affect them, individually or severally. So that if we do negotiate a new trade agreement with the U.S., it will enjoy the confidence of the provinces and be implemented by their legislation.

Question: Can a mouse sleep with an elephant without getting crushed?

Answer: The question is certainly vivid. It is picturesque. But the imagery is somewhat askew. The U.S. may be an elephant, but Canada is hardly a mouse. Not, that is, unless we choose to act like a mouse.

The fact is that we have slept with the elephant before -- and survived very nicely. We signed a bilateral trade agreement with the U.S. in 1935,

when trade wars were raging all around the world, and that agreement became the basis of the world trading system today. We also have the Auto Pact, and nobody's complaining about it.

To put the question in the context of the real world, there is plenty of international precedent for the success of bilateral trade agreements between neighbours of unequal size.

Not long ago, I led a trade mission to New Zealand and Australia, which have had a bilateral trade agreement for the past three years. Australians outnumber New Zealanders by about five to one, which makes New Zealand the hyperbolic mouse to Australia's hyperbolic, well, kangaroo.

But New Zealanders don't feel crushed. Quite the opposite. Their increased trade with Australia got their economy out of the doldrums. New Zealanders are so delighted with the agreement that they want to speed it up. They want to shorten the transition period provided for their industries to adjust. So, for that matter, do the Australians.

Question: Why should we devote so much attention to the Americans? Isn't this putting all our eggs in one basket? That's what the Federal Liberals are saying.

Answer: The Liberals know better than to say that.

There are two questions involved here. Let's take them one at a time. First, we devote so much attention to the Americans because they are our biggest customer. They take three-quarters of all our exports. They buy roughly one-quarter of everything -- repeat everything -- we produce. To put it in terms of jobs, the jobs of two million Canadians are directly dependent on the business we do with the states.

And second, no, we are certainly not putting all our eggs in one basket. We're out pounding the streets everywhere in the world, promoting our trade. In the same paper that we listed bilateral trade talks as an option to consider, we also made it plain that expanding our global trade, under the GATT, was vital to Canada as well. At the same time that we proposed bilateral trade talks with the Americans, we also launched a major new trade initiative in the Pacific Rim. We opened a consulate in Osaka, Japan. We're sending four more trade commissioners to China and opening a consulate in Shanghai. The whole area is getting more attention than it ever has before, and our posts in the area are getting more manpower and more financial support than they ever have before.

Next month, I will be going around the world on a trade mission which will take me to Singapore, Indonesia, Malaysia, Thailand and Hong Kong. In Southeast Asia, my principal mission will be to help open doors for Canadian businesses that want to do more business there. But on the same mission I will also be going to London, for a strategy session with our trade commissioners all over Western Europe to consider ways to increase our trade in that vital area.

And that's only part of the story. Canada has played a leading role in getting the trading nations of the world to start another round of multi-lateral negotiations to bring down more of the existing barriers to trade. This new round will be the eighth since the end of the war, and it should get underway this year. Canada, by the way, has offered to host the ministerial conference that will get it underway.

So much for putting all our eggs in one basket.

Question: Isn't the GATT enough? Why do we have to go outside the GATT to try to strike a deal with the Americans?

Answer: This goes back to the question of how many baskets you put your eggs in. The GATT is vital to the maintenance of an orderly trading system throughout the world, and it has brought real gains in attacking trade barriers. It has been, and will remain, the cornerstone of our trading policy.

But the GATT must take the needs and aspirations of a hundred nations into account, and so its progress is necessarily slow. Each GATT round takes years to negotiate, and the results are always a compromise. By itself, the GATT is no longer sufficient to address the needs of a bilateral trading relationship as extensive, dynamic and complex as the one between Canada and the United States.

Question: All right, but isn't it dangerous to do a deal with the Americans outside the GATT? Won't we lose the protection that the GATT rules give us against a country as big and powerful as the U.S.?

Answer: First of all, no deal we make with the Americans will run counter to the GATT. The negotiations with the U.S. will complement, not contradict, our commitments to the GATT and our negotiations in the next GATT round.

Second, any deal we do with the U.S. will be enshrined in a treaty, committing both sides to live up to its terms. We have many treaties with the United States, and they are honoured by both sides.

We also have the precedent of that 1935 trade agreement with the States, the one on which the GATT system was based. I think it is very possible

that a new bilateral agreement between us might yield somewhat similar results for the next GATT round. If Canada and the United States could lead the way, if we could show the rest of the world that trade liberalization is to everyone's advantage, I believe it likely that the multilateral negotiations would yield better results -- that more barriers would come down faster throughout the world.

Question: But aren't Canadian firms too small and too weak to compete with the Americans? Wouldn't a trade agreement cause the collapse of our manufacturing base and confine us to the role of supplier of raw materials to the U.S.?

The quick answer is no. The assumption on which the question is based is that Canadian firms are not competitive and cannot become competitive. But the assumption is demonstrably false. Since the Second World War, large segments of the Canadian economy have been opened to foreign competition by successive GATT rounds. Since 1966, Canada's average tariff level has been cut nearly in half.

There is no evidence that the increased foreign competition has eroded our manufacturing base. The historical response of the average Canadian firm has been to become more efficient, not to disappear. Most domestic firms have reacted to competition by specializing in fewer product lines, increasing the scale of production and generating more exports to sell that production. As a result, both imports and exports have grown. In 1960, for example, our exports accounted for only 12% of our national income. Today, they are closer to 30%.

Secure entry into the large U.S. market will give Canadian industry as a whole the scope for even more specialized and efficient production and hence the structure to meet world

hence the structure to meet world class competition. This is not my conclusion. It is the conclusion of the research that we have done, that the Macdonald Commission has done, that C.D. Howe has done and that many business associations have done. I'm talking about business associations representing firms of all sizes -- the Canadian Chamber of Commerce, the Business Council on National Issues, the Canadian Manufacturers Association, the Canadian Federation of Small Business and the Retail Council of Canada. All of them are on record as favouring a new bilateral trade arrangement with the U.S.

Question: But what about the U.S. subsidiaries and branch plants in Canada? What's to guarantee they won't pull out?

Answer: There's a hook in that question, and it's the word "guarantee". There are no hard and fast guarantees about anything in the world we live in. All I can tell you is that the branch plants haven't pulled out so far -- despite 40 years of progressive tariff reductions.

Despite what seems to be popular belief, high tariffs are not the main reason for establishing subsidiaries. Survey after survey of Multi-national enterprises' investment intentions for Canada show that what count most are proximity to customers, market potential, market access, quality of the labour force and return on investment, while tariff and non tariff barriers are of secondary importance. Research on the behaviour of foreign owned firms shows that when faced with lower trade barriers, their preferred reaction has been specialization to serve larger markets, rather than plant closures. After all, scrapping of operations is a very costly alternative. You can't pick up your plant and move it.

That doesn't mean that no branch plants will close. But more will probably open than close. And research indicates that the ones that close would have done so with or without a new trade agreement.

Indeed, the net effect of freer trade on new U.S. investment in Canada is much more likely to be positive than negative. Many companies have been discouraged from investing in Canada because our market is small and there are still barriers to our trade in the U.S. These firms could well enter Canada and produce for neighbouring U.S. regions. The possibility of penetrating the U.S. market from a secure and more advantageous Canadian base could well induce a flow of new investment and job creation.

Question: But what about jobs? Won't trade liberalization create large-scale unemployment and lower wages? The Ontario Government claims that the scrapping of unprofitable U.S. subsidiaries will mean the loss of hundreds of thousands of jobs in this province. The Ontario Federation of Labour says that work conditions, safety and health standards may be compromised by the lower standards prevailing in southern U.S. industries, and that the incomes of Canadian workers could be seriously depressed.

The answer to the last part starts with a question. Why on earth should the standards in the south affect Canada when they don't affect the rest of the States? But let's go deeper into that charge.

All major studies on the impact of trade liberalization show labour as the main beneficiary -- through more jobs and higher real wages. A study by Harris and Cox for the Macdonald Commission found that real wages could increase by 13% to 15%. A recent study prepared by Infometrica

Ltd. also predicts higher real wages, primarily as a result of lower consumer prices.

Studies also show Ontario as the largest winner of all provinces, both in terms in economic growth and employment, due to its position as the heartland of the Canadian manufacturing and services sector.

You may be aware that the Government of Ontario has come up with figures to the effect that 281 thousand Canadian jobs would be threatened by a new trade deal with the United States. Yet the study those figures were supposedly based on indicates something quite different. The study in question was a compilation of industries that were sensitive to imports and exports, and it found that 31% of Ontario's manufacturing jobs are "highly sensitive". Now look at the tables again. They also show that these sensitive industries historically improve their performance when trade barriers are lowered. In other words, they would benefit -- not suffer -- from a freer trade arrangement with the States. They would employ more people, not less.

So let me repeat. All the evidence, both theoretical and empirical, indicates that erosion of our manufacturing sector and closures of U.S. plants is the least likely result of trade liberalization. Rather, the combination of greater firm specialization, more efficiency, greater exports and lower consumer prices arising from freer trade will increase the size of the economy and create more jobs.

There may be temporary labour dislocations for a comparatively short period of time. But these can be minimized by phasing the implementation of a new agreement in gradually, allowing plenty of time for government

retraining and other adjustment programs.

But I repeat again, the overall effect will be positive, not negative. And it could be very positive indeed. Simulations performed by the Ontario Economic Council indicate that with trade liberalization, trade flows between Canada and the U.S. would almost double. And a study by Infometrica Ltd. indicates trade liberalization with the States could create a quarter of a million jobs in Canada.

Question: All right, but what about our cultural sovereignty? What about our social programs? How can they survive a new trade deal with the Americans?

Answer: In my opinion, they will not only survive, they will thrive as never before.

You are aware of what Canada's position will be at the negotiating table. If you're not, the Americans certainly are. Our position is this: Our cultural sovereignty is not negotiable. Our social programs are not negotiable. They are our business, and nobody else's.

But let me take the issue further. In this country, our cultural sovereignty and social programs depend on our capacity to sustain economic growth. This is directly linked to our ability to trade, because trade increases our wealth. Only a strong economy can guarantee the cultural institutions that give us our unique Canadian identity. Only a strong economy will allow us to support our health care, our unemployment insurance programs, our regional equalization payments. If our economy were weak, our social programs would surely suffer and our cultural sovereignty would be less resilient. It is hard to main-

tain your pride when you have your hat in your hand.

There is nothing new or unusual in this. We have, in large measure, become what we are today as a result of more than 50 years of negotiating agreements that have expanded our trade throughout the world. One after another, these agreements have given us the means to grow and prosper, and our prosperity has allowed us to support and foster our vibrant cultural community. It has helped us

build social institutions and programs that truly reflect Canadian values and attitudes.

So ask not how our cultural sovereignty and social institutions can survive freer trade with the Americans. Ask how they could survive if our trade were restricted.

That's about all the questions I have time to ask myself. But I'm sure you have some. And now's the time.