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Conference on Opportunities and
Challenges ... Making Free Trade
Work for You (1989 : Vancouver,
B.C.)

Conference proceedings
43257276

**THE CONFERENCE ON
OPPORTUNITIES AND CHALLENGES**

... MAKING FREE TRADE WORK FOR YOU

**April 19, 1989
Vancouver, B.C.**

CONFERENCE PROCEEDINGS
Published April, 1990

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PREFACE

As of the release date of these Conference Proceedings, the Free Trade Agreement has been in effect for one full year.

Proponents of the Agreement point to various business success stories as proof of the faith placed in the Agreement before it was signed. Opponents, on the other hand, lay every real or imagined economic woe of the country at the FTA's doorstep.

One solid indication of the acceptability of the Agreement is the fact that we have seen both countries agree to an escalation in the rate of tariff reductions on some 400 plus commodities.

But the one thing that seems to stand out the most is that in spite of the high level of awareness in Canada of the presence of the FTA, the up-take of the opportunities it presents has really been quite slow.

It is therefore with a great deal of pleasure that we now release the Conference Proceedings as a timely reminder of the tremendous opportunity that has been presented to Canada to leverage our production to a larger and more value-added scale. We hope that reading the Proceedings will be much like attending the Conference all over again, but this time with the added perspective of a year's experience with the Free Trade Agreement.

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Mark Ivener, a Law Corporation (604) 688-0558

Mark A. Ivener, a U.S. attorney and authority on U.S. immigration law pursuant to the Free Trade Agreement, has opened an associate office in Vancouver in order to represent Canadian citizens who wish to obtain U.S. investor and professional work visas. Mr. Ivener has practiced law in Los Angeles for over 20 years and is the author of "Handbook of U.S. Immigration Law, Vol. I & II", and publisher of the newsletter "Immigration Newsletter".

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Established more than 30 years ago, Ray Connell represents a local, national and multi-national clientele of individuals, entrepreneurs, firms, corporations and various levels of government. We have gained extensive experience in international trade as, over the years, lawyers in our Pacific Rim Group have lived and worked in Japan gaining knowledge, experience and wide associations. Their strength and proficiency in Japanese language, business practices and customs are called on by North American clients with interests in the Pacific Rim, and by Japanese clients with interests in North America and elsewhere.

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*The following companies sponsored students from UBC, SFU, BCIT,
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Portions of the Conference Proceedings were prepared using equipment supplied by Mr. Pat McNulty of Harvest Business Centres.

PLANNING COMMITTEE

The following inter-organizational Planning Committee was assisted from time to time by others who, although unable to participate in a full time capacity, gave insights that materially benefited the Conference. These included Darcy Rezac, the Vancouver Board of Trade; Mike Apsey and Allan Sinclair, the Council of Forest Industries of B.C.; Tom Waterland, the Mining Association of B.C.; Chris Thomas, Ladner Downs; Brian Hemingway, Aluminum Company of Canada Ltd.; and Bruce Rozenhart of Robertson, Rozenhart Inc.



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Executive Assistant
to the President
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Blair Wilson
Vice-President
B.C. Division
Canadian Manufacturers'
Association

WELCOMING REMARKS

Presented by: Allen M. Fowlis
President and Chief Executive Officer
Seaspan International Ltd.

Mr. Fowlis is President and CEO of Seaspan International Ltd. He is the immediate past Chairman of the Business Council of B.C., and a past chairman of the Vancouver Board of Trade and the Council of Marine Carriers. He holds degrees from the University of Manitoba and the Banff School of Advanced Management.

My address to you this morning is, in fact, my swan song as Chairman of the Business Council of British Columbia. A new chairman takes over this morning. I would like to welcome you to the conference and advise that I will be acting as chairperson during the day to facilitate the proceedings. We hope this conference will be very informative and useful for your business experience. The intent of the conference has been to assemble together a comprehensive selection of Canadian and U.S. experts who are most knowledgeable in their fields on the Free Trade Agreement. Please be sure to avail yourselves of the opportunity to visit with the presenters and panelists during the breaks, workshops and the meet-the-speakers reception at the end of the day.

An audio transcript of the conference will be taken and form the basis of the proceedings which will be distributed to you. Because there is an audio record being kept of the proceedings, if you have a question, please identify yourself and use one of the two microphones on the aisle.

We have invited many students from the universities, colleges and BCIT to participate in today's conference. I would encourage you to talk with these students and perhaps consider future opportunities for them.

You have been given a questionnaire prepared by BCIT. Students will collect them at the end of the first plenary session this morning.

This room is a non-smoking room and we would ask that you not smoke during the plenary session. Smoking is available in the hallway outside if you wish to have a cigarette.

We have a tight schedule planned and will attempt to stay on time in order to meet the challenge of providing you with a great deal of information in a short period of time. We would encourage you to move quickly to the workshops in the afternoon, staying within the time frames identified on the agenda.

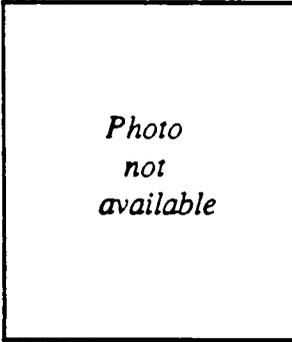
I would like to take this opportunity to say thank you to our sponsors, particularly our corporate sponsors who have assisted us financially in putting on this conference. We have had government as well as business support and I would like to thank all organizations who have helped to put on this conference. All have been acknowledged in your agenda book.

If anyone has a problem finding any of the rooms, just go to the conference registration desk which will be staffed all day. As well, any emergency messages will be directed to the registration table.

I believe this more or less covers all of the housekeeping items I need to bring to your attention and will now call upon the first speaker. Again, on behalf of the seven organizations that were part of the Free Trade Coalition and sponsors of this conference, welcome. I hope that you will have an informative and productive day here at the Trade and Convention Centre.

MORNING PLENARY SESSION

"The FTA - implementation status"



DON CAMPBELL
Senior ADM (U.S.A.) & Coordinator FTA
Department of External Affairs

Don Campbell has had an impressive career with the *Department of External Affairs*. Prior to his FTA appointment, he was Assistant Deputy Minister, United States Branch, in Ottawa for four years. He has held a variety of positions in Ottawa and overseas including Director General of the Energy, Transport and Science Bureau; Assistant Under-Secretary to the Office of Resource Industries, Energy and Food; Director General of International Energy Relations; and Director, Commodity & International Energy Policy.

THE CANADA/U.S. FREE TRADE AGREEMENT IMPLEMENTATION STATUS

Presented by: Don Campbell

Good morning, ladies and gentlemen. It is a great pleasure to be with you this morning to participate in this conference on "Opportunities and Challenges - Making Free Trade Work." I would like to commend the Business Council of British Columbia and the other sponsors of the conference today for your initiative in bringing together this group. I'm sure from the quick reading of the program I have had, particularly the panel discussions this afternoon, that we will all go away with a much better reading and a better sense of specific ways in which you can take advantage of the challenges and the opportunities that we do have before us.

My particular task, as I see it, is to bring you up to date on the implementation of the Canada-U.S. Free Trade Agreement itself by the Government of Canada and where appropriate commenting on the Government of the United States as well. I must say it is a real pleasure to engage in a dialogue on implementation after a very lengthy, a very important, a very controversial debate over the last couple of years on whether or not we should proceed with the Free Trade Agreement. It is here, and it is real. We must all get ourselves on with it. We must set ourselves up tactically and strategically to take advantage of the opportunities and the challenges, as the title of your conference suggests, within the new framework the FTA provides.

We are now into the hundredth day of the FTA and there is a temptation on the part of some to try and provide a report card on the success or failure of the FTA, a somewhat American approach if I do say so. I will resist that temptation this morning. We're all engaged in a long period of transition and further negotiation over the decade ahead of us. It is too early for such an assessment. After the lengthy debate I mentioned earlier, it's expected that either praise or blame for just about any event in our daily lives will be blamed on the Free Trade Agreement.

I would like to share with you the manner in which government has proceeded with the implementation of the FTA, the issues we are addressing, and some of the efforts we are making as a government to assist business as it takes on the challenge of the Free Trade Agreement.

January 1st brought the FTA into force. We endeavoured to make sure that we as a government were ready. We passed legislation in December with regulations requiring the Federal Government to put in place the implementations. We were successful in doing that with two small exceptions, one of which refers to the importation of used automobiles and the second one deals with new rules on cable re-transmission into Canada. Both of those regulations required public comment, which is now under way, so that in terms of the regulatory framework we were ready and in place on the first of January.

The dispute settlement provisions of the Agreement are another very critical and important aspect of the Agreement. Chapters 18 and 19 of the Agreement provide for that dispute settlement and call for the establishment of rosters of panels, people on both sides of the border who will be called upon when there are disputes. They will be there to provide opinions and, in some instances, under Chapter 19, binding decisions. Both Canada and the United States did have the rosters for Chapter 19 announced on the first of January. With Chapter 18, the general dispute settlement provisions of the agreement, most of the names for the roster are up and are in place.

We concentrated in the first weeks of the Agreement on border issues. We recognized that most Canadians' first exposure to the FTA would be when they crossed the border as a visitor, business person, or when transporting goods or services across that border. We went through training programs for Canadian Customs, Excise, and Immigration Officials. The United States has been a little bit slow in that process but it is now under way in the United States as well.

We did recognize that for people importing and exporting there was going to be a new world in

terms of bureaucracy. Canadian exporters, for example, were faced with going into the United States with three new things - a new rule of origin certificate, reduced tariffs, and the implementation by the United States of the harmonized system of tariffs, which is not part of the FTA but provides for a different tariff classification. That is something that we had done one year earlier. But faced with all of those challenges for exporters, customs brokers and importers, we do think that the implementation in terms of the border aspects has gone relatively well. That is not to say that they have gone entirely without incident, but with the magnitude of the trade and transport of traffic and people, some of those things are to be expected.

We also addressed compliance issues of the Free Trade Agreement. We were obviously satisfied that each country was in a position, in terms of its domestic law and regulations, to implement the Agreement. Having said that, there were some issues that were of concern to both sides and these have been taken up as a matter of urgency by both governments.

On the Canadian side there were two issues where we considered the United States had not met its obligations and they are both very specific issues. One relates to plywood standards in Canada and reductions of tariffs that the United States did not proceed with, because of a dispute with us over the Agreement. The second one, which is a very technical issue, refers to the definition of wool for tariff rate quota purposes. Both of those issues are going through the consultative process with the United States and may well end up in panel proceedings. On the United States' side, although they did not invoke formal dispute settlement provisions, they were very concerned about the Province of Ontario's lack of proceeding with the commencement of removal of discriminatory markups on wines. The Province of Ontario since that time has changed its policy in a way that brings it into conformity with the Agreement. While I'm on the dispute settlement issues, the United States is concerned with the regulations that I mentioned on cable re-transmission and have taken us to dispute settlement on those.

We also have cases under Chapter 19, which deals with countervailing and anti-dumping actions. The first two actions are under way that will lead to a panel with a binding dispute settlement mechanism. They are both anti-dumping issues regarding administrative review in the U.S. of U.S. anti-dumping cases. When one looks at this litany, and it's a very short litany of disputes that we have with the United States, I don't think that it should be taken as an indication that the Agreement has not changed things or is not working. Indeed, I would suggest it is exactly the opposite - that in a trade relationship as large as ours we have always had a number of disputes and will continue to have those disputes. What we now have is a different legal framework with given time frames as a result of the FTA.

The Agreement does provide that the overview of the Agreement will be undertaken by a Canada-United States Trade Commission. It is headed on the Canadian side by Mr. Crosbie, the Minister of International Trade, and on the United States' side by the United States Trade Representative, Carl Hills. The first meeting of that Commission met in March and reviewed a number of issues related to the Agreement. It set up a working group on customs and market access issues which will be a more rigorous approach in addressing and resolving issues related to customs and market issues. It is expected that at the political level the Commission will be meeting at least twice annually to oversee the implementation of the Agreement.

There are a number of major issues that are flowing from the Agreement. The Agreement provides that there shall be established a select panel on the automotive industry in North America to look at the competitive conditions of the automobile makers and of the parts manufacturers. That select panel has now been established. It has fifteen members on either side of the border. We have broad representation on the Canadian side from the automotive industry, from the Asian transplant companies, from consumers and from labour. We expect that they will be working for the next couple of years in a serious examination of how we in Canada and the United States, can improve our competitive position worldwide. That is one of the first things that is up and rolling from the Agreement.

The Agreement also provides for the establishment of eight working groups on a whole array of agricultural and food issues with a look to the many technical barriers we have between Canada and the United States that impact upon our trading relationship. Those working groups have now been established. They're engaged in a consultative process with industry, provinces, and the

consumer community in Canada. Their work program will begin addressing these technical issues, harmonizing where it appears useful and productive. I should emphasize that it does not mean a lowering of standards on the part of either Canada or the United States. Hopefully, the results of the working groups that are established will lead to the removal of many non-tariff barriers in that important trade.

Another issue that we have been heavily engaged in over the past couple of months relates to tariff reductions. As those of you who are familiar with the Agreement will know, over a period of ten years all tariffs will be removed between Canada and the United States. It is a three-phase process. On items that are not particularly sensitive on either side, the tariffs were removed on the first of January. For another group of items the tariffs are removed over a five-year period and for more sensitive issues the tariffs are being phased out over a ten-year period. There was provision in the Agreement for accelerated tariff reduction if there was interest on the part of companies and industries on either side of the border. Immediately with the conclusion of the FTA, expressions of interest were received both in Canada and the United States on accelerating that process of tariff reduction. We have engaged in a very public process through the month of March through notification in the Canada Gazette. There is a similar process being undertaken in the United States.

The results of that process have been more significant than we had imagined. We have received requests for over 2,000 accelerated tariff reductions by Canadian companies. In the United States they have received some 2,000 accelerated tariff reduction requests. These are now being exchanged between the two governments and we will be going into a very public process of input with companies, industry, provinces, and with anyone who wishes to make an input.

The expectation is that we will be in a position to sit down and negotiate, and that on the first of January 1990 we will have some kind of a package of tariff reductions that are accelerated compared with that originally foreseen by the FTA. I think this is significant in that it does illustrate that Canadian business has taken a look at the Agreement, has seen the benefits of trade liberalization through tariff reduction, and has called upon government to move more quickly on that aspect of the Agreement.

Another major issue we are addressing is the question of subsidies in both countries and the use of countervailing and anti-dumping law. It was at the heart of the Agreement during the course of the negotiations. It was an area we were unable to come to an agreement upon. The Agreement provides for another five to seven years of further negotiations. They will be undertaken to see if we are able to develop some kind of regime which would provide for a definition of what constitutes unacceptable subsidization in both countries.

Under the Agreement, the current laws that apply to anti-dumping and countervail in Canada and the U.S. remain in force. Our laws are very similar. The application of those laws has been something that has caused a number of us concern, and British Columbia is certainly not exempt from that concern over the last three or four years. The Agreement does provide through the binding dispute settlement mechanism a means of appeal from those laws. That has been seen as a transition measure until we can get to the heart of the whole subsidies issue. We recognize and expect that that is going to be a very, very difficult issue between Canada and the United States. It will take a considerable portion of the five to seven year years that we have set. The United States is involved in subsidization which has a trade distorting effect every bit as much as Canada's. So, there's a great deal of work to be done on inventories of subsidy practices in both countries. It will provide an information base upon which we may or may not be able to proceed. But, that is an issue that will be with us for some time to come as we go down the road of the ten-year transition period of the agreement.

These are the issues that the two governments have been grappling in the early days of the Agreement. There are many other smaller ones and both governments have taken very seriously the new framework we are operating within to try ensure the conduct of the relationship is one that reflects the opportunities we saw in the course of the negotiation and in the conclusion of the FTA.

I'd like to turn now to some of the programs that we have been engaged in to assist the business community in tackling the United States' markets because we are dealing with a large and distinctive array of regional markets in the United States. First of all, we are expanding our network

of trade offices in the United States. We currently have 22 offices in almost every major metropolitan centre of the United States. In the next several months we'll be opening another 5 trade offices in Miami, San Juan, San Diego, Denver, Colorado, and Princeton, New Jersey. We consider these offices, the 22 plus these additional 5, to be our frontline troops in the pursuit of trade development and investment promotion. We consider them your troops, of course, as well.

We've also in 1989 significantly increased the trade promotion funding that will be directed at cracking the U.S. market. It will provide over some \$20 million in the 1989 fiscal year. It will be devoted to traditional and new ways of assisting Canadian business with emphasis on small and medium-sized businesses in the U.S. market. We will have a major fairs and missions program. We have found this to be a successful way for would-be exporters, for people who are already in the exporting business, to make contact with U.S. purchasers. It is a direct trade promotion program. It is our expectation that in 1989 we will have over 10,000 Canadian exporters participating in these direct events. We're also engaged in a series of incoming missions of buyers in the United States in the merchandising, the retail, and food products field and government procurement in defense, construction, contractors, and urban transit.

We also commenced a program a couple of years ago that is being expanded called the NEBS program, the New Exporter Border States Program, which takes people who have never exported to the United States for a hands-on seminar approach. They meet with customs brokers, the Consulate General, the Trade Commissioners, and get some very practical advice on how to export into the United States. We do expect in the current year that we will have over 2,000 participants in that program. We've also extended that program for people who are already exporting into the United States with another program that takes people through another layer, not just to the border states. We will be having missions that will be of particular interest from British Columbia into San Diego and Denver, Colorado as these missions get themselves up and rolling.

Some of you may have participated in technical seminars that have been held across the country. There have been three series of these. The first dealt with tariff changes and customs issues. We held twelve seminars with 2,200 participants in January. There will be, in response to demand, another series of seminars on the same subject. We've also held a seminars on U.S. government procurement opportunities. It's a market that is largely untapped by Canada and has tremendous possibilities. This month we already have under way a series on export financing and insurance for the U.S. market. It's not an issue that often comes to mind but we have found that there are far more difficulties in terms of financing and insurance even with the U.S. market in which many people make the mistake of thinking are similar to our own.

Finally, we are very much involved in investment development and promotion activity to bring U.S. investment into Canada. It's a complement to our trade development and to our technology inflow programs. The U.S. is our largest, most diversified source of investment and we think with the opportunities of the Free Trade Agreement that it should expand.

At the end of the day, however, the challenge is up to the private sector to take advantage of the market opportunities. Government can provide the framework. We've done that, I think, with the FTA. We can intervene on trade policy disputes and can address irritants. We can provide assistance through the trade commissioners and programs I have outlined. None of this, however, makes things happen without a confident and aggressive business community that is looking outward, that is planning carefully, that is looking for a particular niche in the U.S. market. The challenge is up to the Canadian private sector. I am confident that the private sector has taken up the challenge and is going to take advantage of the Free Trade Agreement.

I was intrigued by an article yesterday, an editorial article in the Financial Post, that commented on small business staying upbeat. If I may just quote very briefly from it, it said, "How often do we hear about the overwhelming power and influence of the United States right next door with the economies of scale that go with the market of its size. Then there's Japan whose success has created an aura of invincibility and the emerging countries of Asia. How can we compete with them?"

There are obviously, according to the Financial Post, plenty of small businesses that haven't got the message that it's too tough to venture forth. Insofar as the U.S. is concerned, 90 percent of the 80,000 members of the Canadian Federation of Independent Business say they support the

Agreement. In a recent survey of some 20,000 of them, 40 % expected the FTA would have a positive effect on their business, 7 % thought it would hurt them, 25 % thought it would have no impact, and 25 % said they would have to wait and see.

Another study presented by the Business College Entrepreneurship Conference in Calgary revealed small business operators are optimistic they will expand within the next five years. None of that, as the Post says, is to say the crack in the U.S. or any other foreign market or meeting foreign competition is easy. It's one thing to be optimistic and enthusiastic, it's another to have the means to fulfill those ambitions. That's why it is important that small businesses work out careful plans for expansion and line up the needed financing for it. That is basically the kind of message that we in the government have been getting from the business community, and we have endeavoured to tailor the programs we have in a way that does take advantage. We do have the FreeTrade Agreement in place and working and it's very much up to you to take advantage from the opportunities that it provides.

Question:

My name is Bob Mountfort. You discussed the question of settling subsidy disputes with the United States observing their programs of benefits to small businesses. I wondered if a) we in Canada could not adopt a similar policy and b) when Canadian companies will be entitled to bid in the American market under the small business program?

Answer:

One of the very difficult issues that we dealt with in the course of the negotiations was the small business set-asides, which were certainly considered to be a subsidy by Canada. As I said, that subsidy negotiation is not complete and that will be part of the ongoing negotiations. What we do have with the Agreement in terms of government procurement is an extension of what was provided for under the GATT, so that anything over \$25,000 U.S. in the United States is now open to competitive bidding by Canadians on the list of government agencies and departments that the two countries have exchanged. That does not cover the entire array of government procurement obviously. There are, in the defense area in particular, exceptions; but there are more opportunities for government procurement than there were previously in the United States as a result of the FTA.

Comment:

My name is Doreen Braverman. I was interested to learn that you have 22 trade offices in the United States. I think this is something that you are going to have to spell out very clearly because when you get in touch with these offices, it's nice to know just what they'll do for you, and so often when you write you don't get a response. My experience has been in trade offices around the world that you get a form letter saying thank you very much and then that's the end of it. So, if there are some specific things that can be done for particularly the small businesses, it would be nice to say, "This is what we can do for you and this is how you access it".

Answer:

Well, I guess I would make a couple of comments. One of the problems that we often have in our trade offices abroad is we get inquiries from people who are obviously not export-ready. And I think it's important that people prepare themselves well and that is a role in which the regional offices of the Department of Industry and Industrial Economic Expansion, and the International Trade Centres, one of which is right here in Vancouver, can be of assistance to you. I urge people who are interested in cracking that market to do two things. One, to get in touch with the International Trade Centre right here in Vancouver. Either through them or in conjunction with that, contact our trade offices in the United States.

We do have something called the WIN Export Computer Program that has a great many companies in Canada now on on-line computers into our U.S. offices that has proven to be a very valuable tool in matching suppliers and purchasers in the United States. Let me assure you that in the offices that we have there are experienced trade commissioners who know the market that's involved and I urge you to use those services. If you do have problems in any way shape or form, and you were suggesting that perhaps you had, I would urge you to contact immediately the International Trade Centre right here in Vancouver to deal with that and to sort that out. They are very much at your beck and call.

Question:

Mr. Chairman, my name is Jim Stevens. I have a question about the work that's being done on the removal of non-tariff barriers, specifically with respect to the financial services sector. We have achieved, as a result of the bilateral agreement, equal national treatment for players and combinations within our financial services sector but we haven't achieve reciprocity. Could you give me some sense, give the group some sense, of the priority that you might assign to removing the non-tariff barriers as they affect our Canadian financial services sector and their opportunities in the United States?

Answer:

I think it was recognized in the course of negotiations that you are not going to get reciprocity in every area of the Agreement. You are quite right, the financial services sector is not one that has reciprocity. As you described, we have national treatment in the two countries. The national treatment, of course, does provide that in the case of the United States as further liberalization takes place the Canadian firms who are involved in the financial services sector will be able to take advantage of the same benefits American companies will take.

There is also in the Agreement established an ongoing mechanism for further consultation and discussion on financial services issues between the Department of Finance and the U.S. Treasury and that issue is still enjoined. I can't give you very much detail on what progress is being made but I guess I would have to say that it is not being pursued quite simply on the basis of reciprocity since we know that that is not an avenue that would be conducive to progress.

Question:

My name is David Ashley. I'm from Douglas College and I would like to take this opportunity to thank you for inviting us today. My question to you is, have there been any formal negotiations with Japan or any other Pacific Rim countries as far as free trade goes with the Canada-U.S. relationship and will they get first crack at having some sort of trade set up after the Canada-U.S. one has got off the ground?

Answer:

Canada has always pursued its trade policy on a multi-lateral basis and, of course, we've been very prominent in the current Uruguay round of multi-lateral trade negotiations. So, that still remains our first and preferred option in terms of moving forward on trade liberalization. We recognize that in the case of the Canada-U.S. relationship, there were possibilities, that we could move forward in that bi-lateral sense in ways that provided a model, but also in ways more specific than we would be able to achieve in the multi-lateral round. I would want to emphasize that the main push with the conclusion of the FTA is back to the current round of the multi-lateral trade negotiations.

To answer your question specifically, we have not engaged in any discussions with Japan or any other country for an extension of the FTA's provisions. In the United States there have been a number of studies done about the possibility of an agreement with Japan or the possibility of an agreement with Asian countries. Mexico has also been mentioned. In the case of Canada, I think it's fair to say that the economy of Japan and the economies of other countries are ones where it would be more difficult to come to a satisfactory bilateral agreement than, although God knows it was difficult enough in the case of the United States. So, there is no current plan to move forward bilaterally with other countries. We will want to gain the experience that the Canada-U.S. Agreement provides and to see what gains that we can make multi-laterally in the Uruguay round of the trade negotiations before we venture any further afield.

Question:

David Hayden from Seattle First National Bank. I would preface my question by telling you a little experience I had when I crossed the border into Canada yesterday and the official wanted to know where I was from, and where I was going. When I said it was to attend this conference, she squinted her eyes and said, "Are you going to participate in any way?" I thought it was a curious question, so I hesitate to speak!

But I would like your comments on the importance, if you see any, of having both governments encourage joint ventures. A good many of our clients in Washington State are interested in joint venturing with Canadian companies and I think that Canadian companies could bring a lot to the party

in terms of helping us deal with the Asian market and particularly with the European market.

Answer:

I think we have seen from a Canadian perspective that the FTA will provide a more competitive situation in Canada as well as in the United States. There is some rationalization but a great deal of opportunity, and I think joint ventures are part of that. We also expect we will be much better positioned as a North American market to compete with the Asian countries and also with the European Economic Community which, of course, is moving to its single act in 1992. That's a long way of saying, "yes," we are very much encouraging that kind of activity.

MORNING PLENARY SESSION

"Making the FTA work for you"

CHRIS THOMAS

Ladner Downs



Chris Thomas is a Member of the Faculty of Law at the University of British Columbia and an Associate with the law firm of *Ladner Downs*. He specializes in international trade law and commercial litigation and arbitration. Presently, he is a member of the Canadian roster of panelists for Chapter 18 and Chapter 19 Dispute Settlement under the Canada-U.S. Free Trade Agreement and a member of the Federal International Trade Advisory Committee. In 1986-87, he was Senior Policy Advisor to the Federal Minister for International Trade. Mr. Thomas has a B.A. from UBC, an M.A. from Sussex University, an LLB from UBC, and an LLM from Columbia University.

ROBERT C. STROTHER

Ladner Downs

*Photo
not
available*

Robert C. Strother is a tax partner with *Ladner Downs*. He graduated as the Gold Medalist in Law from Dalhousie Law School in 1974 and obtained a Masters of Law from Harvard Law School in 1975. Before joining *Ladner Downs*, he practiced with a large U.S. law firm in Houston and London, England, and thereafter with a large firm in Alberta. He has lectured extensively for the Canadian Tax Foundation and the Continuing Legal Education Society of B.C. He has published several articles on taxation in publications of the *Canadian Tax Foundation* and has addressed the general session of the annual conference of the *Foundation*. Mr. Strother's particular expertise is in the areas of resource taxation, corporate financing and corporate taxation.

MAKING THE FTA WORK FOR YOU

Presented by: Chris Thomas
and Robert C. Strother

Chris Thomas:

It's a pleasure to be here today. What we've tried to do is take a three-hour audio visual presentation and extract a couple of case studies. We prepared this longer presentation and we've so far put it on in Vancouver and Hong Kong and we expect to do it in a number of other venues, particularly in the United States. So, what we thought we would try to do for today is to give you three case studies - two of them are longer, one of them is quite short - to demonstrate both the opportunities for business planning but also some of the problems that can crop up under the Free Trade Agreement.

One case study deals with the problem with the sourcing rules and I think it's very important for people to understand that once the agreement is fully phased in, even ten years down the road, not all goods are going to go across the border at preferential tariffs, that they have to qualify as being made in Canada or made in the United States and it's the process of qualifying the goods which can cause you some difficulty. So, these case studies illustrate, at least in two of them, how you deal with the sourcing rules.

Case Study No. 1 actually had four examples but we've extracted two examples for you and it makes a simple point that I just made before, which is that in order to get your goods into the United States at a preferential tariff, they have to qualify and if they don't qualify, then they will go in at the normal most favoured nation or MFN rate of duty and it's also important to keep in mind that the Free Trade Agreement did not require Canada or the United States to change their tariff schedules for the rest of the world. So, goods coming in from offshore come in at different tariff levels in many instances. That means that for business people looking to source inputs for their products from offshore, there can be some interesting possibilities for business planning.

Our first example is a high tech example and in this instance we had a business situated in Vancouver that was purchasing enclosures for automatic bank teller machines from Japan. Now most of the components here are sourced offshore but the research and development for this particular product, the automatic bank teller machine, had been done in Canada. So, the objective was to bring in a high quality component, the terminal enclosure for the machine, bring it into Canada along with additional imported components, put them all together, applying the research and design and engineering costs incurred in Canada, and then ship them into the United States.

Now, there are really three Free Trade Agreement considerations for this particular instance. The first is meeting the rules of origin, and I'll discuss that shortly. The second is the trans-border business travel aspects of the Free Trade Agreement and the third deals with after-sales servicing of the equipment in the United States.

Now the sourcing rules here are the most complicated sourcing rules under the Free Trade Agreement. If you are dealing with an area where you have natural resource products, where you are essentially taking oil out of the ground and further processing it or processing forest products which are grown and harvested in Canada, you'll have no difficulty whatsoever in complying with the rules of origin because those goods clearly originate in Canada.

The problem you are going to have is in the area of manufacturers and this is one of the examples here. In this particular instance, the company was going to have to meet what is known as the 50 percent direct cost of production method of calculating the origin of the goods. Now if you were just to add up the material components here, it would not be able to meet that rule of origin because most of the components are from offshore. If you're using components, unless you can have your suppliers validate the origin of those components, Revenue Canada and the United States Customs Service take the position that they are deemed to be foreign components, not of Canadian or American origin. So, if you rely on supplies which are developed in Canada and the United States, you should try to get supplier certificates which indicate the origin of the goods.

Now, here we have the 50 percent direct cost of production rule. The Free Trade Agreement in Chapter 3 actually sets out what can and cannot be taken into consideration in calculating the direct cost of production. I won't go into it, I'll just mention that it's there in Chapter 3, it sets out what's allocable and what is not and I should note that it does not follow general accounting principles. So, there is a difference there between what you as rational business people would do and the way trade negotiators have come up with this particular calculation, and so what it means is that if you are in the area of manufacturing and you have the 50 percent direct cost of production rule, you're going to have to have your operations people and your accountants sit down and start to allocate costs in order to come up with the appropriate calculation. Remember that the sanction here if it turns out that you have been wrong or you have not properly calculated your direct cost of production, the sanction is that you will have to pay duties where you did not pay them before and you may be subject to criminal or civil prosecution in either country.

Now, there are two interesting points to this particular rule of origin calculation - exchange rates. Please keep in mind that if you are sourcing inputs from offshore, exchange rate fluctuations could knock you out of your 50 percent rule. If you're close to the rule and it turns out that you have inputs which gradually appreciate in value because of an appreciation of the currency in which they were sold, then you could find that where you once were within the rule of origin, you may no longer be, so you should make a point of keeping close tabs on exchange rate fluctuations.

The other point is the question of design costs. I think that Don pointed out that we are in a process of essentially feeling our way into the Free Trade Agreement and one of the interesting points that we've identified for our clients is that some of the costs that you take into consideration in meeting the 50 percent direct rule you would think should be amortized over time. For example, once you've had design costs in 1988, should you be able to claim those in 1998. Well, the Free Trade Agreement is silent on that point as are the interpretation bulletins of Revenue Canada. I can't speak authoritatively for the United States. But there's an interesting question there - whether or not you can maintain a fixed design cost ad infinitum. So, what we are suggesting is that design costs might be peeled out of the operation and put in a separate corporation which, then, licences back the use of the technology to the manufacturer and there you have a standardized design cost on an annual basis, and my friend Rob Strother who's a tax lawyer will tell you that there can be some tax advantages to doing this as well.

Now, the second free trade consideration deals with the business visitors and professional categories and after-sales servicing. One of the most important chapters of the agreement, and it's one which has been overlooked, in my view, by many people in the business community, is Chapter 15 which deals with temporary business travel and the concessions that were made by both countries. Chapter 14, which deals with services, and Chapter 16, which deals with investment, in my view, pale in comparison with Chapter 15 because what it does is it provides new means for getting professionals across the border to actually engage in remunerative work on the other side as in this instance. I'll just note a couple of opportunities here. To take these particular machines down and have them sold in the United States, the companies, of course, are going to have to have a sales force either on this side of the border or on the United States' side. If it has a sales force in the United States, and Rob will pick up on this, there may be U.S. tax consequences. So, it may want to actually have its sales force situated in B.C. and cross the border.

Well, as a result of the FTA, a business visitor and somebody who would be in the process of going down to solicit orders for these machines would qualify. The business visitor, upon proof of Canadian citizenship and meeting other entry requirements such as health and no criminal record will be able to cross the U.S. border much easier than prior to the Free Trade Agreement. So, sales personnel should find it easier to move across the American border.

I also should note that there is a tariff designation now which allows sales representatives to take commercial samples into the United States without posting a bond. Until the Free Trade Agreement came into effect, you were allowed to take commercial samples into the United States but you had to post a bond and it was just one more item which had to be dealt with when you made a border crossing. Now we have a tariff designation which deals specifically with moving commercial samples across.

And the final point to note here is after-sales servicing. Until the Free Trade Agreement came

into effect, if you sold a piece of capital equipment, such as these automotive bank teller machines, into the United States, you could only send your service personnel into the U.S. for the first year of the warranty period in the after-sales period.

Now, the problem is that for many equipment sales, the servicing component of the package can make or break the deal, and so this was in the back in the mind of the negotiators when it came to temporary business travel. The FTA now says, if you sell something like automatic bank teller machines and you specify a five-year warranty period or a five-year service agreement, then you can send your after-sales servicing people, so long as they are Canadian citizens, across the border during the entire length of the warranty or the after-sales service agreement. So that's a major opportunity for people who are involved in the production of high tech goods or other goods which require servicing and want to make their product particularly competitive.

Now in this particular instance, although the Free Trade Agreement is going to facilitate the movement of the goods through the border, at the end of the day you have to recognize that you are dealing with customs on both sides, and going into the United States it could be that your product will not move as quickly or as expeditiously as you'd wish. So, in this particular hypothetical instance, we're suggesting that the company might want to establish a warehouse in the United States and supply the warehouse so that all customs clearances have been performed and that will enable as close to just-in-time delivery as possible in the United States.

Now Rob will speak to the tax consequences of this. Fortunately if it's done properly, there are no adverse tax consequences in terms of the United States but I'll let him expand upon that. But the point is that for effective sales into the United States, we would recommend that a business who is situated in Vancouver, first of all quote in U.S. prices and undertake, as part of the commercial undertaking, to perform all customs clearances so that you essentially make the border invisible for the purposes of transacting business and get your goods into the United States. If you want to have a warehousing operation there, you can and then supply through the United States from the warehousing operation.

Now, I'm going to sit down at this point and Rob's going to pick up and talk briefly about the Canadian tax issues and then I'll come back and talk a little bit more about distributorship contracts.

Rob Strother:

Thanks, Chris, and thanks all of you for not getting up and leaving when he mentioned tax. Unfortunately a tax lawyer is a guy who always wanted to be an accountant but didn't have sufficient personality, so I'll do the best I can.

The first Canadian tax issue is this concept of amortized design costs. Although the Free Trade Agreement is silent on this under the sourcing rules, because this product qualifies as Canadian because most of the what I call the soft costs or the design elements are higher relative to the hard cost, the cost of buying a box, you have a concern that if you're laying out design costs in the short run and have a relatively high portion, Revenue Canada may require you to amortize the costs over the life of the manufacturing, so that the relative proportion of your design costs to the hard costs, the cost of buying the box, go down over time, thereby perhaps ultimately taking you offside with your sourcing.

One possible solution to that would be to isolate your design costs and your manufacturing operations in separate corporations, so that you would have the soft costs, or the intangibles, the intellectual property if you will, the fruits of design in one company, the manufacturing operation in another. The company that owns the design, if you will, would charge the manufacturing operation a constant cost by way of rent, royalty or licencing fee, so that you have a constant charge for the design input and thereby don't have this potential for imbalance as you amortize.

Concern, though, with that is that you better set it up from the outset because if you do your design in a corporation, the same one you do the manufacturing in, to transfer the intellectual property, the right to the licence if you will, over to a new corporation, you'd have to do it on a tax-free roll-over basis and that would put the design costs at low cost, if you will, in one company and the manufacturing operation and the profits in another. So, you'd have a company which has got double tax shield, the original research and development deductions plus the costs of manufacturing the box,

and you'd have this licencing fee going across to another company with no tax shield. In English that means simply if you're going to set up your planning to deal with this issue, do it from the outset because you're going to have problems if you do it later.

The second issue is the one Chris alluded to and that is really related to the fourth issue, and that's this notion of what presence do you want to expose yourself to in the United States. When tax rates are roughly equal between the two countries, the answer is you probably don't want to expose yourself too severely to U.S. tax and to operate as a branch. Why? Well, if the tax rate was, say, 45 percent in each country and you operated as a subsidiary in the United States, you'd pay tax on your U.S. profits at full U.S. rates plus you would have withholding tax on the dividends, the after-tax monies as they came back to Canada, and you'd be paying what amounts to almost a double tax to some extent, 15 or 10 percent withholding tax, and would be an extra level of taxation.

However, if the tax in the United States is, as it currently is, say, 34 percent, and Canadian taxes are expected to rise significantly in the next two weeks, it may behoove you no longer to avoid the U.S. tax but rather to isolate your profits in the United States, even though you have this second layer of tax when you repatriate your funds to Canada. If you are going to be using your funds in an operating business and you're not going to be repatriating for awhile, it may very well serve your purposes to consider now a U.S. sub rather than avoiding the tax.

However, if you have a warehouse in the United States and nothing more, you will not expose your operation to U.S. tax because your warehouse will not constitute a permanent establishment, and those are the magic words for U.S. purposes. Even if you are carrying on business in the United States, you're not, as a Canadian, subject to U.S. tax unless you carry on business there through what we call a permanent establishment. A mere warehousing facility is not such an establishment. A salesman, on the other hand, would constitute a permanent establishment if he's more than just an order taker. If the salesperson has the power and habitually exercises the power to negotiate and conclude contracts on behalf of his Canadian principal in the United States, then that sales force would constitute a U.S. permanent establishment of the Canadian enterprise. So, the key there is in structuring the authority, the delegation of the authority to your sales force. If you want to avoid exposure to U.S. tax, deprive the sales force of the ability to negotiate and conclude contracts on your behalf. Otherwise you will have a U.S. branch.

Now, the question is which is better? As I mentioned a moment ago, if you have a branch of your Canadian operation in the United States, you will be subjecting the head office, in other words the Canadian entity, to United States tax on the profits attributable to the branch operation. If you have a Canadian manufacturer and your branch, say, in San Francisco or Seattle, and the Seattle branch personnel contacts someone in Germany and the Canadian operation makes a sale into Germany that had as its origin this contact made in the U.S. branch, query whether the IRS would attempt to sight the sale in the U.S. as profits attributable to the U.S. branch rather than Canadian. So, if you have a branch, you get some U.S. consequences to concern yourself with. You are going to subject the branch, in other words you're going to subject the Canadian operation to U.S. tax on profits attributable and you'll subject yourself also to a 30 percent branch tax in the United States, which brings me to the next issue.

As I mentioned earlier, the extent of your business activity in the U.S. will determine your exposure to your U.S. tax. That is, the activity, if it constitutes the carrying on of a trader business in the United States, will subject you to tax if your presence constitutes a permanent establishment there. You will also be subject to this 30 percent tax on un-repatriated funds, monies left in there. It's a branch tax. It's reduced to 10 or 15 percent under the Canada-U.S. treaty and also has a \$500,000 exemption.

Another issue, if you are carrying on business in the United States and you decide to opt for a subsidiary, a U.S. sub, is this pricing problem under the U.S. code. The United States authorities, in order to make sure that they get their fair share of profit from a sales operation centred in the United States, have a Code Section 482 and it has, what they call, the super royalty concept. What that means is that if the Canadian company which manufactures the box sells into the United States at a cost that is too high and thereby centres more of the profit in Canada or somewhere else than the IRS feels is reasonable, the IRS will re-cast your profit and attempt to attach a greater share of the profit in the United States under this super royalty concept. The U.S. says, look we don't care what

your U.S. sub bought the product from its Canadian parent at. We've got to have a fair amount of profit centred in the United States, having regard to the level of activity that has been carried on there.

Another issue which is frequently forgotten is a state tax exposure in the United States. The U.S. does levy a federal and, in some cases, state succession and estate taxes. It wasn't a big deal before, but now it is. Your estate taxes can range as high as, I guess now 47 percent in the United States. You eliminate that exposure by and large by interposing a corporation. Use a Canadian company as the vehicle to hold your U.S. interests. So, if you're an individual or proprietorship or partnership carrying on business in the United States, watch exposure to U.S. estate tax.

The last tax issue is the Canadian federal sales tax. Under the current rules, when the box is brought into Canada, normally there would be a 12 percent federal sales tax. That is wiped out, drawn back, omitted, not charged if you will. Where the box is brought in for incorporation into the manufacture of a product for export, Canada will be coming out with a brand new sales tax to replace the manufacturer's sales tax within the next few weeks. The April budget will be bringing down Phase 2 of Canadian tax reform by setting out the general parameters of the new federal sales tax. The actual sales tax legislation is not in the first draft, the first cut is not expected until June and its effective date will be January 1, 1991. It will be a cross economy tax which theoretically will apply with limited exceptions to all goods and services sold in Canada. It's anticipated that there will be export exceptions. The tax likely will be at a higher rate than the current 12 percent rate and may or may not over time be blended in with the provincial sales taxes across the country.

The anticipated federal sales tax, as I say, is a companion to Phase 2 of tax reform, or rather to Phase 1 of tax reform, which involved tax rate reductions and base broadening mechanisms. Unfortunately, Finance Minister Wilson has served notice on us that the tax rate reduction aspects of Phase 1 of tax reform seem likely to go out the window. Before, that was a good news-bad news thing: your tax rates are down and if you don't spend anything, you'll be okay because we're going to collect what we're not collecting in the form of a consumption tax or sales tax. Now they're saying, we're poor so tax rates are back up again and we're still going charge you a much higher tax on your spending side. So, that's a bit of an editorial but the tax issue which is going to be very much part of your planning for cross border transactions will be the Canada federal sales tax.

Chris Thomas:

Just a couple of key points now on distributorship contract issues. This would normally be done by an American lawyer but for the purposes of just alluding to these issues I think it's important to have you aware of them. In the hypothetical case that we've given to you, so far we've talked about having sales taking place from Vancouver. But it is quite conceivable that the Canadian corporation would want to have an American distributor buy goods and then distribute them in the United States. Now, the value of such a relationship is that the distributor may have already a well-established network in the United States: one which would cost you an enormous amount of money to generate yourself. So, by entering into a distributorship agreement, the Canadian manufacturer can actually gain access to customers that it would otherwise have to spend a great deal of money to reach.

Now, just a few issues you should keep in mind. First of all, oral distributorship contracts have been found to exist by the United States' courts. So, the rule here is that if you want to be sure what your respective rights and responsibilities will be, make sure that you have them in writing. You should have a written distributorship agreement that deals with the duration of the contract, the allocation of responsibilities, the amount of money that is going to be paid per unit and, very importantly, for the termination of the relationship and in the event of a dispute, how the dispute is going to be resolved, whether it's going to be by way of arbitration or whether the courts of British Columbia or the courts of California or whatever will have jurisdiction over the contract. So, these types of things should be specified to avoid any surprises if you happen to enter into a distributorship agreement in the United States.

The last point is also to keep in mind that we do have a relatively strong competition law in the United States, the United States anti-trust laws, which will have some impact on the way in which you structure your commercial relationship in the U.S. For example, the key point to keep in mind is retail price maintenance, where you as the manufacturer suggest to the vendors of the goods in the United States what the goods should be sold at. As long as you suggest, it's okay but if you require

retail price maintenance, then you're going to run afoul of the United States anti-trust authorities. That's not only a possibility of public prosecution but also somebody who has been adversely affected by that could sue you for treble damages, three times the damages that were actually suffered.

Also keep in mind that Canadian product liability laws are much stricter in terms of the ability of a plaintiff to recover than in the United States. The United States product liability cases have been far more generous in terms of the size of damages awards and the willingness of the courts to ignore contractual language. So, when you sell goods to somebody, you can do your best in terms of trying to build in contractual protection against any product liability actions later on. But if somebody is injured by your machine, let's say the machine electrocutes somebody, well you're into a very large possibility of damages. So, you should think that if you've got a particular product which may cause physical injury and you can't protect yourself purely by contractual language, then you should look very seriously at getting product liability insurance when you are exporting into the United States.

The second case study I want to take a look at is problems with the sourcing rules and I'll deal with this very quickly. This is a situation where a Canadian manufacturer would see an interesting opportunity in bringing in unfinished china bisque. That's chinaware which has been moulded and fired but not actually finished in terms of applying the pattern and the final applications to the china. And the reason for bringing in that unfinished china is because it would look like an interesting opportunity to take it and finish it in Canada and then ship it into the United States. Why? Because the U.S. has a 35 percent tariff which is going down in ten years unless the tariff is accelerated, and that is a huge competitive disadvantage for a foreign supplier.

Now that 35 percent tariff applies to porcelain which is brought in for hotel or restaurant use. So, it looks like an interesting opportunity. Bring in unfinished porcelain, add some value to it, ship it into the United States. Well, it doesn't work. It doesn't meet the applicable rule of origin because, in this instance, you have a rule of origin which deals with something called, Change in Tariff Classification. The idea is that the product enters in one tariff classification and then it is transformed into a product which goes into the United States at another tariff classification.

Unfortunately, if you look at the tariff, unfinished china bisque enters and finished china bisque leaves on the same tariff heading. And it doesn't work. And the reason why we put that in is that if you are talking about, for example, doing a joint venture or planning a business venture which is going to be a new greenfield investment and it's all contingent upon duty-free access into the United States, you'd better make sure that the product is going to meet the rules of origin because it will be a great surprise to you if you ship your goods to the border and you find that you're going to pay the normal MFN rate of duty. That may be the difference between a smart investment and a catastrophic investment. So, it's very important to keep that in mind in terms of rules of origin determinations.

Well, I'm going to switch to the last case study. Rob's going to describe it to you and then we'll take you through the free trade issues.

Robert Strother:

Thanks, Chris. This is a situation of the expansion of a Canadian business cross border. The situation is a relatively simple one. You have a firm of architectural and engineering consultants and they want to perform services in the United States for their existing Canadian clients and the issue here is the extent to which they would be exposed to U.S. problems, trans-border travel and so on and so forth, in moving that business cross border and the tax consequences generally pertinent to establishing and financing a U.S. operation. Chris, do you want to do the free trade stuff?

Chris Thomas:

Okay. This one is good because it illustrates the temporary business travel aspects of the Free Trade Agreement and we'll just divide them into professionals, treaty investors and traders, intra-company transferees, and advance rulings. Now, I mentioned before with respect to the first case study that you could have your sales personnel crossing the border entering the United States to take orders and the FTA has facilitated the movement of those types of people.

The Free Trade Agreement also contains some schedules which deal with professionals and

those professionals may be accountants, lawyers, there is a whole range of people who are set out in the annex. Now, the ease with which a professional can cross the border depends on the source of the remuneration. If a Canadian professional is crossing into the United States to perform work in the United States but is being remunerated in the Canada, then it's going to be slightly easier to cross the border than if the professional is going to be remunerated in the United States. If the remuneration is going to be coming from the United States, then a visa or employment authorization is going to be required. This is not the case if the remuneration is sourced in Canada. So, that's the first important twist with respect to professionals.

Now the second one deals with the so-called treaty investor and treaty trader categories. Interestingly, the United States has had these particular categories for temporary business travel for many years but have never applied them to Canada and the reason for that, as I understand it, is that the United States has had a whole host of what's known as Friendship, Commerce and Navigation, or Bi-lateral Investment treaties. And in those treaties they have categories which apply to facilitating business immigration. Canada and the United States ironically have never had a Friendship, Commerce and Navigation treaty. So, we have never been able to avail ourselves of the treaty investor or the treaty trader categories for movement into the United States.

Now essentially what you're talking about with treaty investors is making an investment in the United States and it has to be "a substantial investment" and we are advised by American lawyers that a substantial investment means an absolute minimum of \$100,000 but if it's less than \$250,000 it should be supported by strong documentation. The kinds of criteria that the United States will look at are, does it create employment opportunities for American workers, and will the person who is being transferred down into the United States perform an essential role, usually somebody who is in a managerial or supervisory capacity, etc. Now, the visas which are granted for the treaty investor and treaty trader categories are good usually, I think for three years. Sam Fromowitz may be able to correct me if I'm wrong, but I think they're good for up to three years. But they can be renewed almost definitely, so long as you maintain a commercial presence in the United States.

Now the other category which is relevant is the intra-company transferee. Now, this is where you have a Canadian parent corporation with an American subsidiary and it may be that an engineering firm or architectural firm decides to create an American subsidiary or affiliate and wants to transfer some key personnel to the United States. Once again, intra-company transferees may apply for a visa for an initial period of three years. To qualify they must have worked in Canada for at least one year full time prior to applying for the visa and they have to have had an executive or managerial position or have some kind of specialized knowledge which is important to the commercial undertaking in the United States.

So, essentially these are categories which are available now to Canadian businesses who want to establish a presence in the United States. The conditions, of course, vary from category to category but they are an important aspect of being able to exploit the Free Trade Agreement. There is also a possibility that if you are planning to send somebody down and you want to make sure that the person will be able to go, you can get an advance ruling from the respective immigration authorities.

So, we'll just turn from this to a brief recapitulation of the Canadian and American tax issues and that will complete our presentation.

Robert Strother:

And it will be brief. Let me preface my remarks by saying that this is an area of immense complexity for tax purposes, both on the Canadian and U.S. side, that area being the establishment of a trans-border business. The bottom-line advice that you need to remember is that you're going to need both Canadian and American tax advice to make sure that you deal with each of three primary issues on each side of the border.

And that is, how do you finance the operation trans-border? Do you borrow in Canada, do you borrow in the United States? What about borrowing offshore? Could you use an offshore company? How do you minimize the tax on movements of interest? The financing issue is you've got to raise the money somewhere, you've got to put it into your U.S. business somehow, it's got to generate profit for you and you've got to take the profits home. And the idea is to maximize the deductibility of your financing costs wherever they may be, make sure they're centred where you

have income and avoid, to the extent you can, withholding on the repatriation of funds.

The operational strategy is, where's the best place to centre my profits - Canada or the United States - and that's a function of what are the relative tax rates on the operating income, what are the withholding taxes that are charged on trans-border movements of money, and what is the overall tax bite from operating in different modes - partnerships, operate as a corporation in Canada, should I have a Canadian holding company, and so on and so forth. The goal is easy. Pay as little as you can to Brian and George overall. How you get there is how I make a living. Unfortunately, our time is relatively short and we can't go through it.

The last issue in planning is disposition. Assuming you're successful and you're going to unwind the operation, what's the best way to take your money home? Often times your disposition planning strategy ought to be considered right at the beginning of your plan. Although it's not a driver, you've got to have some regard to the most effective way of liquidating your position and usually thought should be given to that from the outset.

Now, I'll focus on only one issue because it's kind of interesting. This is the financing issue. Your goals are to maximize the deductibility of your interest, avoid the withholding tax to the extent you can and consider the possible application of something kinky like what we call a dutch treat or a double dip. This involves the use of an offshore financing affiliate. It's been a very common strategy in the past. The IRS is attacking this sort of thing now in the United States but it still has some merit if you have a large investment.

The most fashionable version used to involve four boxes. You used to have to have a player in the Netherlands Anthilles, I think for no other reason than it was kind of fun to be able to get both a trip to Europe and a trip to the Caribbean when you are structuring these things but unfortunately now the Netherlands Anthilles doesn't work as part of the structure. Your Canadian parent borrows at interest from a Canadian bank and injects that money into a Canadian holding company. That money, in turn, is injected into a Netherlands company, 20 percent by way of equity, 80 percent by way of interest-free debt, and from thence is on-lent to a wholly-owned American operating sub by way of interest-bearing debt.

Once you've earned your profits, it comes home in the opposite direction. And you notice it goes from U.S. opco by way of interest with no withholding because of a peculiarity in the U.S.-Netherlands treaty on that interest. It goes to the Netherlands, from the Netherlands where the tax is approximately 1 to 2 percent because of a peculiarity in Dutch law, then wanders back to Canada again without withholding at the moment and it's not taxable in Canada as the Canadian holding company gets a dividend out of the exempt surplus and then it's a tax-free and a corporate dividend back to the parent who pays his deductible debt back to the bank. Overall, you've gotten rid of all the U.S. withholding tax and you're a happy camper. You've paid a small fortune to your tax lawyers but that's not necessarily a bad thing.

The one peculiarity that you've got to keep in mind from a U.S. tax issue, if we had more time I'd go into it, is the fact that if you're operating a business in the United States and you borrow in Canada and your Canadian corporation is carrying on business in the United States, the U.S. takes a peculiar approach. They conclude that the U.S. is entitled to withholding tax on interest paid your Canadian lender. So, if Canco borrows from a commerce bank and then uses the borrowed money in the operation of a U.S. business, the U.S. takes the position that even though there is no trans-border movement of the interest payment, the U.S. is entitled to withholding tax. And it's kind of an unfortunate peculiarity and something that you have to be able to consider in structuring around it.

We are sadly out of time and you probably out of patience. So, I thank you very much and if there is no time for questions now, both Chris and I will be at the speakers' reception this afternoon.

MORNING PLENARY SESSION

"Pacific Northwest initiatives"



J. CHRISTOPHER POOLE

Assistant Deputy Minister
International Marketing
B.C. Ministry of International Business and Immigration

Mr. Poole is on loan from the Canadian foreign service under the federal government Executive Interchange Program. His previous assignments included five years as Deputy Consul General at the Canadian Consulate General in San Francisco where he managed the commercial division and established the Canadian Government Trade and Investment Development Office in Silicon Valley in 1985. Before that, he served for four years as Vice President with the Canadian Commercial Corporation in Ottawa. Between 1976 and 1978 he opened the new Canadian Embassy in Bucharest, Hungary, and was involved in the sale of a CANDU nuclear reactor. He has a B.A. in economics from UBC, and an M.A. from the Fletcher School of Law and Diplomacy (administered by Tufts and Harvard Universities).

PACIFIC NORTHWEST INITIATIVES

Presented by: Chris Poole

Good morning, ladies and gentlemen. My Deputy Minister, Lorne Seitz, was scheduled to speak to you this morning. Unfortunately, other commitments prevented his being here today so he has asked me to "stand in" for him.

We have probably one of the most active trade ministries this province has ever had. I just got back from a trip to Asia with my Minister, the Honourable John Jansen. I left him at the airport about 48 hours ago. While we were in Asia it was very apparent to us that this whole topic of the Free Trade Agreement is one that is very much on the minds of those we met. I know on your program this afternoon there is a section on Pacific Rim opportunities which will develop from the Free Trade Agreement.

The Agreement represents an attractive opportunity for those in Hong Kong because they're looking at British Columbia as a gateway to the west coast of the U.S. That huge market down there in California is just waiting. The Asians see this as an opportunity because of a qualified and educated labour force in British Columbia. It's basically a perfect solution to come to British Columbia and start exporting from here down to the west coast Washington, Oregon, and into California.

Well, my talk this morning isn't about California. It is about the Pacific Northwest Partnership. Before I get into the details of it, I have to tell you a little story about the Americans and Japanese trading together. The story revolves around automobiles and the Americans negotiating with the Japanese over the usual quotas on Japanese automobiles into the United States. In the course of negotiations the Japanese finally agreed that for every one thousand cars coming into the United States, they will send one Japanese automotive engineer along with those cars. So the Americans were very happy with that. But the Americans, being good negotiators, were able to obtain agreement from the Japanese that for every one thousand cars exported to the United States, the Americans will have the right to export to Japan one American lawyer, thereby rendering Japan as litigious as the United States, and, thereby, less efficient. I'm obviously not a lawyer!

With respect to the Pacific Northwest Partnership, I might say that we've had a number of meetings over the past year which have resulted in the Pacific Northwest Partnership Agreement. There has always been a tendency for business to bypass the Pacific Northwest and I think that's because it has really been a relatively small region. One never thinks of British Columbia, Washington and Oregon as one market. What I'm suggesting to you today is that we should be thinking of this region as one market. Port and investment promoters in California have encouraged transportation carriers and manufacturers to locate in the Los Angeles and San Francisco areas. If you do not consider the Pacific Northwest, you lose the advantage of lower port costs and less congestion than in gridlock-bound California. As well, housing costs are lower here and public secondary school education is generally superior.

As of January 1 this year, the Canada/U.S. Free Trade Agreement created the greatest trade relationship in the world and, I think, significant advantages for British Columbia and Washington. The FTA not only liberalizes the movement of goods between the two countries, it also recognizes the importance of the movement of people, services, and capital as an integral part of a vital continental economy. I think the most significant impact of this agreement is that the border has become increasingly transparent and this has created tremendous opportunities for us on the Pacific Coast.

One of the opportunities right now is in the State of Washington. British Columbia/ U.S. Pacific Northwest two-way trade (Washington, Oregon, Idaho, Alaska) is now around 3.5 billion dollars. It's not as large as British Columbia's trade with California but it's still an impressive figure. To maximize the potential of the Free Trade Agreement, British Columbia and Washington State signed on January 4, 1989, three days after the Agreement came into force, two cooperative agreements which will help the Pacific Northwest take full advantage of the FTA.

The first was a memorandum of cooperation between British Columbia and Washington State. The second was an economic arrangement on trade, investment and tourism, which led to the formation of the Pacific Economic Partnership Committee. This is a committee of both private sector and public sector officials.

The impact of these agreements will be significant for a large number of exporting industries and for tourism. Already, we have examples of how well this new relationship between Washington and British Columbia works. This past November, the Comdex Computer Show took place in Las Vegas. For those of you who are not familiar with this show, it is the largest computer show in the United States and one of the foremost high technology shows in the world. At this show, British Columbia and Washington joined forces and exhibited company products and services from both British Columbia and Washington. To my knowledge, this is the first time that a state and a province have jointly exhibited at a trade fair. It was most successful. Both Washington companies and British Columbia companies did business and I think it really set the precedent for what we can do in the future in terms of cooperation at trade fairs.

Outside of North America, the University of British Columbia and the University of Washington are jointly exhibiting at the Flanders Technology Show in Belgium, April 28 to May 1 this year. There the focus is on investment, joint ventures, and technology exchange in the field of bio-technology and medical science.

Another area where the Pacific Northwest Agreement is providing opportunities for cooperation is in agriculture. This sector is emerging as an area where companies on both sides of the border are looking at how they can cooperate and work closely specifically in four sub-sectors: farm salmon, shellfish, sea vegetables, and fresh water sport fisheries. Sport fisheries are of interest to tourism promotion in both British Columbia and Washington inland communities.

A fourth area of cooperation involves both governments exploring the possibility of sharing business information through a Pacific Northwest electronic data base. This would identify business opportunities on both sides of the border and be tied in, of course, with WIN export which is the federal system for identifying Canadian sources of products and services in Canada.

Another sector under this agreement identified for potential cooperative activity is aerospace and, of course, you all know that Boeing is located just south of the border in Seattle. Boeing actually started in British Columbia and yet there are more employees at a Boeing subsidiary in Manitoba today than there are in British Columbia. We anticipate that the agreement will pave the way for closer cooperation in the aerospace industry.

Other areas in which there may be opportunities for cooperation include truck and recreational vehicle manufacturing and the apparel industry with markets in New York and Toronto. The west coast is also significant with Los Angeles being the largest buying centre for apparel on the west coast.

The initiative we have undertaken with Washington State has not escaped the notice of other states. In fact, discussions are now under way with Oregon as they are interested in a similar arrangement with us. We also have received expressions of interest from states as far away as Illinois and New York. So, where we once had two small separate regions, we now have a single affluent regional market, including British Columbia, Washington, Oregon, Idaho and Alaska.

I'd quickly like to recap the events that led to the signing of the Agreement which made the partnership with Washington possible. Two-way trade, as I mentioned earlier, between British Columbia and the U.S. Pacific Northwest States (Washington, Oregon, Idaho, Alaska) is about 3.5 million dollars. As impressive as that may sound, it falls far short of what I think we can do in the years to come. Before the FTA, British Columbia firms tended to think of expansion in east/west terms. There was somewhat of a psychological barrier about going north/south. I think the FTA will certainly remove a lot of that thinking. For British Columbia business, free trade means being able to expand into markets that not only include the domestic Canadian market but also markets with millions of new consumers south of the border.

The signing of the general Memorandum of Agreement opened the way for the two

governments to share information, promote cultural understanding and to identify areas where there can be formal and informal cooperation. The Agreement calls for periodic meetings between Premier Vander Zalm and Governor Booth Gardner to review issues of mutual interest and monitor progress of cooperative efforts.

The Economic Cooperation Agreement on Trade, Investment and Tourism, which was signed earlier this year, encourages the sharing of economic information and calls for mutual assistance in organizing trade, tourism, investment exhibitions, fairs, and seminars. The Agreement also made possible the formation of the 13-member Pacific Northwest Partnership Committee which includes representation from the private sector and the public sector on both sides of the border.

I might mention the New Exporters to Border States Program. We are a major supporter of that program in collaboration with the Federal Ministry of Industry, Science and Technology. There is a mission traveling tomorrow to Seattle. For those of you who don't know, this program is designed for the first-time exporter. It involves a one-day visit to a border market, in this case Seattle. It could reach further away, but always to a border state. It involves briefings on U.S. customs, marketing, transportation and legal issues for the small exporter, of which this province has many.

That is one of the major limitations for us in our province. Our exporters are typically small and medium-sized. This program does a lot to address the problems that a small exporter faces in an export market. Taking them to an adjacent market offers them the opportunity to find out a little more about exporting in the real world. From that border state, the exporter can go on to more exotic markets.

Over the last year we have organized six NEBS events, involving about 150 British Columbia companies. I know there are many, many more companies that could benefit from this program. The province will be expanding its NEBS program over the next year. As well, a new federal program will include markets a little further afield. It won't be called NEBS. The Federal Government loves acronyms and the new program will be called NEXUS (New Exporters to the United States) and focus not on border states but those further south.

I might also mention government procurement which is an area that offers opportunity for exporters. Government procurement in the Pacific Northwest amounted last year to about 7.2 billion dollars of non-defense-type products in the States of Washington and Oregon. In January, a British Columbia Industry mission of 21 companies was organized jointly by MIBI, my ministry, and the Western Diversification Office, to the U.S. General Services Administration Center in Auburn, Washington.

Another initiative, undertaken by the provincial government, has been the creation of the Free Trade Advisory Service. That is a very useful service for the smaller-sized companies but larger companies also use it. We presented a series of seminars in most major towns in the province over the past three months on the intricacies of the FTA and I think it has helped local companies understand what opportunities and problems exist for their companies.

In conclusion, I think the building blocks for one of British Columbia's priority markets, the Pacific coast, are now in place. There is a Pacific Northwest Economic Partnership, the likelihood of a similar one with Oregon, and the new British Columbia Trade and Tourism Office in California, situated in southern California. For those of you who don't know, it is in Irvine in Orange County. Irvine is located between San Diego and Los Angeles. That really puts you right in between two major population centres and potential markets that you can serve. Tourism from both Northern and Southern California is extremely important to British Columbia. I urge you to use that office.

As you have heard, the provincial government is involved right now in the process of establishing the British Columbia Trade Development Corporation. I am not in a position today to give you a lot of details. My minister, the Honourable John Jansen, will soon be making the official announcement. The bill creating the Corporation has had first reading in the legislature, which means that it has yet to go through second and third reading before coming into force. The mandate of the British Columbia Trade and Development Corporation is an export mandate. It will have the responsibility for export assistance programs to assist the exporting community both in the United

States and in the many, many markets overseas, particularly in Europe and Asia.

I look forward to meeting some of you this afternoon at the reception. If you have any questions, I would be pleased to answer them.

MORNING PLENARY SESSION

"The impact of the FTA on the future of industrial relations in Western Canada"



JIM MATKIN

President & Chief Executive Officer
Business Council of B.C.

In addition to President & CEO of the *Business Council of B.C.*, Jim Matkin is Editor-in-Chief for *TradeTrends*, a *World Trade Centre* Publication, and Director of *Canada West Ventures Ltd.* Prior to joining the *Business Council* in 1983, Mr. Matkin served as Deputy Minister of Labour and Intergovernmental Relations for the Province of B.C. He is a member of a number of boards including the *Canadian-American Committee* and the *Canadian Foundation for Economic Education*. His special assignments have included Negotiation Advisor for B.C. on the feasibility of a steel mill venture with N.K.K., on the International Hydro Agreement for the Skagit Valley, and on the patriation of the Canadian Constitution.

IMPACT OF THE FTA: THE FUTURE OF INDUSTRIAL RELATIONS IN WESTERN CANADA

Presented by: Jim Matkin

It is a pleasure to have the opportunity to speak to you about the interesting subject of the impact of the Free Trade Agreement on labour-management relations. The Free Trade Agreement is now in place, the tariffs are off on some products, and they are going to come off on many other products over the next ten years. With the Free Trade Agreement between Canada and the United States it is interesting that we are going "back to the future". We did once before enjoy free trade in North America from 1854 under the Reciprocity Treaty, which essentially removed tariffs on most natural products. It is somewhat reassuring to look back and remember that in 1866, when we lost the Reciprocity Treaty with the United States, it wasn't initiated by the Canadians. Canada was very happy with the results of free trade but we became entangled as a third-party in a dispute between Great Britain and the Senate of the United States who felt annoyed because of British support for the South during the Civil War and as a result cancelled the Reciprocity Treaty with Canada.

We have tried since 1866 to re-establish reciprocity. Indeed, one of the first things that our first Prime Minister, John A. MacDonal, did was to re-negotiate reciprocity when the Canadian Dominion was formed in 1867, but he was rebuffed. Four times during the ensuing 100 years Canada tried without success to re-establish this Treaty. The most public attempt was under Prime Minister Wilfred Laurier who also like Prime Minister Mulroney staked his election on the issue in 1911, but unfortunately for western Canada Laurier lost that election.

Finally, in 1989 we do have the Free Trade Agreement. The question is what will we do with it and how will it work? Now we're trying to predict the future and that's always very difficult but we can learn something from what has happened in the present and as the great American philosopher Yogi Berra said, "You can observe a lot by just watching". So, I'm going to follow that wisdom and try to give you some idea of what the future may hold on this interesting subject of labour-management relations.

There are differing opinions on this subject. I've studied a lot of people's advice and some predict significant turbulence and substantial change in the industrial labour-management relations of Canada. Others do not predict much change.

If we begin with some basic facts in addressing this issue, the most significant fact is that the Free Trade Agreement itself does not deal with labour-management relations. One of the controversies surrounding the election debate on free trade was the allegation that the Agreement would harm Canadian social programs. Well, of course, our collective bargaining system is one of our cultural or social programs. The Agreement is quite clear. It does not oblige us in any way to change our labour-management laws. Our industrial relations system is not affected by this new international trade law. For this reason, the recent "Collective Bargaining Review and Outlook", published by the Business Council, concluded as follows: "The Free Trade Agreement will have little immediate impact on the industrial relations of British Columbia. This is because most resource industries in the province have long been part of the mainstream of international free trade. Canadian tariff barriers have also not provided much, if any, protection to industries in British Columbia."

Therefore, first, the Free Trade Agreement doesn't have anything to say directly about labour-management relations. But perhaps even more importantly, in this province the basic resource industries of forestry and mining already enjoy the benefits of free trade, that is no tariff protections, and the result (at least until the imposition of the countervail duties against our stumpage system) has been a distinct and viable labour-management relations system of this province that is unaffected by free trade.

In light of this conclusion, why is there such controversy and opposition to the idea of the Free Trade Agreement. Perhaps it is because over the longer term there is likely to be an increase in the influence of U.S. attitudes on Canadian industrial relations. Prior to the Free Trade Agreement, this influence was apparent in the increased use of contracting out and the increase in non-union shops in construction and also in more decentralized bargaining structures for employers and the increase in employee share ownership. More employee involvement in management decisions is a further trend that will likely be emphasized to improve Canadian competitiveness in the free trade environment.

While there's nothing directly in the Agreement that will affect labour-management relations, there is already much experience of the indirect influence of attitudes that spill over to Canada from south of the border. Indeed, on this subject there is a recent report just published in the United States in which the thesis is that with free trade it is now opportune for the United States to adopt some of the Canadian attitudes on industrial relations. If you are familiar with the U.S. debate, it focuses on the sharp decline of the U.S. trade union movement. This issue of the decline of the U.S. trade union movement does perhaps help to explain some of the controversy about this subject.

As you know, during the debate the U.S. labour movement opposed free trade with Canada. The Canadian labour movement opposed free trade with the United States. The U.S. movement said that they would lose jobs to the Canadians. The Canadian labour movement said they would lose jobs to the Americans. Now, they both cannot be right. You might say, well who is right? Who will lose the jobs?

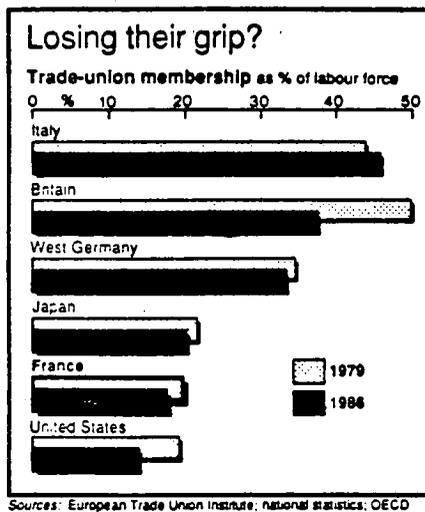
The burden of my message today will be that actually both labour movements are wrong. They rely on the erroneous assumption that trade or free trade involves a fixed pie and you simply divide that pie up and, therefore, one country's gain is the other country's loss. It is simply untrue to regard international trade as a fixed pie. As you reduce barriers, it is more likely that trade for both countries will increase.

The world has tried the opposite approach where you increase tariffs to protect jobs and trade and the result has been a sharp decrease in trade growth. The Smoot-Halley Law introduced in 1929 raised tariffs to 44 percent in the United States as a way of protecting U.S. jobs. The result was catastrophic and this tariff policy led to the collapse of the world's economy and the worst depression in our history. The lesson of history is clear that raising tariffs does not protect jobs.

From 1930 until the present, Canada and the United States have whittled away at these tariffs until we've got them down substantially but let no one assume that we have completed the job. There's still much to be done and much reason for negotiating a bilateral free trade agreement. For example, I refer you to the annexes 401.2 of the Free Trade Agreement. The first is called the Tariff Schedule of the United States - it's 494 pages long. The other is the Tariff Schedule of Canada - it's 550 pages long - in total there are 1000 pages of taxes or tariffs. If you go through these documents, you will not find that 80 percent of these items are duty-free, as the debates during the election suggested. Indeed, 75 percent of all the items in these books have tariffs and some of the tariffs are as high as 45 percent. The reason is that the annexes follow the principle of "tariff escalation" which means that as value is added to a product, the rate of tariff increases. This fact is a key reason for Canada entering this agreement with the United States. We wish to see the repeal of these two tariff books and remove that "tariff escalation" principle in order to allow Canada to add more value to its resource-based economy.

As these tariffs are removed a key issue will be how competitive is Canadian industry. Perhaps the most important element of industrial competitiveness is the quality of the workforce. When you compare Canada and the United States, one of the most striking differences is in the rate of unionization. Canada has a unionization rate that is more than double the U.S. (36% to 17%). This sharp difference between the two countries is worth closer examination. The question is, why is there such a low unionization rate in the U.S.?

The rate of unionization is declining everywhere as the service sector becomes dominant in most Western nations. The graph below shows that trade unions are losing their grip.



As quoted in "The Economist", November 28, 1987

Except for Italy, in all of the G-7 nations there is a decline in unionization, and that includes Britain, Japan, West Germany, France, and the United States. Britain has had the sharpest reduction of unionization in the past decade, but of course the United States is the country with the lowest rate of unionization.

Canada is in the same situation. The chart below shows that our unionizing rates are decreasing. British Columbia also follows this pattern of decline with rates falling over the past three years from approximately 40 percent down to 37 percent.

TABLE 1. U.S. AND CANADIAN UNION MEMBERSHIP AS A PERCENTAGE OF THE NONFARM WORKFORCE OF EACH COUNTRY

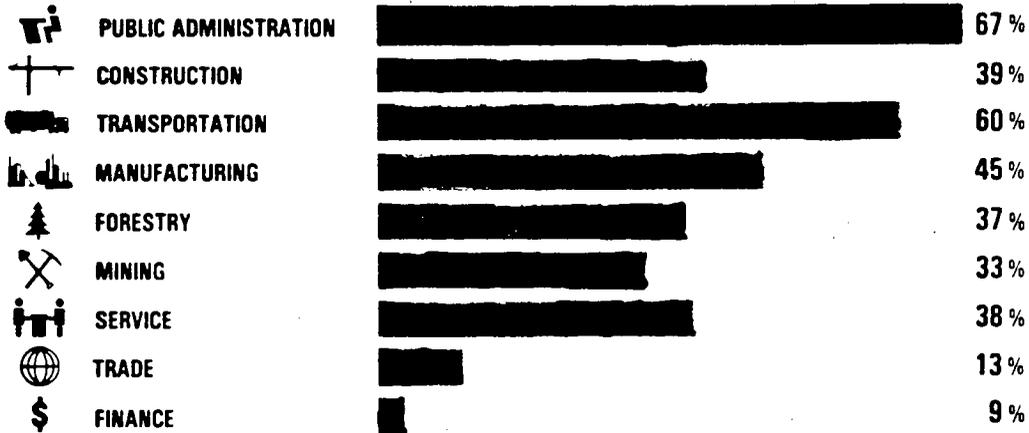
| | U.S. | Canada |
|------|------|--------|
| 1952 | 33.0 | 21.0 |
| 1960 | 28.6 | 32.3 |
| 1970 | 29.6 | 33.6 |
| 1975 | 28.9 | 36.9 |
| 1980 | 23.2 | 37.6 |
| 1981 | 22.6 | 37.4 |
| 1982 | 21.9 | 39.0 |
| 1983 | 20.7 | 40.0 |
| 1984 | 19.4 | 39.6 |
| 1985 | 18.0 | 39.0 |
| 1986 | 17.5 | 37.7 |
| 1987 | 17.0 | 37.6 |

Sources: U.S. Bureau of Labor Statistics and Canadian Ministry of Labour.

Why are unions losing their share of the labour force? To answer this question it is useful to answer another question, and that is, "In what sectors of the economy is unionization strong?" The unequivocal answer is, the public sector. As the chart on the following page, prepared by the Canadian Ministry of Labour, shows, 67 percent of the public sector is unionized, and then in what you might call the goods and retail sector, transportation is 60 percent unionized, manufacturing 45 percent, construction 39 percent, retail services 38 percent, forestry 37 percent, and mining 33 percent. Then, at the bottom are trade and finance with 13% and 9% respectively. There is a very significant unevenness in the way in which the industrial sectors are unionized with the goods sectors being much more unionized than the service sector.

UNION MEMBERSHIP BY SECTOR

1984



Source: "The Canadian Labour Climate", Labour Canada, 1987

Ranking Issues According To Their Importance to the Nation's Competitiveness

Rankings by Participants From::
Business Universities Government

| Issue Area | Business | Universities | Government |
|---|----------|--------------|------------|
| Educational and human resource policies/practices | 1 | 1 | 1 |
| Fiscal and monetary policies | 2 | 2 | 2 |
| R&D activity and programs | 3 | 6 | 3 |
| Trade policies | 4 | 4 | 4 |
| Federal government regulatory policies | 5 | 3 | 6 |
| Transfer of technology | 6 | 5 | 5 |

Reference: The Conference Board, *Keys to U.S. Competitiveness*. Research Report No. 907. 1988.

What has happened to the employment in Canada, the United States, Britain, Japan and the western world? We know the answer to that - I don't need to show you a graph to emphasize the dramatic shift in the growth of the service sector economy. Seventy-five percent of those employed in British Columbia work in the service sector. Now, I hasten to add that employment in the goods sector is extremely important to the service sector. Indeed, it is "producer services", that is services directly related to the goods sector, that are key to the growth of this sector.

Therefore, the first major reason for the decline of unionization is related to the structural change in the economy. As the economy becomes more service-oriented, it becomes less unionized. That's the axiom - more service, less union, and that is a function of the fact that unions have failed to organize many of the white-collar workers in finance and service fields.

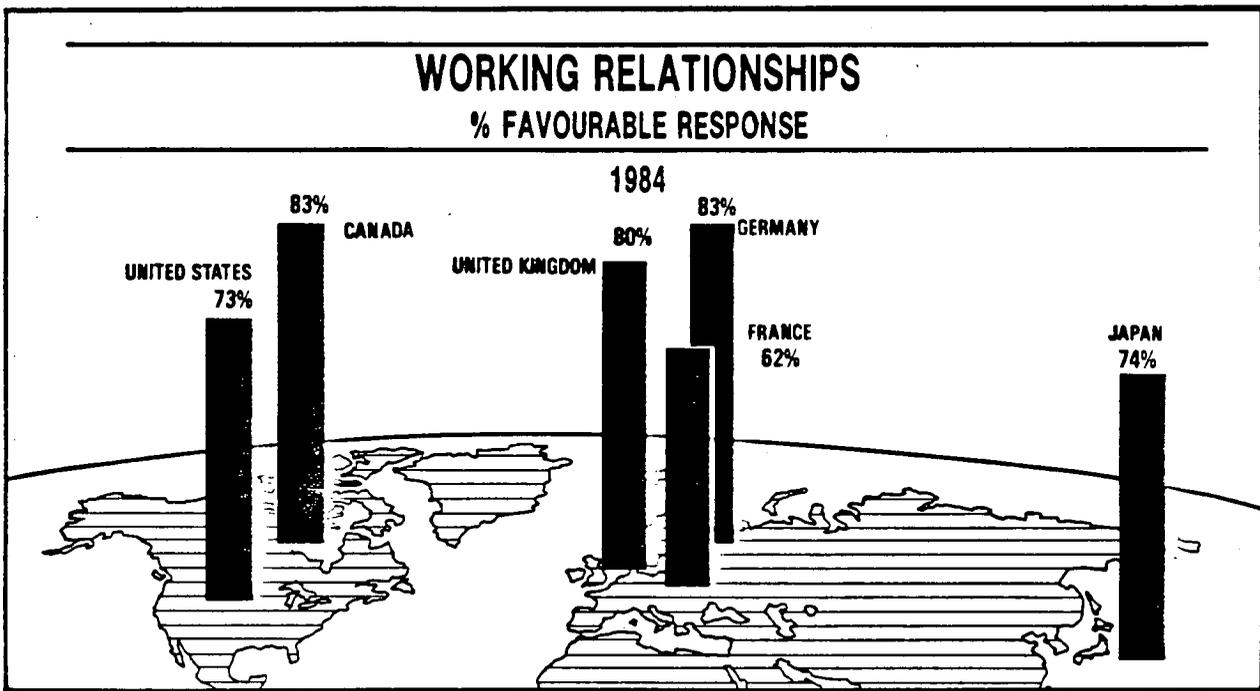
When you look at free trade with the United States, it is relevant to recall how important this continental market is because it provides 75 or 80 percent of Canada's trade, and this trade is 18 percent of Canada's GNP. What will happen under free trade? How competitive will we be? That's a very important question. A recent Conference Board of Canada study showed, on the question of how do Canadian labour costs compare with U.S. levels, that in 1966 Canadian earnings were higher than those in the United States in only 2 out of 63 industries on an exchange rate adjusted basis. However, by 1976 the rapid build-up of Canadian wages had resulted in 54 out of 63 Canadian industries exceeding U.S. levels. Yet in 1986 only 13 out of 63 Canadian industries were above the U.S. So, that's the picture - in '66 only 2 industries were above U.S. levels, by '76, 54 were out of line, by '86, 13 were in excess. The Conference Board research, as indicated in the Chart opposite, concluded that educational and human resource policies are of first importance to our nation's competitiveness.

They did emphasize that one of the key differentials in our labour costs has been our currency rates. Our currency adjustment has made a significant impact on the relative labour costs. Indeed, if you take the currency adjustment out, it does make a substantial impact on the differences between labour costs in the two countries. While there is some evidence that we have experienced lower productivity growth than in the United States, at the same time our earnings have been higher and the appreciation of the Canadian dollar has been a primary force affecting our Canadian labour costs.

What will the Free Trade Agreement do on this fundamental question of our competitiveness? One of the important messages on the benefits of free trade researched by the B.C. business community, including the Vancouver Board of Trade, the Business Council of B.C., the Council of Forest Industries, the Mining Association, Investment Dealers, the Canadian Manufacturers, the Canadian Association of Independent Businesses, is that with the Free Trade Agreement British Columbia will have more opportunity to diversify our economy and add value. The Agreement gives industry a greater chance to specialize. The reason is "tariff escalations" explained earlier. Because tariffs escalate like a stepladder in proportion to the value added to the product. This means that when you remove tariffs, you remove a discouragement or an impediment to adding value to our products. Rather than exporting essentially raw resources, we will be encouraged to take our resources and add value and export a finished-manufactured product. That's a very important message. It makes the Free Trade Agreement very important to British Columbia.

We have prepared an expert system software program that helps you determine where opportunities may exist for added value manufacturing. This information is also part of the material that the provincial and federal governments present in their strategic planning sessions on the Free Trade Agreement.

Indeed, on the subject of labour-management relations and human resources, there was a recent study done of academic leaders, U.S. companies, university presidents and senior government officials across the United States who were asked what is the most important factor affecting the competitiveness of an industry. They looked at transfer of technology, federal and provincial government regulations, trade policies, research and development, fiscal and monetary policies, educational and human resource policies and the interesting thing is that in every case, the number one factor ranked according to its potential impact on competitiveness was educational and human resource policies.

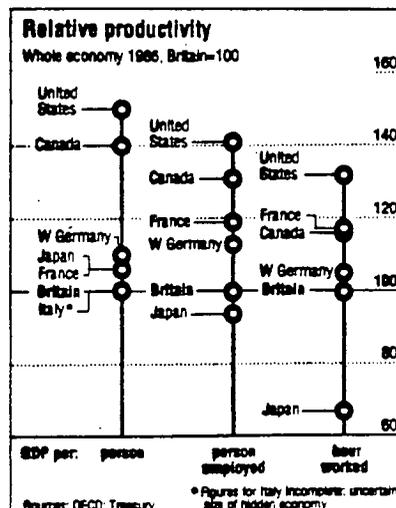


Source: "The Canadian Labour Climate", Labour Canada, 1987

I think that this means that we have a very important opportunity and a very important challenge to take advantage of the working relationships in this province.

We have suffered some controversy in the past about the success of our working relationships in this province. We have a reputation of being too polarized, but in fact that reputation is changing and we are improving attitudes in our labour-management relations. We now enjoy a much more effective industrial relations climate with fewer worker days lost and, indeed, it is interesting that in a survey done, we scored highest amongst all of the nations in the survey for a favourable response to working attitudes.

What will the Free Trade Agreement do to this favourable climate? Under free trade there is scope for productivity gains, and as a result of the improved efficiency, working conditions should be improved. Moreover, the increased investment from free trade will benefit workers because as the ratio of capital-to-labour rises, there can and should be a commensurate increase in wages. Therefore, it's not a question of losing anything. There is the problem of a worldwide decline of rates of unionization but the Free Trade Agreement isn't going to accelerate that decline. But what the Free Trade Agreement should do is make us more competitive. The final chart I'd like to show presents Canada's productivity in a positive light. They compare the real GNP per person employed in Canada and the United States, and over the last seven years we have enjoyed good productivity.



British Columbia industry has experienced first-hand the benefits of productivity in the forest industry. We know that we can succeed by enhanced technology and compete with U.S. companies who pay much lower wages and provide much less benefits and we can do that because we achieve higher productivity.

Therefore, I conclude that the Free Trade Agreement will be a benefit and not a detriment to the growth and improvement of labour-management relations in this province. This will be true as long as we adopt the best technology and the best management practices.

Question:

My name is Wendy Holm. I'm President of the Professional Agrologists of British Columbia and I'm also the editor of the book, "Water and Free Trade". Jim, you mentioned what was the most important competitive factor or the most important factor in production to increase the competitiveness of Canadian industry. I'll tell you in agriculture it's the ability to bring water to the land in regional and industrial development, it's the ability of British Columbia firms to use the upstream rights to the water resource to benefit industrial development in British Columbia. The issue of water and free trade came up a lot last year. It will in the next four years come up very strongly. The Canadian government said they only included bottled. What we will be asking for is an agreement ratified by the United States that despite the wording of the free trade agreement, this deal only includes bottled water, and I would suggest we had discussions on this before the election that you would also support the call for this agreement because it's tremendously important to the economic development of Canada. I will be speaking to this in the Agriculture Workshop this afternoon but I felt it was important enough to bring up to the plenary session.

Answer:

I don't have any information that there are any concerns about water as far as I know but maybe some others do.

Question:

My name is Mark Marback. Regarding your comments on unionization, we've seen diversions between unionization trends in Canada and the U.S. over the past while. You seem to discount fairly heavily that we will not follow the decline of unionization as the U.S. has but as we enter into a more competitive market, how can we not have to align more closely with the trends that they have incurred through either union avoidance or union substitution.

Answer:

I think that our own province is a good illustration of this in that our major industry, forestry, has for many years operated on a competitive basis selling a product in the United States with no tariffs or in effect free trade. This has not prevented our industry from being much differently structured on the labour-management scene than is the case for industries in the southern United States, in Georgia or Alabama or other parts of the United States. The reason is that competitiveness, as the experts say, depends upon human resources and education or on attitudes. It doesn't follow that having unionization is necessarily a negative competitive factor. In fact, there are studies that show that it's not only positive but is more competitive. But either way, the key issue is our attitudes and our human resource policies. So, we can have those successful relationships whether we are unionized or not. You don't need to turn this country into a non-unionized country in order to compete - that's the truth.

Question:

My name is Jack Butterfield, Jim, and I was interested in your comment that the pie should be bigger on both sides of the border, a bigger GNP resulting from the free trade agreement and I think that everybody who's not a union member would agree with that. The question is this, have you made any estimations on how much bigger the GNP will be for our country and for the U.S. as a result of the FTA.

Answer:

There have been six major studies done of that question and they all disagree a bit as to the amount, but they all agree that there will be an increase. The increase will be at least two percent additional growth to the GNP over a ten-year period. This is a substantial amount of growth. Another way to view it is if you think of these large tariff books and what we are really doing is

reducing those taxes on both our consumers in Canada and our producers in both countries and so there will be more opportunity to expand trade.

Butterfield:

Do you mean two percent for the two countries combined or two percent for our country.

Answer:

The estimation is that the United States will benefit less than Canada out of the free trade agreement. This is simply as a result of the distortion of size. We get access to their market of 260 million people, they get access to our market of 26 million. We essentially trade straight across - we say you give us free access to 260 million, we give you free access to 26 million. They are not really as interested or there is not as much opportunity for them to expand their economy north as we can expand south. So, the estimation is that we will benefit by a factor of 3 to 1 over what the United States benefits. Evidence supporting that analysis is the New Zealand-Australia agreement where New Zealand has benefited by a factor of 4 to 1 over Australia under that agreement.

**SPECIAL GUEST
and
KEYNOTE LUNCHEON SPEAKER**

"Free Trade - where do we go from here?"



The Rt. Hon. JOE CLARK, P.C., M.P.

In his four and a half years as Secretary of State for External Affairs, Mr. Clark has been successful in renewing a sense of consistent and constructive internationalism in Canada. He has actively sought greater trade opportunities for Canadian business through the Free Trade Agreement and is an active proponent of multilateral organizations like the United Nations, the Commonwealth and La Francophonie. He works to increase Canada's role and influence in Asia, in the Third World generally, and with our closest allies. Mr. Clark is Chairman of the Cabinet Committee on Foreign and Defence Policy and Vice Chairman of the Sub-Committee of the Priorities and Planning Committee on Trade. Mr. Clark has B.A. and M.A. degrees from the University of Alberta.

"FREE TRADE - WHERE DO WE GO FROM HERE?"

Keynote Speaker: RT. HON. JOE CLARK, P.C., M.P.

I'm particularly happy to address this Conference on "Opportunities and Challenges - Making Free Trade Work for You", because I think it is time we moved away in earnest from the emotions of the earlier debates on Free Trade and get on with the business of today, which is making Free Trade work.

There was an interesting incident in Parliament yesterday and this had a Vancouver connection. It had to do with the Fraser Institute. Some of you may be familiar with the Fraser Institute. I certainly am. They disapprove of 97% of the things I do on any given day. But they are nonetheless a British Columbian and Canadian institution. One of the Liberal members put the following to the House of Commons and the Prime Minister. "I have here a program of the Fraser Institute Conference that indicates that the Minister Responsible for Canada Post will be the guest speaker at a conference to be held shortly on the privatization of the Canadian Postal Service."

He went on to say, "In view of the fact that the Fraser Institute is a far-right organization, why does the Prime Minister not forbid forthwith his Minister to appear at this Conference?" Harvie Andre, who is the Minister Responsible for Canada Post answered, "Mister Speaker, that attack on the Fraser Institute is something I will let the Fraser Institute deal with. I find it pretty shocking that a Member of this House should say that we should be forbidden to listen to the ideas of a think tank in Vancouver that might have some ideas of value. Mikhail Gorbachev is listening to new ideas. The Liberal Party apparently cannot."

I don't want to make a point about the Liberal Party but I do want to make a point about many of the people who have been traditional and ritual critics of Free Trade and other initiatives that have to be undertaken in this country and in this world. The reality we face all around this world is that other countries, leaders, and economies that are trying to come to grips with the realities that we face in this century at this time are recognizing that some things don't work.

And when they recognize that they don't work, they put them aside. They are prepared to engage in new thinking, and are coming to grips with the reality we all face and are changing their countries and economies as a consequence. If that is happening in the world, everywhere from Mozambique to Moscow, Asia, Europe, Central America, surely we as a country that has been dependent for so long upon trade and upon prevailing economically in this international climate have to recognize that old ways will not work. Surely, we have to be prepared to take a look at new opportunities and new ways of thinking and new realities in the world.

The real question for Canadians today is how we may make the most of our opportunities in a world that is changing rapidly almost in a revolutionary way. That change is literally everywhere. It is there in world politics. It is there in world economics. It is there in the new care that we take of our air, our water. Some of the change is particularly interesting. In Europe, countries that fought one another for centuries are now forming a single unified market. In the Soviet Union economics is replacing ideology in that powerful nation's decision making.

As peace breaks out all over the world economic strength has become a real alternative to military might in influencing global development. That produces a significant change and it is a change that may well have implications down the line on the military budgets and economic plans of countries everywhere on this globe.

Canada's economic strength has always depended on trade. But now we are in a world in which more countries are competitive with us and many more might be. Think about the tremendous power of the Soviet Union, it's natural physical power held back by a system that wouldn't let anything work for decades. We are dealing with new competitors we know of and there is a range of other new competitors out there waiting to take on Canadian markets, waiting to take on Canadian strengths.

We are in a world in which more countries are competitive with us and more markets are open to us. We in Canada are at the crossroads of three major trading and economic powers: the United States, Europe, and the Pacific Rim. Each of those powers is being transformed as they adjust to global political, social, economic, technological changes. We in Canada have to respond to those changes too.

What are those changes?

First, the premium today is on innovation. Ideas are now the passport to prosperity. Technology has become the driving force of the international economy in this post-industrial era. High-technology industries in our universities are the foundation of long-term economic strength and influence.

Second, a new competitive situation is emerging - natural resources. These, having long been considered synonymous with economic power, are taking a progressively smaller proportion of the world's income. New economic powers are emerging.

Third, capital has become more mobile, moving literally at the speed of light. As barriers to financial flows go down, a world-wide capital market is emerging.

Fourth, new business practices and new consumer tastes demand specialization in a world where product life is calculated now in months not years.

These changes lead inevitably to new kinds of economic arrangements. Those new arrangements happen around the world. In Europe they happen with the European Community, in Asia the Association of Soviet Nations, and the closer economic relations agreement between Australia and New Zealand. Similar groupings can be found in the Carribean and in Latin America, Africa, and of course in North America with our Free Trade Agreement.

The member nations of the European Economic Community intend to remove all remaining internal barriers to trade by 1992, creating the largest single industrialized market in the world. That will result in a sophisticated, concentrated, single market of 320 million consumers. The impact in Europe will be tremendous, a 4.5% increase in GNP, the creation of 1.8 million new jobs, a 10% increase in internal trade, and a 10% increase in EEC exports to the rest of the world.

Japan has become an economic powerhouse of the first order. With the world's 21 largest financial institutions and the world's largest stock market, Japan is now the foremost source of capital in the world. It has also become the largest aid donor in the world. By the turn of the century, Japan's overseas assets could exceed a staggering three trillion dollars. Japan too is adapting, responding in part to developments in Europe and concern with its over-reliance on the American market. Japan is deliberately expanding its trade and its investment throughout the Pacific Basin.

Meanwhile, the emerging economies of the Pacific Basin, the so-called newly industrialized economies - Taiwan, Korea, Hong Kong, Singapore - present a dramatic challenge to the industrialized world. Malaysia, Thailand, China, and other countries in the region are not very far behind. Korea and Taiwan now have large and growing trade surpluses and they are constantly adjusting into higher value-added production as their labour costs rise. Both countries are now aid donors.

Next door to us our largest export market, the United States, is involved today in a major effort to regain its competitive edge in international markets. So, the world is changing. So must Canada. So is Canada.

Our economic prosperity has always relied upon a strong export sector. Nearly a third of our GDP is related to trade and no country in the industrialized world is more interested than we are in a vibrant and thriving world trading system. The small size of our domestic market, our capital needs, and the importance of continued access to new technology leave Canada with no choice but to be open to the world.

Our economic growth and well-being are also critically dependent upon a stable and secure access to the United States. Our trade with the U.S. has grown faster than our trade with any other

area including Europe and Asia, despite very significant recent progress on those two continents.

Simply put, Canadian business has taken advantage of the booming U.S. market on our doorstep. That increased importance of the U.S. market makes it imperative that we enhance our security of access and that we put ourselves in a position of strength to deal with the changes that are transforming the world trading system.

This is what the Free Trade Agreement is all about.

That Agreement is part and parcel of our multi-lateral approach to trade. Because we rely so much on trade we would have the most to lose from any withering-away of multi-lateral rules and we have a great deal to gain from the strength of that multi-lateral system. That is why Canada played such a leading role in the Uruguay Round of the Multi-Lateral Trade Negotiations.

At the same time, the Free Trade Agreement puts us in a position to capitalize on our unique location and our key relationship, not just with the United States, but with each of the major trading areas of the world and to work toward building bridges between them.

Today the Free Trade Agreement is a reality. The challenge now is to make this great instrument work, to respond to the opportunities it presents in the private sector. The Free Trade Agreement mechanisms are in place and they are functioning as anticipated. Appropriate steps are being taken on dispute settlement, on adjustment, on the sectoral strategies. Key decisions on trade support programs in the United States are being implemented. Earlier this week, federal and provincial ministers responsible for trade met in Ottawa to prepare for the future. Thorough consultations with the private sector were one of the principal reasons for the success of the negotiations in the first place.

Obviously there are going to be tough times. The Free Trade Agreement provides the framework for managing trade disputes with the United States. It does not eliminate those disputes. It doesn't make them any easier to negotiate. And the subsequent negotiations are not going to be a piece of cake. They have been difficult for years before and they will be difficult now. We expect that because we have established a trade agreement, a climate of some cooperation, and set some deadlines, it will be easier for us to make more progress on subsidy definitions in the future than it has been in the past. Nothing will be easy.

But having said that, the Agreement provides Canadian firms with the economies of scale and the stronger competitive base required to pursue opportunities everywhere in the world. It helps us take advantage of the immense Asian export and capital markets. All that depends of course on Canadian firms adapting new technologies, new marketing techniques.

The Free Trade Agreement makes us world scale. That is a big step forward. The Government is acutely aware of our duty to alert Canadians to changes in Europe and in Asia and to target key sectors for export growth.

To meet the challenge of the changes in Europe moving towards 1992 we plan four major initiatives.

First, a "European Challenge Campaign" to study and explain the implications, the technical requirements, and market opportunities of the post-1992 European market to Canadians.

Second, a "European Trade Policy Strategy" to strengthen our ability to effectively pursue Canada's interests with the European Commission and in key European capitals.

Third, a "European Trade and Investment Development Strategy" for sectors that offer real potential for Canadian companies.

Fourth, a "Canada-Europe Science Technology Strategy" to establish new bridges in trade and technology.

There is an equal challenge, obviously, across the Pacific with the growing influence and affluence of the Asian economies and their export-led growth. We are following a Pacific 2000

Strategy - a five-year package of initiatives that build on the Free Trade Agreement and would strengthen Canadians' ability to deal with the Asian Pacific.

Those initiatives include:

First, an enhancement of "Pacific Trade Strategy". Top Canadian businesses need to compete in the expanding markets of Asia and the Pacific.

Second, the "Japan Science and Technology Fund" to strengthen Canada's scientific and technological base through cooperation with Japanese research institutes.

Third, the "Pacific 2000 Language and Awareness Fund" so more Canadian's will speak Asian languages and understand Asian cultures. We think that is essential for a success in the growing markets of Asia.

Finally, a "Pacific 2000 Projects Fund" so that Canada can become better known in the Asian Pacific region.

Some countries might be able to choose more local, limited trading strategies. That is not an option open to Canada. Canada's trade policy can only be global. The Free Trade Agreement with the United States will ensure Canada's full participation in the rebirth of state-of-the-art North American technology. That makes us much more competitive in the world. It lets us "go global". Some people saw the Free Trade Agreement as a sign that Canada was turning away from the world, and locking ourselves into this continent. The Free Trade Agreement means the opposite. It gives us the scale and the scope to compete in a wide world that is changing dramatically.

We have in this country world-class industries and world-class financial institutions. Our economy is diversified and strong. We are well equipped to prosper. Canadians have the fundamental ability, the skills and the talents to compete successfully in the future. Our responsibility is to provide the opportunities and environment to ensure that these talents are used to the fullest. We would be failing our youth, we would be failing our future, if we did not reach out and compete in the changing world that we see before us.

Two last comments I would like to make.

One has to do not with the details of the trade negotiations, but with the psychology of the trade debate that has engaged this country over the last year. It was a real debate. There were real doubts. There are some doubts that are still there. To someone who was involved in that debate both from a public platform and knocking on doors in several constituencies in the country, I saw the debate being waged out in individual living rooms. People fought about this. People came to a decision. People judged for themselves whether this was good for Canada or not. And most decided it was good for Canada.

That was a watershed in the way Canada sees Canada in the world. Because for too long we had been almost a hesitant country, a country that was not sure that we could stand up against the powers in the world. That certainly wasn't the case with a lot of entrepreneurs, but I think that we can characterize the Canadian attitude generally that way. We made more than a trade decision in November of last year. We made a decision about our confidence in our country's ability to stand with the best and the strongest in the world.

The second observation I make is as someone who is privileged to travel and speak for Canada as the Foreign Minister. I travel the world in Canada's name. Everywhere I go, no matter the continent, no matter the country, no matter the condition, what I see around me makes me understand again and again and again that we are the luckiest people in this world. We have an economy that is strong. We have a tradition of freedom. We have a tradition of tolerance here.

And it has never been part of our background or formation as Canadians that we simply sit back on our good luck. You have to work at good luck. In our political institutions we have to work at getting qualities of freedom. We have to work on qualities of tolerance that have marked Canada for so long. And certainly we have to work at our wealth. Wealth is there in the richness of the land, in

the abundance of the ingenuity that exists in individual Canadians.

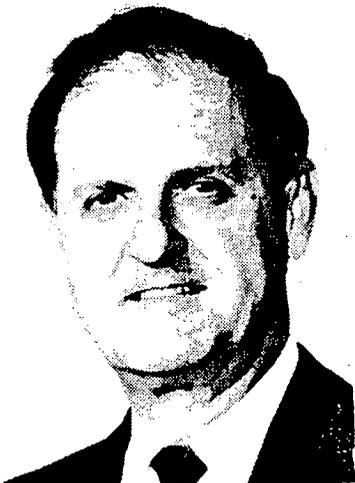
I think that what we have decided to do in embarking on this trade agreement, and in looking for the wide world and being prepared to think new thoughts, being prepared to take on new challenges, is demonstrate that we have not only a great deal of confidence in the country but that we are determined to recognize that the good fortune that we have is not a luxury that we can indulge. It is an obligation and a responsibility that we have to exercise.

That is the spirit with which we are approaching trading opportunities for the country. That is the spirit with which I express my appreciation to you for the opportunity to be with you. I wish you the best of luck in actually getting out and making the sales and achieving the progress that people feel is possible in the exciting new trading world that is developing.

Thank you.

CONCLUDING SPEAKER

"Making the commitment"



JOHN BULLOCH

President

Canadian Federation of Independent Business

John Bulloch, a former businessman and college instructor, founded the *Canadian Council for Fair Taxation* in 1969, out of growing concern for the Federal Government's new White Paper on Taxation, and its anticipated effects on small business. The success of the Council in gaining nationwide recognition led to the establishment of a permanent organization, the *Canadian Federation of Independent Business*, which now represents the views of some 80,000 small and medium-sized independent businesses throughout the country.

In addition to his role as President of the *Canadian Federation of Independent Business*, Mr. Bulloch serves as a member of the Policy Committee of the *C.D. Howe Institute* and is a founding member of the Steering Committee of the *International Small Business Congress*, an organization - representing more than sixty other nations - that is concerned with small business development policies. Mr. Bulloch holds an engineering degree and an M.B.A. from the University of Toronto.

MAKING THE COMMITMENT

Presented by: John Bulloch

I am very pleased to be here and I hope your day has gone well. Could I take a moment to introduce a new member of our staff, Kathy Sanderson. Kathy is our new director of provincial affairs in B.C. replacing Oksana Exell who's going into business on her own. Kathy is formerly from B.C. and has spent the last eight years in Ottawa working with Pat Carney and Flora MacDonald and others. So, I know many of you will get to know her better as she is now located in our office here in Vancouver.

I'm also very pleased to see the number of young people invited to this conference. I made a strategic decision in our family to send my boy out here to be educated and he took a business diploma at BCIT and so I have one member of the family anyway that realizes that Canada isn't Ontario. But for you young people, all personal growth, all development is a function of change and the changes that are taking place in the areas of trade and investment are things that are going to be to your benefit more than ours. So we wish you well in your careers.

The Canada/United States Free Trade Agreement has been signed, of course, but its opponents continue to perpetuate a number of myths that should be put to bed, so that more focus can be given to the role of business in capitalizing on the opportunity that the Agreement presents.

One of the most prevailing myths is the fear that we are facing massive problems of adjustment as a result of the Canada/U.S. Free Trade Agreement, which of course is not true. It's interesting to see how every job loss or plant closing that has occurred over the past few months has been blamed on the Free Trade Agreement. One federal opposition party member even went so far as to say recently that "every sparrow that falls" will be blamed on the free trade deal. What has gone unnoticed by these critics is that the Canadian economy continues to generate net increases in jobs in the order of 20,000 per month, and that investment growth in a variety of industries has been proceeding at a rapid pace. However, no one seems prepared to attribute these positive development to the free trade deal.

The reality is that the FTA is in itself an adjustment policy, an adjustment policy designed to help us prepare for the new world economic order that is rapidly emerging. It is also a reality that Canadian businesses - including thousands of small and medium-sized enterprises - are already successfully competing in the U.S.

We need to continue to improve our access to this larger market to help Canadian business become more specialized and better positioned to compete in a more technological, competitive and internationally integrated global economy, not just the North American economy. The threats to our future come from the Newly-Industrializing Countries, what I call the NICs, and they also come from a single market Europe, not from the United States.

The specialization that results from the globalization of manufacturing and financial services requires a larger market. Without the U.S. market, Western Canada would face the same bleak future as Australia, a resource-based nation surrounded by low cost suppliers of basic manufactured goods, but lacking the market to develop specialization and international competitiveness in the processing of resources, the development of high technology or the provision of specialized services.

Any business that cannot find a profitable niche in the more open North American market will not survive the onslaught of the NICs. The FTA will force Canadian business to speed up the rationalization of their operations in order to move "up-market" in areas such as textiles, footwear, clothing and a host of other products where the challenge of these countries is greatest. Expect as well a flood of new products in the 1990s from Japanese joint ventures and direct investments in nations such as Korea and, of course, Mexico whose currency rides the U.S. dollar.

The European Community will also be a force to be reckoned with, having embarked on a long

process toward the liberalization of its internal market through the implementation of 300 measures that will free up the movement of goods, people, services and funds. The creation of a single European market by 1992 is of historical significance. It will bring about the world's largest market of 325 million consumers and the world's largest trading block, representing 20 percent of global trade. In addition, the rationalization of activity that is facing Canadian firms adjusting to the FTA is already under way in Europe, and over the next few years thousands of more competitive European companies will emerge to challenge Canadian business both here and abroad.

And as we are witnessing on a dramatic scale, even China and the European communist bloc countries are feeling the heat from this changing world economic order. The iron curtain is no longer capable of keeping out information which flows in via television satellites from border countries such as Finland, or which comes to the average person in the form of smuggled video tapes from the West. The average person in the communist part of the world is getting an increasingly better glimpse of the good life that exists outside of their centrally controlled regimes.

Their leaders can no longer keep their people isolated from the economic realities of the world outside, and this has as much to do as any military reason for forcing change. In a sense, China was faster to come to grips with this reality than the Soviet Union, and that in itself put additional pressures on the Soviet Union, which has many reasons to take seriously any modernization moves taking place with its giant neighbour.

Having been to both China and the Soviet Union in the past two years, I can personally attest to the mammoth task which besets any totalitarian state that is attempting to hold its own against those countries which are not shackled by all the curbs and bureaucratic burdens that stifle innovation, creativity, information flow and flexibility. It is equivalent to an elephant attempting to keep pace with a cheetah. And yet the Chinese, with their ancient cultural, political and economic roots, are more prepared for sudden change, and seem to be doing better at tuning into the wave of the future than the Soviet Union. As many people don't realize, the Soviet Union has a history before the revolution of being centrally operated and tightly controlled.

Make no mistake about it, we are living together in exciting and changing times, and this is true whether you are sitting here in Vancouver, or on the other side of the world in Moscow.

Now returning closer to home, as an organization, the CFIB supports the view that you cannot develop adjustment mechanisms that separate adjustments due to the FTA from adjustments due to technology, interest rates, the fluctuating value of our dollar, changing markets, management incompetence or new international competition. All businesses, large and small, face major challenges in upgrading their workforce and managerial skills to function in an economy that is beoming more technological, more international and more entrepreneurial.

Now another myth is that the supporters of free trade are large multi-national corporations, most of which are foreign owned and do not have the national interest at heart. Actually our own research shows that the ratio of winners to losers in small and medium-sized firms nationally is 5.5 to 1, although this varies by province with the B.C. ratio in the order of 7 to 1.

Major corporations, of course, are an easy political target, because they are downsizing their workforces to reduce labour costs, and they are merging their operations to develop economics of scale in international marketing and the development of new technologies. This rationalization is taking place everywhere in the world and cannot be blamed on the Free Trade Agreement, unless of course you are a free trade critic engaging in political mischief. The unsung heroes in this process of corporate restructuring are the small business subcontractors, who are supplying the specialized business services and component parts.

Now another myth is the ability of our Federal government to negotiate away U.S. Trade Remedy legislation. The demand was created when public opinion was so incensed over the shakes and shingles and softwood lumber dispute. As you well know, government and opposition groups were soon engaged in a public debate over the need for a binding dispute settlement mechanism that was going to replace what was perceived as unfair U.S. trade law.

Well actually, trade disputes in reality are the "axe murders of commerce". By that, I mean

they happen rarely, but when they do, their impact is horrific. Now, within our 80,000 members there are about 6,000 firms that export to the United States; however, only one of them in our 20-year history has ever been caught up in a trade dispute. But this firm spent \$200,000 in legal bills, then two years of management time fighting what is called a "201" action under U.S. trade law which was nothing more than a form of competitive harassment.

It's most unrealistic to think that any nation - including Canada - would ever remove its trade remedy legislation, because it's designed to protect their businesses against foreign governments that cheat by disguising trade subsidies as business development. And everybody cheats - we cheat, they cheat, we all cheat. Unfortunately, subsidies have become the modern equivalent of the tariffs that we have been removing over time under the General Agreement on Tariffs and Trade.

What we need is some clarification of what kind of subsidies will be treated as trade subsidies and subject to countervail. This is something both sides will try to negotiate over the next five to seven years.

And this period is going to be important - perhaps even more important than the negotiations that have taken place over the last few years. For one thing, many people in the business community seem to think that the Free Trade Agreement is "fait accompli" and are turning their attention to other things. This would be a mistake, because it's vital to obtain an outcome favourable to Canada in the upcoming negotiations on subsidies. Arriving at a definition of a subsidy that did not benefit Canadian industries could undermine many of the gains achieved in the original Agreement. For these reasons, government and the business community should devote at least as much attention to these upcoming negotiations as they did to the earlier ones.

Now another myth is that Free Trade is good for the regions but bad for Ontario. Actually the percentage of winners in small and medium firms in Ontario and B.C. is almost identical - within a fraction of a percent. What Ontario has to deal with is a larger portion of firms in the more protected manufacturing sectors that must adjust to a more competitive North American market place. However, because of the more diversified Ontario economy, that province should quickly emerge as a major winner under the FTA. Quebec, whose economy is in many ways similar to that of Ontario, recognized this reality and has been a staunch supporter of the Free Trade Agreement.

During the free trade debate Premier David Peterson was unfortunately engaging in political partisanship, playing the role of a good federal Liberal rather than a good provincial Premier. He certainly wasn't speaking for business whose support for the trade agreement in Ontario was, and still is, overwhelming.

The reality from a national perspective is that the Trade Agreement provides an opportunity for the regions to diversify their economies and create more specialized competitive enterprises with the capability to tackle the growing Asia-Pacific markets, and the emerging European colossus. On balance, the Free Trade Agreement is an opportunity to redress a lot of the historical development problems created by tariff walls that were designed to protect central Ontario industry.

I would also like to discuss the accusation that Canada's U.I. scheme has been gutted as a sop to business for supporting free trade. Another variation on this charge is that there is some form of secret agreement connected to the FTA that Canada would cut back on all its social programs. Both of these allegations are nonsense.

The changes that were proposed for the U.I. System two weeks ago are minimal retargeting of unemployment insurance funds; the proposals don't involve spending less, just spending smarter. Instead of people staying home in high unemployment areas, the new proposals are that U.I. funds should be used for more re-training, and for more job creation in those same regions. This is something that the previous federal government recognized had to happen back in '83. And I can say, having been part of this process, that these recommendations for changing ten percent of the U.I. System are about a third of what was proposed by the Forget Commission, the Macdonald Royal Commission and by the House Royal Commission in Newfoundland.

Despite the changes proposed recently, Canada's Unemployment Insurance scheme is still much richer than comparable U.I. systems for most of our trading partners - especially in terms of the

benefit period. The majority of U.I. schemes only pay for up to 26 weeks. Also the parental leave provisions suggested recently are an extension of a social program, not a cut. And while we disagree with using the U.I. system to deliver social programs, anyone studying the demographics of the Canadian labour force knows we have to improve child care provisions to enable women to continue filling crucial jobs in our economy.

In summary, the changes proposed are a first step in removing some of the structural flaws that impeded mobility in the labour force. We are moderating our praise of the measures because they could have gone further, and because we want to see if Ottawa hits us with payroll tax increases to fund elements of the U.I. program now funded by general revenues.

I must say that at times during the Free Trade debate, it has been amusing to witness all of the antagonists and the protagonists parade their economists to support their particular positions. In my view, the only real loser in the Free Trade debate is the credibility of the economics profession.

And speaking of economists, I suppose you all have your favourite definition. I've got a couple:

"An economist is someone who's always right, always irrelevant, and usually working on government money."

And then another definition, "An economist is someone who is good with numbers, but lacks the personality to become an accountant."

And, of course, if you could lay all the economists in Canada from end to end, it would serve them right.

So much for the economists, the big losers in the Free Trade debate.

For the average citizen the best source of information on trade is the business owners themselves, whether they're large or small, because they're at the front lines, they're risking their own dough. Our federal politicians, whom we look to for thoughtful debate, are unable to tell Canadians that all the major forces that are bearing down on western economies are international in nature without admitting that Parliaments are becoming obsolete forums for influencing economic policy. This frustration faced by our politicians in explaining the reality of the integration of economic activity is not unlike the historical problem faced by city-states as they began to engage in trade. At some point it was necessary to create the nation-state with the powers to control defense, tariffs, currency and so on. In a sense, the world is in a similar dilemma today as the powers required to control global activity are not available to national governments.

The fact is, that when nations like Canada face changes which they can't possibly control, they have the option of either adapting quickly or adapting slowly. If they adapt quickly they have a greater chance of influencing their own destiny, exercising leverage and increasing their economic wealth. If, however, they adapt slowly events will overtake them, others will take away their markets and their people will suffer accordingly. Policies such as free trade, the deregulation of energy, transportation and financial institutions, the reform of the tax system, the sale of Crown Corporations, the encouragement of foreign investment, they're all designed to facilitate adjustment and create a more flexible, a more adaptable and a more entrepreneurial society. And there is no option B. The status quo is not an option.

It's another fact of life that governments throughout the world are adapting market oriented policies to facilitate adjustment not for philosophical reasons. What I have discussed here, you can find throughout the world in governments to the left and the right. But they're doing it for straight, old-fashioned good economic reasons. Governments are beginning to realize that interventionist policies do a lot of damage to an economy in a short period of time, if you're involved in any kind of rapid international restructuring. For this reason, it is my firm belief that those Canadians who are still perpetuating myths about the trade agreement are either involved in partisan politics, or lack an understanding of the global nature of economic activity. I must say that such people, no matter how well intentioned, are not serving our country well.

I am pleased to see, however, that in addition to creating a policy framework conducive to change, the federal and provincial governments are attempting to provide a broad range of education training and trade promotional assistance to encourage businesses to specialize and expand their marketing efforts in the U.S.

At the federal level, you have the International Trade Centres, toll free telephone numbers, answering questions from exporters and potential exporters on matters such as the phase-out of tariffs, rules of origin, temporary entry rules into the U.S. for business visitors, and so on - things that have been covered by your various sessions.

Furthermore, as you know, there have been seminars on U.S. Customs procedures operated across Canada. Many of our staff have been attending them. As well, External Affairs has been conducting export training programs, and taking missions to border states and southern states across the country. And we have more satellite offices in the U.S. - I think we've now got 27 posts throughout the United States. The importance of trade fairs in selling to the U.S. is recognized and all the business organizations across Canada have got copies of all the trade fairs that are going to be held in the United States in 1989 and 1990.

Canada Customs, as well, through their offices and toll free line, are giving advice to exporters on the very complex system of rules of origin under the FTA.

Then we have the new Free Trade Policy and Operations Branch of the Department of External Affairs and they're working directly with groups like ourselves and I'm sure with all the associations represented here today.

To be very blunt, it's very difficult, certainly at this stage, to be critical of the federal government for its lack of support for efforts to prepare business for a more competitive international economy and to encourage more businesses, especially small firms, to expand into the United States market.

And similarly at the provincial level we have outstanding support across the country, as you witnessed from your own Province of British Columbia. The big exception is the Province of Ontario. You've got a double reason for living in B.C. - you don't live in Ontario. In Ontario, under Premier David Peterson, we've got probably the most interventionist anti-business government that I've worked with in 20 years and that includes three NDP governments in Western Canada, which will shock you.

This government is pursuing policy directions that are directly at odds with the global economic forces that I've described. Unworkable and costly policy initiatives in the field of Workers' Compensation, Pay Equity and Occupational Health and Safety, to mention just a few, threaten the competitive position of Ontario. But don't think you're protected: provinces like Ontario with those huge bureaucracies tend to do all the spade work for legislation that's picked up by other provinces across the country.

But the real issue for Canadian business is the commitment of our entrepreneurs and our managers to upgrade their products and services, become more specialized, and develop new markets in the United States and the rest of the world.

After governments have created the favourable policy environment, the central issue becomes the capability of business to deal with the new competitive forces. For small and medium-sized firms, the Canada/U.S. Free Trade Agreement provides a once-in-a-lifetime opportunity to innovate, expand their scale of operations and position the enterprise for a creative foray into the markets of Europe and Asia.

You know, if major firms fail to adjust to market forces they lose market share. However, when small firms fail to continually innovate, they go out of business. In Canada, not unlike other developed economies, about half of all the small and medium-sized enterprises disappear every ten years. Fifty percent of all the small and medium-sized enterprises in Canada that exist today will not be here in ten years. Those same numbers apply to Japan, the United States and Europe. And although this is agonizing for those people who fail, small business does not stand still to lick its

wounds. The owners of these firms are replaced by an army of younger, better educated, more technological, and more internationally oriented men and women who see trade as an opportunity rather than a threat. Now of those young people that are here today, one out of three will have their own business in less than five years.

This process of business births and deaths is what provides market economies with their vitality, and ensures that as the structure of the economy changes, small and medium-sized firms change with it. Many of the smaller business owners who stated that the trade agreement would have a negative effect on their operations (that was about 7 percent of those firms across Canada) will, unfortunately, not survive, not because of the loss of tariff protection but because of their failure to continually innovate to meet the challenge of change. Upgrading, specializing and internationalizing is a prudent strategy regardless of the FTA; however, what the Agreement does is serve as a catalyst to encourage management and workers to respond to the realities of the market place - that's what Don Macdonald of the Royal Commission, who was a major booster of the Free Trade Agreement, called the necessary "cold shower".

This brings me back to 1986, when we interviewed face to face 42,000 owners of small and medium firms. We broke out their responses on the potential impact of a trade agreement by SIC Codes (Standard Industrial Classification Codes). We found the ratio of winners to losers varied from 12 to 1 in the most competitive sectors right down to 1 to 1 in the most protected or vulnerable sectors. What was absolutely fascinating is the worst case scenario across Canada in any sector was 1 to 1. No sector in any area of the economy was going to disappear. And although we conducted the study to help Simon Reisman and his team appreciate the issue from a small business perspective, what we really learned, which was an incredible experience, is that the issue of adjusting to a more competitive North American marketplace is really a management challenge.

And this doesn't mean that there isn't a public policy role in assisting businesses to upgrade or to adjust and prepare for the challenges of the 1990s and the 21st century. Most of us know that as a country we're going to have to focus more of our limited public resources on labour force development. Labour force mobility and national standards for trades and professions are going to be vital to reduce the mis-matches between supply and demand for jobs. You might find it interesting that 50 percent of the small and medium-sized firms in Canada, despite the high unemployment numbers, can't find proper workers.

We also need to eliminate interprovincial barriers to trade if we're going to be able to compete internationally. Our market of 25 million people is already small by international standards without further fragmentation. We need a more effective credit guarantee system for financing the upgrading of plant and equipment in small business to offset the excessive collateral demands of our banks. We need, as well, to encourage the development and transfer of technology. And finally, our educational system must do a better job of providing basic literacy and numeracy skills to our nation's youth.

The education and training question has been getting a lot of attention lately with the release of the de Grandpre Commission Report and the focus on training within the U.I. System. It is becoming increasingly clear that the quality of a country's labour force is one of the most important determinants of international competitiveness. This is particularly true for developed countries, which do not have the option of penetrating global markets with products based on cheap labour.

As a matter of fact, I was party to a discussion by a major international firm locating in Ontario. They picked the city that had the best trade development program in the high school - it was fascinating. Of all the reasons that you'd think they would pick, they went with the community in the province that had the most competent trade development program within the high school system. While more and more of the labour force is found in small and medium firms, unfortunately the de Grandpre Report recommends training systems really designed for big institutions that don't apply to small firms. But education and training is central to our competitiveness and central to our future.

But when all of this is said and done, it's going to be the private sector, you people here at this Conference that take the responsibility as individuals and make the commitment as individuals to build a stronger Canadian economy and a more unified nation through expanded trade.

WORKSHOP NUMBER 1

CONSUMER PRODUCTS

Our group heard from two long-time exporters to the United States, Robert Little of Regency Stoves and Harold Lennet, of Pimlico Fabrics, and from one new exporter, Doreen Braverman of the Flag Shop. The overriding message from their experiences before and after the Free Trade Agreement is that the key benefit of Free Trade is that it is changing attitudes about exporting.

For some companies, it's fear that is causing the change in attitudes. For others it's the smell of opportunity - several million new customers within easy reach.

Our speakers who have "done it before" emphasized that it's not difficult to get into the U.S. market so long as you're willing to be innovative rather than complacent. Even before Free Trade, the barriers to entry into the U.S. were more psychological than actual.

So, the main thought I want to leave you with is our group's conclusion that U.S. customers are very, very receptive to Canadian companies, if you take the right attitude and are willing to do your best.

LUDMILLA JAGIELLICZ, Rapporteur

WORKSHOP NUMBER 1

Chairperson and Panelists

CHAIRWOMAN: Ms. OKSANA EXELL
Past Director, Provincial Affairs
B.C. & the Yukon
Canadian Federation of Independent Business



Oksana Exell, Immediate Past Director of Provincial Affairs for the *Canadian Federation of Independent Business*, has been a Federation spokesperson for B.C. and the Yukon for the past five years. Prior to joining the Federation, Ms. Exell was a consultant for the federal and provincial Governments, with areas of expertise including compensation policy, cost/benefit analysis of regulatory programs and deregulation. She also is an owner/manager of a small business.



ROBERT LITTLE is President and founder of *Regency Industries Ltd.*, the fifth largest manufacturer of fire place products in the North American wood stove industry. *Regency* is a private firm which exports over 70% of its product to the United States. They operate coast to coast and have extensive experience marketing to the U.S.



HAROLD LENETT is President of *Pimlico Apparel Ltd.*, a garment manufacturing company located in Vancouver. Pimlico was founded in 1979 by Mr. Lenett who quickly made his presence felt with the introduction and mass production of Rugby Pants in Canada. Pimlico is now one of the five largest unit producers in Canada. They are contracting for Levi Strauss & Co. in Canada and the U.S.A., as well as producing private label goods and marketing under license for Walt Disney and Harley Davidson.



DOREEN BRAVERMAN is a Vancouver business executive. She is Managing Director of the *Braverman Group* of Companies, President of *The Flag Shop Inc.*, and President of *Atlas Textile Print Ltd.* She is also a Director for a number of business associations including the *Discovery Foundation* and the B.C. division of the *Canadian Manufacturers' Association*, and is Advisor to Small Business Development, *Vancouver Community Colleges*.



LUDMILLA JAGIELLICZ is a Principal with *Woods Gordon*. She has an extensive background in consulting for government and business, with special expertise in marketing and strategic planning. She has been involved in a number of large corporate restructuring programs and is well versed on market conditions, trends and outlooks for the future, particularly under Free Trade.



DALE VAN DER YACHT is a licensed U.S. Customs Broker, and a principal, with *Border Brokerage Company* in Blaine, WA. His company facilitates the importation of merchandise into the U.S. at all northern border Ports of Entry from Blaine, WA, to the Great Lakes.

RAPPORTEUR: LUDMILLA JAGIELLICZ
Woods Gordon.

WORKSHOP NUMBER 1

CONSUMER PRODUCTS

OKSANA EXELL, Chairwoman

The format for the workshop will be as follows. I'll just briefly outline again those key changes I think we have to focus on when we are talking about the consumer products market. I'll move to our business panelists who will give us the benefit of their recent experiences. We will then conclude the speaker's portion with a presentation from Woods Gordon on the opportunities for consumer products in the U.S. market.

Our question and answer period will follow with participation from two members from the customs brokerage industry to help you with some of the technical details and any questions you may have. Questions which we don't get to or that can't be answered by the panelists I'll take under advisement. Scribble them down on the back of your business card and I'll get back to you as soon as possible.

Let me begin by saying that the FTA and the much publicized dispute settlement mechanism is not a big item for most business people in this province and Canada. Few if any of you would say it is a priority to the more favorable rules on third country sourcing, the harmonization of standards, or the temporary access provisions. I've referred to these as benefits under the FTA but you'll have to remember that the changes will benefit businesses on both sides of the border. The key will be to respond quickly and be among the first to employ the changes in your business environment.

Marketing and distribution issues will be dealt with in another of the workshops this afternoon and I would recommend to those of you who are not familiar with the new provisions for temporary access to service your U.S. market, that you attend. I think it will be very worthwhile.

Let me turn to the tariff reduction area. There are some points that are worth noting. First, in every industry affected the Canadian tariffs exceed the U.S. tariffs by at least 2 or 3%. Secondly, the tariffs generally apply to the same industries in the two countries. Thirdly, the biggest impact will be on industries such as consumer products manufacturing. And finally, there will be some advantage to those who are dependant on machinery and other production inputs imported from the U.S., since your input costs will be reduced.

The third area of change I mentioned is in sourcing rules. Under the FTA not all goods entering Canada from the United States are duty-free. The goods wholly manufactured in either country and those already found on the most-favored nation status under the GATT do automatically qualify for duty-free treatment. Where goods consist of components from a third country, however, they will be required to meet "rules of origin" in order to qualify for duty-free treatment.

These are designed to ensure that goods produced in third countries are not given duty-free treatment by trans-shipment to Canada or the U.S. Goods qualify for treatment as either at Canadian or American origin if they are wholly obtained or produced in the territory of either party or both or have been sufficiently changed in one or both so as to classify differently from the components from which they are made.

The rules of origin will be enforced by the customs authorities of the two countries. Importers will be required to submit a written declaration from the exporter that the goods meet the applicable rule of origin. False declarations by either the exporter or the importer will be subject to penalties imposed by their respective governments.

If during our question and answer period you have some specific questions on the rules of origin, we have two very competent people from the customs brokerage industry to help you out.

Finally, the harmonization of standards. There are far too many details to get involved in a discussion of them here, and they can be perceived to be an advantage or a disadvantage to business depending on which person you speak to. Under the FTA, Canada and the U.S. agreed to build on

the GATT rules and standards by harmonizing federal standards as much as possible and by agreeing to promote the harmonization of provincial and state standards. Again, acquaint yourself with the most current state of the negotiations so as to not find yourself exporting a product that does not meet the new health and consumer safety standards.

The above are the four key areas that someone in the consumer products business should keep in mind when forming business plans. Incorporate these into your strategic planning. You will ensure success for your business venture in the U.S.

HAROLD LENETT, Panelist

Essentially, I suppose all of us are going to be touching the same areas. In our industry it is not as cut and dry, possibly, as the area you are involved in. We have a lot more problems.

For instance, we are into jeans, jean jackets, and garments in general where the duty is anywhere from 17 to 30 percent depending on the content of the materials you are working with. I think it will have a little more impact if I touched on the fact that in our garment industry total Free Trade won't completely kick in for 10 years at 10% a year. So, it is a long time before Free Trade will be really effective for our industry. Ten percent is miniscule considering the amount of duty that has to be paid. I think it will have more impact if I tell you that even without free trade, and the Americans having to pay duty on the products taken into the U.S., that they still want to do business with us in Canada and they are asking us to do more business.

It is not just Levi Strauss. I have other major people coming to us. And you might well ask, "Why?" They have a big manufacturing industry themselves. They are able to avail themselves of a duty law called 807 whereby an American marketing company, say Levi, has American denim or material which they cut or make the parts in the U.S. and ship the parts to a facility outside of the United States, for example, the Caribbean Basin area, Mexico, offshore. Then, when that garment is assembled, and returned to the U.S., the duty is only on the value added, or assembly portion. The automobile industry is involved in this type of situation.

Now if they have the availability of going to the lower cost labor countries like in the Caribbean, why would they be knocking on my door? I don't have the greatest personality and I'm not paying anybody off to do business. They are coming to me for a particular reason. And believe it or not, and I think it should be stressed, it is the fact that Canada has always been known to the Americans as putting out a quality product.

As a young man on the road I used to go into stores as a salesman and you would find high fashion dresses with threads hanging down. This would not normally be found on Canadian-made products where quality has always been stressed.

Despite the fact that they can buy the products cheaper through an 807 facility, they still want to come to Canada to buy. They are knocking on my door and saying, "Why can't you give me more product?" In that vein, I called John Crosbie's office to see if they can accelerate the duty situations to a shorter period of time, and it is negotiable. They are looking into it because if both countries agree that it is appropriate and advantageous for both, they will accelerate the FTA agreement to shorten the period of time for our industry.

But, why do they want to do business in Canada rather than continue with low labor countries? It is because of quality and lead time. Can you imagine the time involved when they have to get material, send it to a cutting facility in Florida, cut it up, put it on a boat, where it takes maybe five or six days to arrive in the Caribbean! While the product is being made they have to send people there to check the quality, put it back on the boat when it is finished, and ship it to the U.S., it may take eight to fourteen weeks. In Canada we can produce and deliver as quick as if the facility was in their own backyard. So, the lead time is ultra-important.

We also have a communication advantage. We speak the same language. We also have a stable country. So, they feel a lot safer doing business with us here in Canada. It is hard to believe, but they would much rather come to Canada and pay the full duty, despite the fact that they can have it done a lot cheaper in an 807 facility.

Now, there are some disadvantages when Free Trade does come along. I think the major disadvantages are going to be for people who are not innovative. I think that is a very key word. I had a friend who was in this industry not so long ago and he sold out, very successfully. He was anti-Free Trade. Why? He said "Well, I'm doing as much as I want to do. I don't want any competition." Well, that is an attitude we'll have to change if we want to be a force in the world market. We have to be more innovative.

The cost of being innovative isn't that much, believe it or not. Here I am in Vancouver and I have more problem doing business with eastern Canada where I have to fight the shipping charges and the big marketing entities. That is where the big needle trade is. That is where all the manufacturers are. They are in Toronto and Montreal. They are not in Vancouver. I even get invitation letters from Saskatoon or Winnipeg saying, "We'll subsidize. Open up your plant in our communities."

But not here, where our political attitude has always been that if you want to live in Vancouver in God's country we don't have to help you! That has generally been the attitude. So we have all these things to overcome. But yet this can be overcome if you become innovative and you show that you have a good product that is quality controlled. We started a simple procedure which, believe me, you had to be broadminded to consider. It's called "Just in Time." It is a Japanese production mythology or philosophy which was created by either Toyota or Honda. Because of the lack of space in Japan they have problems carrying large inventories. So the idea was to minimize your work in process. We used to have work in process sitting anywhere from eight to fourteen weeks. You can imagine how much money we have tied up on our floors.

If you remember the old movies depicting sweatshops, you couldn't walk through these plants because there were goods piled to the ceiling. But not now. With "Just in Time," whatever you cut you make on that same day. What it does is give you a better cash flow. It improves your efficiency and your quality. With this procedure, quality inspectors check the garments being produced from the onset rather than waiting until completion where it becomes costly to repair.

But all these really inexpensive procedures are just a change in attitude and philosophy and constitutes becoming innovative. It is better to compete with a market ten times our size than having your own exclusive little business in the middle of the desert with no competition.

It is these people who are the most complacent who are and should be the most concerned. If they get hurt a little bit, they are going to learn very quickly that they have to be competitive, not complacent, and they have to move forward.

Also with Free Trade aside from the private industry area, we have access to \$3 billion worth of government sourcing which will be available for open bidding. You can literally bid on business that you never thought you would have a crack at. And all you have to do is be a little innovative.

Let me tell you - It pays. Because right now when our industry is soft and generally crying for lack of business, we are in fact having our doors knocked down for more product. Why? Because we have a reputation of delivering products - and quality products.

If you ask whether I am for Free Trade, it is obvious that I am. If we are this busy now, can you imagine what our industry could be with the doors open. So, I don't think we have anything to be really worried about as long as you are not sitting around looking for a handout or looking for somebody to subsidize ineptness. You must be aggressive and improve. I am so pro B.C. that you would never believe that I was raised back East. I would love to drink nothing but B.C. wine. But if B.C. wine isn't good, then I think B.C. wine should go and do something about improving their product and not looking for a handout. Then they will do a lot of business. I think that holds true with any product.

DOREEN BRAVERMAN, Panelist

I am coming at you from a different direction. I'm one of the innovative types, I hope, that Harold was talking about. Our business has been pretty well Canadian. We've always sold a little bit into the United States but we never really went after that business at all.

The businesses that I have are the Flag Shops, our fourth and fifth starting this month across Canada, and those are retail shops. The total sales are probably around a couple of million dollars at this stage. Each shop should be able to do four or five hundred thousand dollars. They are at different levels. Then we have a manufacturing plant which is called Atlas Textile Print, Ltd., which we started as you can imagine to supply our own flags.

Now, there is a little bit of a difference between my product and some of the other people we are talking about because the Americans do not expect to buy Canadian made flags. However, there are a lot of other things we do make and those kinds of products are the ones I am hoping to take across the border.

Right now I have my plan and I've been preparing this for quite a long time. We went to the FBDB New Exporter's Program for about a year and we have taken part in the provincial government seminars. We have done as much homework as we possibly can. We are going to try to cross into the Pacific Northwest on two counts. We are going to open Flag Shops in those major areas, and we are going to try and supply from our plant some of these other products. Those other products are advertising banners and corporate advertising banners. There is real good money in that and we sell to events.

The two biggest ones we have done are EXPO 86 (and I don't know how many thousands we made for that,) and we made twenty thousand for the Calgary Olympics. So we figure with all the things that are going on up and down the coast, and all the cities that are having centennials, and all the major rodeos, fairs, and annual events, they will need street banners, advertising banners. They hang satin sashed on cattle at county fairs. We can make it all and it is all the same process. So, that is the market we are going after.

As I say, there was a psychological barrier from the flag point of view, but I don't really think that there should be too much of a barrier on a lot of these other things. We have a natural market niche in that we don't have any competition in what we are doing west of Missassauga or north of San Francisco. So I have several million people that I can get at. That is what we are doing now.

I'm going to just tell you a little bit about how we are going at it. We realized, as Robert says, you have to have the promotion and we know that we have got to make our entry there. So we have been going at it two ways.

First of all, we have been doing it through the direct distribution of mail cards through magazines. We have had a fantastic response. What we are trying to do is get people in the States to accept our products. So we have been putting ads out saying, "We can increase your business by buying from us." We have had a very, very good response.

Then we had to get the materials ready for them. This is what we call our Atlas Kit. We got ourselves a trade name which doesn't say our name because we feel that a lot of them don't want the end user to find us. So we use the name that I mentioned. So all the different things that we sell are in here so that if you become an Atlas dealer and we have 26 down now. They are just all starting, but if you add that up at \$2 or \$3 thousand a month for each dealer, it is going to add to our business. It already has quite noticeably.

Our business card is a pocket puff made of scrap nylon that we have hanging around. We have had to develop our own materials. This is another thing (silk tie) that we have developed. Nobody makes these in the west either - silk ties. Indian art: we are now printing Indian art. We have two artists who we have commissioned, and we are going to be getting these products on the cruise lines all the way up and down the coast.

That is just a smattering of the new products that we have developed. Again our materials all reflect the same type of image. It is happening! Business has certainly picked up because of these kinds of things. We still have a lot that we have to learn.

As I've said before, I have gone to a lot of these various courses but you get kind of "information overload." You know so much you really don't know anything.

In a big company I know that it is not difficult because you will have someone who will be in charge of all that sort of thing: getting to know the duties. So many of our products have different duty rates. I am sort of the vice-president to do all that sort of thing.

The information overload is something that the small business community is going to have to bear up to. If you don't know it, you have to go out and find it. And if you want to be innovative and try to cross that border you are going to become a bit overwhelmed. Everyday I'm sure that you feel the same as I do, that two or three pieces of mail come in to you and it is this seminar and that seminar and after a while you get to think, "Oh gosh, it is so complicated. Will I ever make it?" I think you just have to come back down to earth every once in a while and say, "Let's get out there and keep plugging." Because they are very, very receptive across the border and I have been quite pleased with the success we are having.

So, in a nutshell, we are targeting our market. We have our little market plan. We are just going to stick to the Pacific Northwest. We are actually concentrating more on the Seattle area. We feel that is the best place. We are getting requests from all over the United States, and we are answering those too. We are not saying "No" because they fall outside of the territory just a little bit. At the same time we are trying to open up some of these new shops.

I think it is an opportunity - the Free Trade Act. I'm sure I could have done this two years ago, but with the Free Trade Act there is a difference in attitude now. Maybe it is a myth, but everybody thinks it is going to be great. So, I just figure it's time to get out there and do it, because if I don't do it this year, well, let's go now while the feeling is good. They seem to all know about the Free Trade Act on the other side of the border too, so there is kind of a comradeship that is being developed through this whole process.

LUDMILLA JAGIELLICZ, Panelist

As a consultant, I have the privilege of throwing a little theory into why and how people succeed in exporting their products into new markets.

The theory is not mine. It belongs to Michael Porter, a Harvard Business School professor and author of such books as "Competitive Advantage." In a new book coming out later this year titled "The Competitive Advantage of Nations," Porter asks the question: "Why do some countries and certain industries in these countries do better than others in world markets?" For example, Switzerland in chocolates or Japan in consumer electronics.

Porter's research shows there are four key reasons why some industries succeed. The first and foremost is strong demand at home. If you are successful selling to "demanding" customers at home, you tend to do better in other markets. It also helps if you cater in your home market to "national passions." What are "national passions"? In Japan, it's the passion for cameras. In Canada, we seem to have a passion for talking on the telephone. This shows up in the recognized quality of the telephone equipment we make - for example, through Northern Telecom.

Porter's other three factors for global success, which I will describe only briefly, are:

- tough competition at home, pressuring your company to do better;
- unique strengths, but also some weaknesses to compensate for, and hence develop new capabilities (Harold Lennet's story supports the need to build on strengths);
- supporting industries or companies that contribute to your strengths and help overcome your weaknesses.

So what does all this mean for you as a company if you're preparing to go into the U.S. market?

First, start by serving the most sophisticated customers at home; then extend your "home" market into a bigger base by adding on U.S. markets. The U.S. market under Free Trade means you can expand your critical market mass, maybe drive down your costs but certainly learn to be better at what you do by having more customers telling you what they like and don't like. This helps to "drive" you to global excellence.

Next, commit yourself to playing "hardball" with the competition. Don't shy away from it. Avoid cozy arrangements where you conveniently stay out of each other's backyard.

which is exported to Canada.

Such "intermediate materials" could qualify indirectly as territorial content when considering the origin of the finished goods, if the intermediate goods or materials themselves qualified for Free Trade status if exported to Canada.

In other words, as long as the "intermediate materials" meet the Rules of Origin in their own right, 100% of the value of such "intermediate materials" could be counted toward the territorial content of the finished product exported to Canada when the 50% value test is applied, even though a certain percentage of the "intermediate materials" are imported components.

OSKANA EXELL, Chairwoman

If there are no more questions we will close the session. I want to thank our panelists. We've been given an excellent insight into doing business in the United States! And I would welcome any other questions you might have that we haven't been able to deal with. You can drop them off at the table on the back of your business cards and we will be happy to get back to you.

Thank you again for attending our workshop.

WORKSHOP NUMBER 2 HIGH TECH INDUSTRIES

Of all the issues which came out of this workshop, the issue of attitude dominated. All panelists agreed that for Canadian firms to benefit from free trade, they must have a winning attitude. They must believe that they can successfully compete against U.S. firms.

The panelists also stressed that firms must be prepared. Canadian firms must select their market niches carefully and concentrate their resources, making use of the government resources available. They also need a physical presence in the U.S. market to demonstrate their commitment.

One panelist stressed that free trade provided British Columbia firms with a special opportunity because British Columbia has the two ingredients necessary to grow a successful high technology industrial sector - expertise and lifestyle.

Another panelist stressed there is a need for a national strategy for information/knowledge-based industries to provide direction and focus to Canadian firms in an increasingly competitive market.

One panelist saw free trade as more than greater access to the U.S. market. He saw it as an opportunity for Canadian firms to be part of a regional trading block which will compete with the two other major regional blocks - Japan and the European community.

Finally, for Canadian biotechnology firms, the major issue of concern arising from free trade is the impact the differences in standards and regulations between Canada and the United States will have. Depending on the specific area of biotechnology, this may prove to be either an opportunity or a challenge.

KEVIN LAMB, Rapporteur

WORKSHOP NUMBER 2

Chairperson and Panelists



CHAIRMAN: **BOB ALEXANDER**
President & CEO
Microtel Limited

Robert F. Alexander was appointed President & CEO of Microtel Limited, a part of B.C. Telephone Company, in April 1983. Prior to that he held various management positions with Northern Telecom and Bell Northern Research. In February 1987 Mr. Alexander was appointed to the Prime Minister's National Advisory Board on Science and Technology and is currently Chairman of the Private Sector Challenge Committee for that Council. In June 1987 he was also appointed Chairman of the Premier's Advisory Council on Science and Technology in B.C. Mr. Alexander holds a Bachelor of Engineering in electronics from Carleton University, and has completed post-graduate studies in communications theory at the University of Ottawa.



JOHN PITTS is President and CEO of *MacDonald Dettwiler and Associates Ltd.* He is a mechanical engineer with an MBA from Harvard who spent many years operating his own manufacturing company producing specialty electrical products, and products for the pulp and paper industry. Mr. Pitts is past President of *Okanagan Helicopters Ltd.*, and is currently a member of the *Conference Board*, and the *C.D. Howe and Fraser Institutes*.



ALEX CURRAN is a private consultant from Oakville, Ontario, providing business strategic planning services for universities, industry and government. His career has been at the forefront of high technology development, working with such industry leaders as *Bell Northern Research*, *Northern Telecom*, and *SED Systems*. He is a member of the *Natural Sciences and Engineering Research Council* and chaired the Free Trade Advisory Group on Telecom and Computers. In 1984 he was named Canada's first High Technology Person of the Year.



DES CUNNINGHAM was one of the two founding partners of *Gandalf Technologies Inc.*, a multinational corporation manufacturing and marketing data communications equipment in over 25 countries. Mr. Cunningham has been closely associated with the development and growth of the Canadian data communications industry for 19 years and was one of the founders of the *Canadian Advanced Technology Association (CATA)*.



BEVERLEY BRENNAN is Vice President, Finance & Administration for *Philom Bios Inc* of Saskatoon. She has worked with innovative companies as a management consultant and in management. She is a member of the Prime Minister's National Advisory Board on Science and Technology and Saskatchewan's Roundtable on the Environment and Economy.



RAPPORTEUR: **KEVIN LAMB**
Prior to joining Microtel, where he has served as Planning Specialist, as Manager of Trade and Industry Analysis, and as advisor to the President, Kevin worked with Baker Lovick as a Senior Media Planner/Account Executive.

WORKSHOP NUMBER 2 HIGH TECH INDUSTRIES

BOB ALEXANDER, Chairman

Welcome to the workshop on High Tech Industries. We have representation from across the country. They are in various parts of the high tech industry but I'm sure they will all have a common message for us. I want to keep the workshop as informal as possible. Over to Beverley.

BEVERLEY BRENNAN, Panelist

Thanks Bob. Ladies and Gentlemen, it is a pleasure to be here, but it is a bit of a challenge also for me because the other people are in the communication and information sector, so I wanted to get in a biotech plug. And to do that and keep out some of my biases, I have written what I wanted to say.

I want you to know that I started from a preconceived base that the concept of Free Trade is a necessity for Canadians. I was already well biased toward the expectations that I would find good solid illustrations of how Free Trade will be good for biotech companies when I started to prepare for the panel.

As you all know, biotech is one of the earliest industries. It has been responsible for some of the world's essential products, some of which are still made in the way they were made centuries ago, such as soy sauce, beer, cheeses. However, in the last few years, the vast potential of biotech has begun to be unlocked. And in Canada biotech along with information and communications and advanced materials is seen as one of the enabling technologies for a globally competitive Canada.

The problem is we really do not have the new biotech defined. One of the definitions of the Science Council of Canada used, is a scientific and engineering activity that manipulates biological agents to produce goods.

I had thought that this breadth of definition would be part of the problem in discussing the impact of the Agreement. Really, it has not been. Biotech includes vaccines and drugs for both humans and animals, plant breeding, fertilizers, pesticides, and biological waste management systems. We seem to have a common concern. And besides, this list that I have given you is not complete. But it does provide a glimpse of why biotech is not regarded rationally. There is a tremendous emotional involvement when someone is ill and if you are using a biological to impact on that illness. People look at it with their emotions and not with a rational approach.

We are finding that the same thing is true with the environmental issue. This means that the major issue with all biotech products will be regulations. Without reasonable regulations and testing facilities to meet those regulatory requirements, we will not be in the biotech business in Canada.

An example. Our company is in the process of trying to have registered the first biological herbicide in Canada. The herbicide is called Biomal. It is based on a fungus which naturally occurs in the soil. It is at very low levels and what we have learned to do is to grow it in an artificial environment called a fermenter, much like you would use for beer, and inundate a plant to kill a weed. However, to sell it we have to meet various requirements of the regulators.

For one test that they asked us to make, it took us about a year to find someone who could and would do the test. In fact, there was no one in North America that would do it initially. The tests were designed for chemicals, not biologicals. As you all know, losing time is very costly and in the agriculture business it is even more costly. Because if you miss a market window, it is twelve months until the next one.

In our kind of business, which is agricultural products, the Canadian regulations are much tougher than the regulations in the U.S. So, once we have registered in Canada, we expect to just register in the U.S. with no problem.

For others, especially those in the animal vaccine business, it is exactly the reverse. The regulations in the U.S. are tougher. And there is no place in Canada to do the necessary testing. So you cannot market there if you can only afford to test in Canada.

Therefore, if harmonization of the technical regulations and standards (which is an objective of the Agreement) does result in the same tests required in both countries, this would be a significant benefit for Canadian biotech. It will remove a hidden barrier to trade.

Something that was not agreed in the FTA was the intellectual property section. This is of critical importance to all high tech companies. However, the difference for biotech is that the U.S. seems to have taken a less restrictive approach to patenting for some biotech items than in Canada, which means that they are permitting some gene patents and patents on some natural organisms which other people feel should be in the public domain. This may in fact restrict some of the U.S. markets by virtue of patents.

Can Canadian companies afford the investment for developing new products? This is another critical issue. We could speak of this one at length, but we have many people from outside our country trying to license and buy our technology in biotech. If we are going to benefit from it, we are going to be extremely careful in choosing what we will license and how we sell it, and how we use our biotech knowledge.

We are laying the groundwork for the benefits for many years to come. Whether we benefit or other countries benefit is not a function of Free Trade, but is a function of our political will to support the long-term development required.

In biotech, the products take 3 to 8 years and about \$10 million. This is not nearly as much as for chemicals. To me it sounds like a long time. The new biotech is an infant in the world, not very different from the communications industry twenty years ago. What is different is the global environment. If we are going to be a success, we are going to have to protect our knowledge and run as fast as possible to make new breakthroughs.

Bill C-22, which allowed pharmaceutical companies more protection for their drugs if they did research and development in Canada, is seen by many as making more of a contribution to biotech than Free Trade. As for the FTA the feeling is the major impact is how well we do in the harmonization of technical regulations and standards, and if we provide appropriate testing in Canada.

This was the only common ground in our discussions. What was talked about today that I see as another important benefit is the attitude issue. Hopefully, we all be more aggressive in looking beyond Canadian borders for free trade. And in this environment biotech companies must be particularly sensitive that the public needs to be educated as well as offered products, since new products are very often greeted with suspicion.

This reminded me that not that long ago, but longer than I will confess, I had lunch with a great aunt and the weather was terrible. She said, "You know, since we have had those television waves, the weather has been bad." And it is going to be the same thing with biotech.

So, the bottom line with Canada is good reasonable regulations and a public that understands and accepts the value of new biotech products.

BOB ALEXANDER, Chairman

Thank you Beverley. I guess I should have suspected that if Saskatchewan was going to do anything in any industry, especially the biotech industry, it would be based on some beer-making equipment. Thanks very much.

We'll now move to a few comments from Des Cunningham. Des' company is Gandalf. It has been at times the victim of tariffs into Canada. If you could define data equipment, that is largely what Des' company started out with and so he has had some success before the FTA and is going to have even more success now.

DES CUNNINGHAM, Panelist

I think the Minister, Mr. Clark, made a lot of very good points in his speech at lunchtime today. And before I try and support the things he said, because I think they are particularly pertinent to my company, let me tell you a little bit about that company and then you can see where I am coming from.

We are designers and manufacturers of electronic communication equipment. Over the years that equipment has become largely software products. We put as much money into software nowadays, into operating systems, and into what we think of as application or communications application software, as we do into hardware.

We are very much in a business that is a systems business. We provide private networks to corporations, to governments, to universities, and others. And more and more our business is evolving as a systems business.

Years ago when we started our company, I would have said that it's first ambition was to penetrate the American market place. We did that and over a period of years we also expanded into Europe. Today we do about 30% of our business in the United States, about 30% in Canada in our domestic market, and about 30% in Europe. And the balance is largely what I suppose we would call Asian and Pacific territories.

Today, if I am looking at that business I can't possibly say that Free Trade and the American market is the goal. It was the goal, I suppose, 15 or 16 years ago when we started. Today, we cannot be in the information industry unless we are participating globally. There is no way to run an information industry company in Canada or just in North America, you have to be on a world-wide basis.

And I say that because of the economics of being in business, the economics of developing. If you consistently each year put 10%, 11%, 12% of your revenues into new product development, you have to have markets large enough to sustain that kind of growth. And more every day your competitors are global competitors.

And I guess that we all know that the Japanese have had a long term plan into the next century for some years now. We've all heard about fifth generation and artificial intelligence and improved density and high speed gallium arsenide chips and so on and so on.

The American response to this has been to form consortiums and to fund those consortiums. The European response is clearly by means of programs, RACE, ESPRIT, EUREKA. There are quite a number of these programs that are available in Europe for information industry companies and others to participate.

Canada has done nothing, nothing at all in the sense of having a strategy of deciding what are we going to do in this information industry marketplace. We don't have a strategy. We have a number of firms, only one of which is world class. That is Northern Telecom. The rest of the companies are quite small, scarcely medium-sized.

I was in a meeting in Toronto a couple of weeks ago on "Europe in 1992." It was instructive to see that the Premier of Ontario and John Crosbie were on the same platform. They both agreed on Europe, at least. We also had the American Ambassador and the Japanese Ambassador, who both made presentations. And we had a number of Canadian businessmen and a number of European businessmen talking about what "Europe in 1992" really means.

The message that came through loud and clear is that Europe in 1992 is a preparatory road for European companies to consolidate, rationalize, and tackle world markets on a global scale. It is the commercial sector, and private sector in Europe that are pushing this phase of Europe's integration. And no bones were made about that. They are not creating a single market in Europe for the benefit of Canadians, that is for sure. The single market in Europe is there for the benefit of Europeans and we hope we can join in. But it is not simply the creation of a domestic European market. The whole purpose is to create European corporations that are global corporations. We should be aware of that.

John Crosbie described Canada's situation as Joe Clark did. A triad of Asia, North America, and Europe being the segments of the world that are thought to be sufficiently advanced to participate in world trading in technology. And the whole purpose of our ability to trade freely with the United States is our ability to participate in that triad. Without participating in the North American market as a whole we are not even in the game. We are a bit player.

So, I see the Free Trade Agreement from the viewpoint of my own company as one which provides the opportunity and challenge, which is appropriately the name of this Conference, to go out and win in the United States and give us a sufficiently large domestic marketplace from which we can tackle the other two legs of the triad, as well as those parts of the world that are not in the triad.

The business plan that we as a company are following in the United States is one in which we have invested for a number of years - in our own sales organization, in our own factory, and to a lesser extent in our own product development. I don't believe that Free Trade is a free ride. I don't believe that one can now say because of Free Trade you can just send a salesman across the border and he will peddle the product. It is not like that at all. You will have to make the commitments, the investments, hire Americans, and grow your business down there. And that is repeated across the world.

A single market in Europe does not mean that Englishmen will sell to Frenchmen and Frenchmen will sell to Germans. It is nothing like that at all. The companies concerned will have to invest and present themselves as being participants in the local environment. If you want to succeed in the United States, hire some Americans. Build yourself an American business. That is what you really have to do.

The big thing that you can do is to see that your American employees understand this Free Trade situation and see that they use it to their advantage. See that they can appear as an American company, not just pretend to be one, that they can legitimately stand up as an American subsidiary of a Canadian company. That is going to mean something. The climate of opinion has to be changed in the minds of the corporations and the people you are selling to.

The big thing for us is to get our people in the United States to stand up and say, "This Free Trade really does mean something." Forget this "Buy America" only attitude, and remember "Canadians are in this with us. We are in this with you guys. We are North Americans on the same side. We are not the Japanese. We are not the Europeans. We are on the same team."

That is the big message, that we have to get our American employees to look at it that way. If we do that, Free Trade will be of benefit to us.

ALEX CURRAN, Panelist

It's great to be here.

For three years we've been caught up in a struggle about Free Trade. We've been buffeted by visions of an economic Utopia which alternate with nightmares of an economic Inferno. We've seen political parties flee from their historical platforms and we've seen dramatic shifts in regional aspirations. No other issue in the past decade has caught the attention of so many Canadians and forced them to make a difficult decision. And while we have gone through that turmoil, the free trade debate has created hardly a ripple in the United States. There's a lesson in that. The trade across the 49th parallel is about \$150 billion annually. For us that's crucial since it represents about 1/4 of our GNP. For the U.S. it is marginal. In that trade they would like to win - we must win.

So it is great to be here at a conference which finally shifts the focus from whether there should be Free Trade to the hard reality of how to succeed now that we have the Agreement.

This part of the conference is a workshop. Perhaps it would be nice if we could simply give you the precise formula for your success in the U.S. market. We can't do that. For my part, I intend to give a few guidelines and some examples of how they work. Your role is to imagine how you would apply them in your particular company. In the discussion, we can work together to see if we can evolve specific recipes for success.

The first guideline is simple - to win in the United States you must be there. There is a deep difference between Canadian and U.S. customers. We tend to look at domestic products as suspect and imported products as proven. American customers already have confidence in their own suppliers. What they want is the assurance of readily available sales and service support.

That doesn't necessarily mean that your factory must be in the United States. Gandalf, for example, has already taken advantage of the Free Trade Agreement to rationalize production by repatriating manufacturing from an under-utilized U.S. facility. It does mean fast response from sales and service people and that virtually demands a physical presence in the United States.

That presence isn't necessarily large. One company in the Toronto area, for example, realized the necessity for a U.S. presence and dispatched a senior executive to fill the role - just one person as the initial investment- not much but perhaps enough to show customers that the company is there to serve them, and that it intends to remain available.

The second guideline follows directly - since physical presence is necessary and since, at least initially, that presence must be limited, it follows that success demands the selection of targets and concentration of resources.

I don't need to remind you that the U.S. is a big market. California alone has a population and GNP bigger than Canada's. In such a big market it's easy to get lost and fritter away opportunities simply by spreading resources too thinly.

So study the market. Microtel did that and determined that for its purpose the essential first market entry was Southern Bell. Microtel's U.S. presence is in Atlanta - concentrated on the doorstep of the first essential customer. And that strategy is working partly because Southern Bell is a customer whose procurements exceed those of B.C. Tel and partly because Southern Bell is a trendsetter in the communications industry. If Southern Bell accepts Microtel as a supplier, it will be easy to persuade others.

Take a lesson. Don't get lost in a market more than ten times that of Canada. Select a minimum set of key market entries and concentrate resources for success.

And thirdly - don't hold back from fear. I vividly remember a meeting in Regina during the Free Trade debate. One member of the audience strongly expressed his opposition simply because he knew that the Americans are better innovators and better businessmen than are Canadians. And others believed him.

Ladies and gentlemen - it isn't true! I've lived in the United States. I thoroughly enjoyed my time there. I learned to appreciate the vibrant business climate of Silicon Valley and, while I gained respect for many people there, I learned that not all Americans are supermen.

Canadians can and do produce excellent products. Northern Telecom is our best example - a Canadian company which now sells twice as much in the U.S. as in its own domestic market. But there are many other examples. John Pitts represents one - MDA with its world beating line of resource sensing products.

One of my favourites is a little company called ISG Technologies. It reached into the research area of a Toronto hospital to extract the process for converting a series of images into a three-dimensional display on a computer screen. It adapted that knowledge to produce a diagnostic terminal for CAT scan installations. Last November it joined with another company for a display at the annual meeting and trade show of the Radiological Society of North America. Together they won the prize for the best new product in the show - and now ISG's order book is bulging with requests for more than one hundred terminals. Don't be cowed. Canadians can win.

My fourth guideline concerns quality. The first entry into the U.S. market is very important. If it goes well the word will get around and more successes will follow. If it goes poorly that word too, will get around making it much more difficult to get further sales. So the message is: Be sure of the first products and services. Make the introduction a success.

The Americans themselves recognize this; in fact they taught Northern Telecom the importance of a successful first installation. When Northern was introducing its digital switching, a few design glitches remained which delayed deliveries. One of the first machines was to go to the Rural Electrification Administration for evaluation. Their strongly worded advice was to set a fairly relaxed schedule so as to ensure first product success, since a failure during evaluation would have industry-wide repercussions.

And finally - remember that the government is a stakeholder and wants you to succeed. After all, governments get at least 25% of all new wages created by export success. Make the government work for you - Make full use of the trade services they offer.

One service is knowledge. External Affairs has trade officers in nineteen cities in the United States. That's broader representation than most companies can afford. They know the areas, they know or can find out about your customer prospects, they can arrange meetings, they can help you get established.

A second service is trade show representation. The government will help you decide the best places in which to announce your presence and your products - and will sometimes even help you to finance the unveiling in the U.S.

And a third service is support in the event of dispute. While preparing these comments I called some of our senior trade support people in Ottawa and among other things spoke of the current increase in trade disputes. I was advised not to be concerned. The very existence of the FTA, including a dispute settlement procedure, is resulting in the surfacing of disputes which have been prickling for years, but which weren't worth the risk of forcing to a decision under the arbitrary rules which existed prior to Free Trade. So the increase isn't unexpected. And the message is that a dispute resolution mechanism exists and that our people will support you.

And that support works. I haven't had personal need to use the Canadian trade services in the U.S. I have used them in Brazil and in Australia. In both countries I was impressed by the knowledge and dedication. Use these trade services. They are the most cost-effective support you can get. Let me give you just two contact points:

- a) Local: Mr. Zen Burianyk
650 W. Georgia St., Suite 900
Vancouver, B.C.
(604) 666-1438
- b) Trade Shows: Mr. Norman Lomow
External Affairs, Trade Development Branch
Information Technologies & Electronic Div.
(613) 996-1891

I have given you just five guidelines. To them you must add the products and managerial competence which have made you successful in Canada. Then the U.S. market can become your back yard. I wish you great success - we Canadians need that success.

BOB ALEXANDER, Chairman

If you want to speak to someone who has been in the full range of high tech industry, we invited John Pitts who has been in every phase of the high tech business that there is to be in, including helicopters to aerospace to imaging.

JOHN PITTS, Panelist

Thank you, Mr. Chairman. I am delighted to be here. I live here!

I am going to approach this from a rather ad hoc standpoint and perhaps a parochial standpoint. Instead of talking high tech, let's talk knowledge-based industries.

Now that implies, of course, that industries that aren't high tech don't have any knowledge and I apologize to them in advance, but I don't intend that meaning. I mean that in high tech what you are

doing is taking a highly trained individual and converting that knowledge of his into something useful with considerable value added.

So, as I said, I am going to be a little parochial. Let's think about why British Columbia is a good place to have a high tech industry. And you have to start out by saying, "What is the raw material?" The raw material is brains, and brains which have been trained. We in B.C. are very fortunate in having an excellent population stock which has a history of using their brains in various ways and are quite amenable to modern education. We have some excellent educational institutions here. As a consequence, we have the raw stock for producing knowledge-based industry. And I think that is very key in this whole discussion.

The second thing about B.C. is that someone who is freezing to death in Ontario or Quebec, even, looks at Vancouver and says, "Well, I might as well give it a shot." So, our recruiters are extremely successful in selling the lifestyle in Vancouver as being a nice adjunct to making a living. I think that if you combine the fact that we have an excellent stock of raw material here and an excellent place in which to live, you have the first ingredients for a successful high tech industry base.

You must remember that the location of knowledge-based industries is somewhat irrelevant in the sense that you don't have to go to where the coal is or where the forests are or where the copper is, and so on. You could quite successfully run a software outfit in Inuvik, I expect, except that no one would particularly want to live there. So, we have got some tremendous advantages.

I would like to just tell you briefly a little bit about our company. Our company basically is in the computer-based business. We create a great deal of specialized software for a number of applications - air traffic control, ground stations for sensing satellites such as Landsat and Spot and so on. We have expertise in synthetic radar, which is an imaging type of radar from both aircraft and satellites. And we are involved in weather stations and so on.

About 75% to 85% of our business in that realm is done outside of Canada. That means the United States, but to a greater extent it means Europe, the Far East, Australia, etc. We have another spin-off product line which is a separate division of our company which is in the manufacturing business and manufacturers film image recorders.

These products are fairly complex and fairly expensive, running from \$250,000 up to \$600,000 each. We have to with that product have a worldwide distribution of it. With that product line probably 90% is export with about half would be the States and half elsewhere in the world. About 30% of our business is product and about 70% systems. Let's talk about Free Trade and how that affects those two things.

In the product area we are fortunate in being able to categorize our products today as data processing equipment, and under the FTA this has now become duty-free. I have to point out that prior to the FTA we were paying about 4.8% duty. Software has always been exportable to the United States duty-free. Specialized hardware which we do manufacture some of is dutiable in some cases and not in others. But, in most cases we are not exporting that to the United States. We are exporting it to Third World countries or to Europe.

With regard to Free Trade with the United States, I have always thought that equally as important as the tariff barrier is the non-tariff barrier, which means the "Buy America" clauses that go into a number of government purchases, and secondly there is an attitude thing - if it isn't made here in the U.S. don't buy it.

Now, the U.S. obviously has got out of that mode in the last ten years as we have seen with their huge imbalance of payments largely due to merchandise purchases from overseas. So, to some extent, those have been eased. But, there is no question about that fact that when selling in the United States you have to put an American hat on and you have to play down the differences of your product because it happens to be made in Canada, but play up the superiority of the product from its technical standpoint. And that is not a hard thing to do in many markets in the United States as we have found.

Thinking of this and just in conclusion, from a Canadian viewpoint, we have to remember that

Canada, as the Minister mentioned, relies on about 38% of its GDP as exports. If you look back in time and take the proportion of those exports which have been raw material or close to semi-manufactured products, it is very high. As the labor content of those exports goes down because of the fact that we have to become a lot more efficient in this world we now live in, we have got to find ways to employ our people and especially the bright ones. If we don't employ them here they will go elsewhere to find satisfactory employment. The best way I can think of accomplishing that is to really work hard at increasing the knowledge-based industries in Canada. I have said B.C. but I mean Canada. We have nothing to hold us back from doing that.

The fact that we can now manufacture high tech hardware in Canada and ultimately over time are able to export it duty free to the United States allows us to create factories with the world-scale efficiencies that will improve our chances of getting markets in Japan, in Europe, and elsewhere in the world.

That pretty well summarizes my viewpoint on the whole subject of high tech in Canada. In that regard I cannot resist, Bob, putting in a last plug since I am very involved with the creation of Science World here in Vancouver, I would ask all of you to go and look at Science World and take your children and get them enthused about the future in science because that is where Canada's future exports lie.

BOB ALEXANDER, Chairman

Thank you very much, John. We have time for a few questions though if someone has some questions for the panel.

Question:

Is the federal government on board with high tech as the wave of the future? And are there groups in Canada that are initiating some activity to raise its awareness?

Answer:

Canada has been criticized for the small amount of its GNP that goes into R & D, for example. If you compare the government participation in R & D in Canada with that of the other seven major economic countries, our record isn't too bad. It's industry that is bad. Industry is not putting anywhere near as much money into R & D as the other countries. I think that is a very sad reflection on Canadian industry, frankly.

Comment:

Let me follow up on that a bit because I think you have to dig a little bit below this to find the reasons. It is true that the government is putting in about as much as comparable countries do. It is equally true that the government does a lot more of its research and development in-house than most other countries do, which is one of the reasons why we have been less than successful in developing as big an industrial R & D base as we should.

The other thing that is very critical is the fact that in many countries, a lot of the procurement programs generate R & D and are designed to do so. In the United States, Dept. of Defense R & D contracts are a very major part of U.S. industrial R & D capability. Des mentioned some of the major programs in the European community which fulfill the same role. So, there is a question of whether we have distributed the R & D money we do allocate. I'm convinced as well as John that the answer to that is "No." Are there people working at it? "Yes."

There are many organizations across Canada who are sounding that warning that we better do something about it, and there is evidence that the message is getting through since we have two members of the National Advisory Board on Science and Technology.

But I must say that I found it very disappointing that despite all the good political rhetoric prior to the election, there wasn't one seat in this country that hinged on whether or not the government made a commitment to research and development efforts across Canada. And I haven't heard very many remarks in the post-election period either. I would really like all of us to keep up the pressure to make that political rhetoric come true.

Comment:

I think that the thing that we haven't yet learned how to do in Canada is how to get ten-year policies out of four-year governments.

Comment:

It is true that the government does a lot of R & D and it dies in the government or else it goes to off-shore people, through various tech transfer things. With two of our products, the research was done basically by Agriculture Canada, and the policy of our company is to take things from the bench level that has been done by somebody else, develop it, and then get strategic marketing partners.

We want to be in the U.S. market but we want to be there with somebody who has a presence. We don't have time to build a presence. So, we have strategic marketing partners. One of the major partners for us is Eli Lilly. In Canada another partner is the Saskatchewan Pool. For an agriculture company we couldn't have a better partner. But the problem is to lever technology and knowledge out of government laps. And some people help you do this and some people work against you. It's fun but there are a few quirks in the way that make you wonder if it is really worth it.

Question:

I noticed that there was a gap in the Free Trade Agreement regarding intellectual property rights. Can I canvas the panel as to how they individually see the threats and opportunities, if indeed that omission is significant? Can we fill the gap?

Answer:

I just listened to a long dissertation up in Ottawa a short time ago by people in the patent office who were describing the great new world of the new patent law. I thought that this was going to give us an advantage over the current American system, not that I think that advantage will remain long, because I am sure that they will adapt. But I am not aware of what the gap is you are talking about. It seems to me that we have our own national right to create our patent protection laws and we are exercising that right.

Comment:

Is it a question not so much of the FTA but of the GATT negotiations? Because Canada and the U.S. have agreed on what we would like to see but of course it is the rest of the world that might create the problem. It is the question of Canada and the U.S. having reciprocal agreements with other parts of the world over the status of intellectual knowledge that we believe is ours. I can believe there is a problem there, but I don't know if that is what you are referring to.

Comment: Beverley Brennan

I brought that up because in biotech there is a difference in the attitude of the patent offices. And whether this new patent agreement will work this out has met with some skepticism. The difference may mean that some Canadian products cannot sell into the U.S. because of the difference in the patenting attitudes.

BOB ALEXANDER, Chairman

I'd like to go on for another two hours because this is an interesting topic. If you want to discuss it further, buy one of the speakers a drink at the no-host bar.

Thank you very much for coming.

WORKSHOP NUMBER 3 ENERGY AND MINERALS

Workshop panelists were from the natural gas, mineral resource and hydro-electric energy industries. Without exception the spokesmen from these three cornerstone sectors of British Columbia agreed that the Free Trade Agreement preserves the healthy trade arrangement that already exists between Canada and the United States.

However, it is not to be forgotten that petrochemicals and minerals are important B.C. exports to other trade partners in the Pacific as well. Expanded guaranteed access to the U.S. with the instruments to resolve trade difficulties will provide opportunities for added value processing for gas, feed stocks and other minerals. New opportunities will perhaps be greater for gas than for minerals.

For electrical energy, the most important factor for future development will be cooperation in the use of power transmission facilities in the U.S. Pacific Northwest.

In short, the reduction of tariffs over time will permit most of B.C. resource industries to invest and develop to better service markets in the U.S. and offshore. Panel Chairman Larry Bell from B.C. Hydro stated that the agreement between Canada and the United States is celebrated by the world, we should be proud of it and it's up to us to make it work.

GORDON THOMPSON, Rapporteur

WORKSHOP NUMBER 3

Chairperson and Panelists



CHAIRMAN: **LARRY BELL**
Chairman & C.E.O.
B.C. Hydro

In addition to his responsibilities as Chairman & C.E.O. at *B.C. Hydro*, Mr. Bell is Chairman of the *Vancouver Board of Trade* and an active member of Montreal's *Institute for Research on Public Policy*, the *Canadian National Committee World Energy Conference*, and the *Business Council of B.C.* He is also 1989 General Campaign Chairman of the *United Way*. Prior to joining *B.C. Hydro*, Mr. Bell was Deputy Minister of several provincial portfolios including Finance, was Secretary to the B.C. Treasury Board and Chairman of the Province's Purchasing Commission. Mr. Bell holds a B.A. degree in economics and geography from UBC, and a Masters degree in Social Sciences from San Jose State College.



ARTHUR WILLMS is Executive Vice-President and COO of *Westcoast Energy Inc.* He has extensive experience in the energy sector and has been involved in testifying before many regulatory bodies on matters relating to energy supply and demand, and tariffs for *Westcoast Energy*. Mr. Willms is Chairman of the Board for *Pacific Northern Gas Ltd.*, and serves on a number of other Boards including *Westcoast Energy Inc.*, *Canadian Roxy Petroleum Ltd.*, *Foothills Pipe Lines (Yukon) Ltd.*, the *Canadian Gas Association* and the *Pacific Coast Gas Association*. He holds a B.A. in mathematics, a B.Ed., and an M.A. in economics from the University of Calgary.



JACK BUTTERFIELD is Vice-President of Corporate Markets for *Placer Dome Inc.* He has extensive experience in marketing within the energy and minerals sector. Following completion of his B.A.Sc. in metallurgical engineering from UBC in 1956, Mr. Butterfield worked for two large resource companies before joining *Placer Development Limited* in 1969 as Director of Marketing. He became Vice Chairman of the *Canada-Korea Business Council* in 1983 and is presently President of the *Canada-Korea Business Association*.



KENNETH PETERSON is Manager of Policy and Planning at *B.C. Hydro*. He is responsible for rate design, load forecasting, resource planning, and policy analysis. He has been involved in developing policy and undertaking cost/benefit analyses on major issues such as long-term electricity exports, flexible supply planning and discount electricity rates to promote investment and employment. Mr. Peterson holds a Masters degree in economics from Northwestern University.

RAPPORTEUR: **GORDON THOMPSON**
Cominco Ltd.



WORKSHOP NUMBER 3 ENERGY AND MINERALS

ARTHUR WILLMS, Panelist

I have been asked to speak about two commodities this afternoon, namely natural gas and petrochemicals - which will, incidentally, benefit in very different ways from the Canada-U.S. Free Trade Agreement.

Natural gas was tariff-free before the Free Trade Agreement came into effect. There were - and still are - non-tariff barriers associated with natural gas which I will discuss shortly. But generally speaking, the FTA is more important to the natural gas business as a guarantee that existing freedom to trade will be protected.

Petrochemicals present a totally different situation. U.S. tariffs add so much to the price of Canadian petrochemicals entering the United States market that they have significantly inhibited the sales into that market. For example, methanol faces an 18% tariff, polyethylene plastics a 12.5% tariff and ethylene glycol a 10% tariff. The FTA will eliminate these tariffs by 1992. Canadian producers will then gain access to a new market more than 10 times the size of Canada's. Even a modest penetration of the U.S. market by Canada's petrochemical producers is going to result in a very significant expansion. So, I'll address natural gas and petrochemicals separately now and then conclude with just a few general remarks of how they may benefit British Columbia directly.

Natural gas, as most of us in this room know, is a very important export commodity for Canada but 40% of all the gas we produce in Canada is exported to the United States. That makes it our largest net exporter in terms of revenue. Last year, these revenues amounted to slightly over 3 billion dollars. In the early 1980s this revenue was as high, in one point in time, as 4.8 billion dollars net revenue. We essentially import none. There is a little bit imported now into eastern Canada in Ontario, so these numbers are straight cash inflow. As far as natural gas is concerned, the major benefit of the agreement for Canada from this free trade agreement is access to the U.S. markets. This access basically has existed, although the agreement is very important in that it protects this situation through a treaty.

The protection of a treaty was required because forces on both sides of the border have in the past ten to fifteen years restricted trade from time to time. U.S. regulators have hampered trade in response to lobbying efforts by U.S. producers and Canadian regulators have hampered trade through unilateral export price control for a variety of economic and political reasons. So, while the trade was free in terms of tariffs, there have been administrative barriers over the years.

Now, since 1985, gas marketing in North America has been deregulated and it has made it difficult really to hinder this trade but past experience has made many potential U.S. customers wary of long-term contracts with Canadian suppliers. All of them still recall that Canada unilaterally in the late 70s and early 80s raised the price tenfold, literally overnight. Within a space of several years the price of natural gas was dictated to go up approximately tenfold and this caused a catastrophic drop in the sales in the United States market and these were under contracts that had been signed.

Today the United States needs more gas and will in the near future. Large new facilities will probably be needed to deliver these volumes. The Free Trade Agreement will provide the assurance these investors require for them to put up the money to finance these type of transportation systems and the assurance customers south of the border will need to make sure that they don't have their prices unilaterally increased in the future. So, I don't want to leave this natural gas without discussing some of the problems that still hinder it. In the United States and Canada we both have regulatory bodies that still can impose some hindrance to the free trade or the free flow of goods. However, I certainly feel that in the spirit of the Free Trade Agreement and with the dispute settlement mechanism therein, this will certainly enhance our ability to deal with these type of regulatory problems in the future. I think all in all the Free Trade Agreement will benefit natural gas in the long run very substantially.

With respect to petrochemicals, Canadian exports into either the United States, Europe or Japan, as I have mentioned earlier, have been inhibited by tariff barriers by most countries and it's turned out that much less than 20 % of all our petrochemical producers export. So, the industry in Canada has basically been sized for the Canadian market with some exports. Now, in the late 70's and early 80's there was a tremendous expansion in the petrochemical industry because we had perceived that prices for feedstock other than natural gas were cheaper, so that manufacturing capacity for most of these large commodity petrochemicals now substantially exceeds domestic demand. We met this by export but the exporters were facing the penalty of the tariffs. Now, new Canadian capacity will be aimed directly at these export markets.

The current U.S. tariffs, as I mentioned earlier, as high as 18% will be removed. This magnitude of tariffs could easily take the viability out of a petrochemical project, but now with their removal can, of course, make a petrochemical project viable. The FTA will eliminate these tariffs by '92 making Canadian producers regional suppliers for the North American market. We can see Alberta and British Columbia becoming major and significant suppliers into the western part of the United States displacing, hopefully, some of the petrochemical production that comes from the gulf coast. The Canadian industry is well positioned to compete in this significant portion of that market and, as I said at the opening, the U.S. market is so large compared to ours that even a small share of sales will have a profound and beneficial impact on demand for Canadian production.

The FTA should not only allow Canada to sell more of the commodities it already produces, it should also allow us to manufacture petrochemicals for which we have not had a significant market to date. Both of those are important - we can increase our sales and maybe develop some markets for new products. This is a great example of how the Free Trade Agreement will open up significant domestic opportunities in addition to simply securing larger export markets. We may start making products that we never did before based largely on the export market but then we as Canadians will also be able to purchase them in our own country. So, it's got kind of a twofold impact.

In closing, just on natural gas and petrochemicals, you know the B.C. natural gas industry is highly dependent on the U.S. market for growth. Unlike Alberta we have no efficient way to get our gas into the eastern market. We tried getting it into the far east and it's a little bit difficult. So, the growth of our provincial natural gas industry is really largely tied to the U.S. market and is currently impaired by some very major restrictions and lack of facilities. Those facilities will only be built if there can be a large or significant assurance given that the gas will flow at competitive prices and we think that the FTA does that. With respect to petrochemicals, my company, Westcoast, right now is investigating the possibility of developing a major petrochemical complex to be located in Fort St. John, or more precisely Taylor, B.C. We're proposing to produce ethylene glycol which will go primarily to Taiwan and also polyethylene which, if we proceed with this, would be targeted primarily to the United States' market. So, this Free Trade Agreement for B.C. and ourselves is very important. The removal of these tariff barriers is going to be very good for both of these products.

JACK BUTTERFIELD, Panelist:

I think there is a broad consensus in our industry and, in fact, all resource industries that the resource industries are going to be one of the important beneficiaries of the FTA. I don't want to go into a lot of complexity here. I just want to highlight some of the clauses which bear on the industry and then talk about some of the benefits which might result.

So, I want to begin by saying that the Free Trade Agreement concluded last year is of substantial importance for the mineral industries of Canada and of British Columbia. Something more than 75 percent of Canada's production of non-energy minerals is exported and the value of these exports is about 20 billion dollars annually. Canada is a competitive producer of most mineral products that we're into. Under these circumstances deterrents to the free movement of goods are generally counter-productive. To be active in the mining industry in British Columbia almost means by definition that you must trade internationally because our markets are very small. We don't have domestic customers in most cases, we have to ship overseas or across the border. The U.S. is the largest export market for Canadian mineral producers but not for British Columbia producers for which the U.S. is second to Japan. Nevertheless, during 1986 exports of British Columbia, non-energy mineral products to the U.S. were in excess of half a billion dollars.

The FTA covers a number of areas which are germane to metals and minerals. The four which

appear most important are,

- (a) Trade Remedies and Dispute Settlement. In the past Canada and the U.S. have faced frequent difficulties on such things as dumping and countervailing duties and most of these have been complaints or actions brought by U.S. companies or special interest groups against Canadian imports. You may remember the last major action which was last year on potash. Before that action there were complaints related to uranium and barriers related to uranium and before that actions and complaints related to zinc dumping. These actions have been frequent. They have averaged nearly one a year. The reduction and eventual elimination of duties and the procedures on dispute settlement provided for in the Agreement should reduce these difficulties. I say reduce rather than eliminate because I suspect there may be still some action and there's evidence related to that forming at the moment in Washington.
- (b) Quantitative restrictions. The Agreement provides for proportional access of minerals and metals which are in shortage on a historical basis. The private producers of minerals in this country are curious on how this will work and we wonder if the governments will be telling us which customers we can sell to.
- (c) Access for Investment. Free access for investment is agreed under the FTA and this might be conducive to growth, especially since for metals and minerals each country is the other's largest supplier of capital.
- (d) Reductions and Tariffs. This is probably the most important and it will lead to some of the potential benefits which I want to turn to now and the first of those benefits is what you could call rationalization of the industry. Tariffs, of course, work to frustrate the law of comparative advantage and to reduce efficiency. When the tariffs are reduced to zero, which they will be in five years for most mineral products, efficiencies in production and distribution will occur and, of course, distribution is very important for our industry. We pay an awful lot of freight to the railways and I think the mineral industries are the railways' largest customer. These rationalizations and benefits will be enjoyed mostly by processed products and producers of processed products because tariff schedules are progressive. In other words, they increase with the amount of processing and in added value. For example, U.S. duty on raw zinc or I should say zinc contained in ores and concentrates is 0.3 cents per pound. On refined zinc, it's 1.5 cents per pound and on zinc alloy 19.0 percent. That is perhaps an extreme case but it does illustrate the progressive tariff system, not only on behalf of the U.S. but for our country as well.

The next benefit I should refer to is a larger market. There is general acceptance that the FTA will lead to an acceleration of GNP growth rates and one estimate that I have seen is that the Canadian GNP by the year 2000 will be about 6 percent larger with the FTA than it would have been without the FTA. The impact when expressed in percentage terms will be less dramatic for the U.S. but without doubt the demand for materials will be increased there. It will be increased in both countries and the mining companies should profit by this increase in market size, not only having a bigger market to sell to but more opportunities for investment to generate the minerals that will be needed.

Next, productivity, perhaps related to the rationalization mentioned earlier. The probability of longer production runs, especially on fabricated products together with efficiencies on delivery costs should clearly be positive for productivity and maybe that might be something that should be pleasing to the unions.

Profitability. In addition to the efficiencies of rationalization and the result in productivity mentioned above, the eventual elimination of tariffs will in itself increase profit ratios because the U.S. tariffs are frequently absorbed by Canadian companies shipping there. Further, the elimination of Canadian tariffs on equipment and supplies needed by our mineral industries, smelters, fabricators and mines will mostly go to the bottom line for us. This is not entirely true because there are, in some cases, duty drawback provisions which are useful.

And, lastly, something that Joe Clark mentioned, a more competitive industry. The greater efficiency of the Canadian industry should allow it to compete better in offshore markets and it is really as important for us to run world-scale industries in minerals. This may be an important spin-off, particularly for those companies producing fabricated products.

Now one thing I should have mentioned, Larry, I'm just backtracking here. You said that without the FTA there might be increases in protectionism. I think that's applicable to the comments which I made on trade remedies and dispute settlements because I think it's true that the U.S. has been in an increasingly protective mode. Without this Agreement, I suspect that may have continued because our industry, I as a broad generality, is more competitive than our competition, lower cost and so they're defensive. I think this Agreement will perhaps help us all to prevent taking a backward step in that direction.

So, taken altogether I believe that the impact of these benefits should be major for the metals and mineral producers and especially for those with onward processing. Customers will also benefit through these efficiencies and the Canadian customers will benefit from the elimination of Canadian tariffs.

There are a few negative aspects for certain companies. For example, subsidies for such things as capital investments related to environmental control may be reduced or eliminated and new processes and new inventions may not receive governmental support or protection as much as before. Similarly, there may be other areas that we could talk about there, too. However, on balance, without question the mineral industry will benefit substantially and so will the consumers. For this reason the Canadian Mining Association and the Mining Association of B.C. have come out strongly in favour of the FTA with almost no reservation and certainly my company, Placer Dome, totally agrees with the position being taken by those groups.

KENNETH PETERSON, Panelist

Good afternoon, ladies and gentlemen. I'd like to give a little bit of background on the electricity industry and the outlook for future deals that might be made for exports from the province. It is important to view exports in the context of the history of the development of electrical energy in the province, and the implications of export for domestic supply and domestic rates. I'll address the Free Trade Agreement and what it does for electricity exports. And then finally look at what our export outlook is for the near term and what arrangements will be necessary to facilitate those deals.

B.C. Hydro's mission is to support the economic growth of British Columbia through the efficient supply of electricity. That has largely been in the past associated with the quality, the reliability, and the availability of low cost electrical energy. In fact, if you look at a comparison of rates for large industrial customers around the world, you can see we are at the low end on the chart across a broad spectrum of countries. Now why I bring that up is that whenever electricity exports are mentioned, people have become concerned that we are jeopardizing our domestic ratepayers by selling electricity into export markets. That's something we have to keep in mind whenever this topic is discussed either in an informal public forum or hearing. As planners we keep that uppermost in our minds. First of all, whether the supply sources that are being looked at for export are, in fact, low cost resources that could be used domestically and, secondly, what kind of prices could be received in the export market.

B.C. Hydro's most recent experience with electricity exports looked at over the last ten years shows widely fluctuating export sales volumes and revenues, but there have been some very substantial sales in certain years. Since the early 80s when the B.C. economy turned down, we had surpluses to sell and revenues reached a high of 250 million dollars. The fluctuation over time reflects both market conditions, transmission access conditions, and our own availability of power to sell. Taken on its own, that is a pretty substantial sales record. That's just for interruptible power, that is the power that is available after all of our loads have been served in this province. These revenues amounted to nearly 25 percent of our electric sales. Which all went to the bottom line to benefit domestic customers.

Another example of electricity trade goes back to the Columbia River Treaty. The original sale of the downstream benefits from the Columbia River Treaty could be viewed as an export arrangement. The downstream benefits are actually electricity generated in U.S. generators by water stored

and released from Canadian dams. They were sold at a time in the early sixties for about 250 million dollars and that was enough to finance a good portion of the storage projects in B.C. It allowed us to move simultaneously ahead on both the Columbia and Peace projects. Two hundred and fifty million dollars looks pretty small but that's equivalent to \$1.2 billion today. If you look at the deal, even in hindsight, benefits outweighed the costs by a substantial margin.

The reason I bring this up is that it bears on both the types of future deals that might be made and also because the downstream benefits were sold for a period of thirty years and will revert back to British Columbia in the late 1990s. There is the prospect that they could be resold and that is being examined by the Province. They are also a very valuable resource we could use in our domestic system. The power will be delivered back to the border and absorbed into our system unless a deal is made for resale.

Commercial reselling of the downstream benefits alone isn't as attractive as the possibility of wrapping them up into a larger sale to gain transmission access. The Bonneville Power Administration, which operates all of the federal dams in the Pacific Northwest and operates the major transmission system, have had a restrictive access policy on the transmission link between the Pacific Northwest and the Pacific Southwest. The reason is that they are the monopoly owner of the resource and they have their own revenue position to protect.

You may be familiar with the public discussion that went on in the 1984-86 period about building Peace Site C as a devoted export project. That came about during the period of hydroelectric surplus and the continuing economic recession. We worked very hard at striking a deal that would allow us to get through BPA's Pacific intertie to California, build the project and sell the power for twenty-five years. After that the project would have been paid for and power would revert back to B.C. That's just one of the many possible deals that could come about. It came undone largely because of the intertie access policy. Coming specifically to the Free Trade Agreement and what it does for us, I think it is probably the best example of protecting an advantage that already exists. There were no barriers to electricity trade prior to the Free Trade Agreement. Emerging were a number of potential challenges. For example, there was a change in the definition of electricity from a service to a good which meant that it had less protection than previously against countervailing and other possible actions.

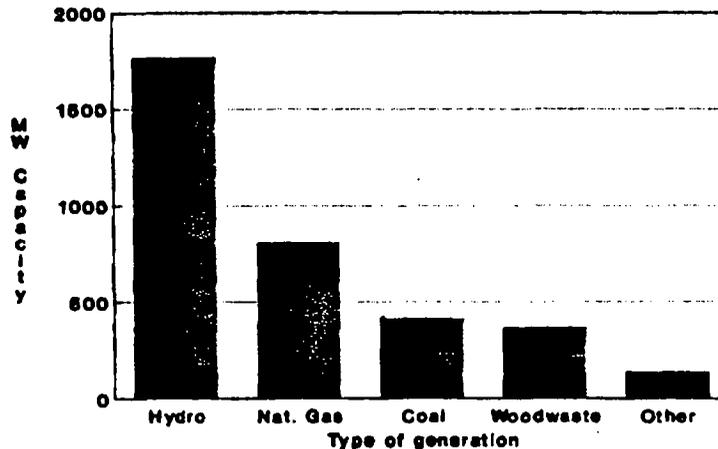
The general goals of the Free Trade Agreement still apply to electricity, those goals being more secure access and increased market activity, and fundamentally letting market forces work. Specifically, and this is probably the only incidence in the whole Agreement where parties are named, BPA and B.C. Hydro were instructed to work out a method of allowing electricity to flow more freely between buyers and sellers.

To that end, B.C. Hydro is to be treated the same as a U.S. extra-regional rather than an extra-national utility. However, the intertie access policy restricts the access of non-scheduling U.S. utilities (the extra-regionals). Thus, we are treated the same way as Montana is, for example. That's good news, but the bad news is that Montana doesn't have direct access either. Transmission is increasingly considered in the industry to be the strategic resource. We think in this province more about the difficulties of building generation projects but in the future, both here and already everywhere else in North America, the most difficult thing will be building new transmission. The difficulty with securing rights-of-way and emerging problems such as concern over electric and magnetic field effects will present formidable challenges in the next ten to twenty years.

Last spring B.C. Hydro set up a subsidiary called Powerex in cooperation with the provincial government specifically to deal with export issues. Powerex is the single window marketing agency for electricity sales from the Province. Powerex will both deal with private developers of energy projects to make sure that the private sector takes the appropriate risks on building resources for the export market and will also coordinate deals in the market with specific buyers. Currently there are two possibilities that would require new transmission ties in the Pacific Northwest: to Washington Water Power in Spokane and to Puget Sound Power and Light north of Seattle. The Northwest as a whole still has a power surplus, albeit a dwindling one, but the utilities mentioned above will have deficits within a few years. Modest transmission investments on our side of the border will be needed to meet the market.

Powerex recently issued a call for expressions of interest to build 400 to 600 megawatts in anticipation of the Washington Water Power, and Puget Power deals. As the following chart indicates, the total amount put forward was over 3000 megawatts: about over 1700 MW of hydro, including sites that B.C. Hydro has in its resource plan for domestic load growth; natural gas and coal is 800 megawatts, and small amounts of wood waste and others such as municipal solid waste.

Powerex Expression of Interest



These expressions of interest are overview assessments of the cost and developability of these sites. The next step will be to cut this down to a shortlist and then go for a firm request for proposal in the fall. By that time we hope to have the market assessment in line. Early indications are that these proposals are competitive in the 4 to 5-cent-per-kilowatt-hour range. The market is also in that 4-5-cent (U.S.) range. Thus, there's not a lot of room at this time for direct project sales. What there is more demand for, though, is a product that can be delivered when and in the quantity that the buyer wants. B.C. Hydro can use its storage to give the customer what he needs, and command a greater price. B.C. Hydro would be compensated by appropriate charges for services. The private developer would get a return on investment based on competitive negotiations.

A more immediate issue we're dealing with is a short-term deal at 150 megawatts that will show all parties how we can make the specific component of the Free Trade Agreement work between B.C. Hydro and BPA: to get power from B.C. into California in a way that doesn't harm anyone's interests.

To wrap up, let me draw you a picture of the hydroelectric potential of British Columbia. We have developed about 25 percent of it. Of the 75 percent that's undeveloped, approximately half could be considered to be available for development, that would exclude the Skeena and Fraser because of environmental issues and the impact on the salmon fishery. We are fortunate in having this potential as concerns are being raised about thermal generation from coal and the different problems in the nuclear industry. This will make hydroelectric sources a prime fuel in the future.

So, in conclusion, both Hydro and Powerex are moving not rapidly but prudently at a good pace to meet opportunities provided by the Free Trade Agreement. We are now in a much more solid position to take advantage. There are good commercial deals in prospect that will benefit the province, will keep the existing B.C. Hydro ratepayers whole and allow some exciting projects to be built. We're only at the threshold of tapping an enormous potential.

Question:

I am Bob Stone. Sticking with the energy topic, I wonder if you or Ken would comment on these recent announcements about whatever they refer to as low temperature fusion or whatever. I notice you folks have done some research on that subject. Do you think this is a real technological breakthrough and what do you know about it now?

Answer: Kenneth Peterson

We know relatively little. We have some people looking at it and we're just looking at funding a modest review. It's very exciting. I mean everybody is talking about it but I guess I'm somewhat

skeptical about how quickly something like this can be realized, if it is realizable in commercial terms.

But the scary thing, I guess, from a utility point of view is that if something like this does come along what will we use the transmission lines for. We can all hang our wash out on them! The potential for something like that would make central generation obsolete. I think we're probably in the best position to protect ourselves against that because of very, very low operating costs once the investments have been amortized. But if you look at developing a hydroelectric project of ten years in the gestation period before it actually delivers and think about the impact, we could spend 3 billion dollars on Site C, for example, which would come into service in the early 2000s and who's going to pay for it if everyone has their own fusion project? That is something we watch fairly closely and I think it's going to put more and more emphasis on flexibility, smaller projects, and on smaller increments.

Question:

In the natural gas industry the expectation is that free trade will lead to the price being pretty much the same for everybody. It doesn't seem to me that you envisage free trade in electricity leading in the same direction.

Answer: Kenneth Peterson

I don't think it will be, although there is an emerging North American network of electrical interconnections. I'm not sure how far the analogy can go in terms of delivering electrical power from, say, a hydro resource-rich area like Quebec or B.C. into high-cost areas like New England. Because we are talking about incremental supplies here, even though they could be fairly large in terms of a specific contract, they may be only 2 percent of, say, California's incremental growth. So, we'll be looking at their avoided cost as a way of negotiating and they'll be looking at our supply cost and we'll try to get as close to theirs as we can.

Question:

Will the FTA ensure the free exchange of electricity and avoid countervail action?

Answer: Kenneth Peterson

I don't think so, not completely. It won't prevent some lobbies, like the coal lobby in the U.S. for example, from complaining but I think we're in a much better position now with the FTA to counteract that.

Question:

I wonder in rising from both Jack and Art's presentations the transportation of finished goods and the rationalizations, I think of you producing a product way up north, Art, and you trying to ship finished products and getting a fair break in terms of freight rates, I wonder if either one of you would comment as to what you think is going to happen in that regard.

Answer:

I touched a little bit on it in that the infrastructure available to move natural gas across North America will have to be substantially increased if the market that we see for natural gas out there does occur. Investors were certainly hesitant to put up the money to build a large pipeline expansion for example, not knowing whether the United States could restrict the flow of natural gas or Canadian government actions could price ourselves out of the market. The FTA will make it much more acceptable. I think the people could put up their dollars and assume that the contracts that they sign will be in place. So, it could enhance the ability to put in transportation systems for natural gas. There's no doubt about it.

Question:

How would you move your finished products? If you are going to produce that, you are not going to put it in a pipeline. You're only going to put it a railcar.

Answer:

Well, deregulation of the railroad industry has already had a significant impact upon the rates that you can negotiate with railroads for moving finished products.

Question:

And this would decelerate the process?

Answer:

I haven't focused much attention on that. I think it would. Jack may have more thoughts on that. It should decelerate the process because it would be so much more competitive.

Answer:

I agree. I can think of some instances where there is freight backtracking and freight inefficiencies. The first one that springs to my mind is in the case of Noranda where they produce at Montreal East copper metal. On the doorstep of that copper refinery there's a brass plant that used to be called Noranda Copper and Brass. I think it's called Noranda Manufacturing Brass Division, or something like that now. That plant has been, up to now, effectively prevented from selling its copper and brass products into the U.S. because of the duties which are applicable to brass alloys and all copper alloys.

Now that the duties are off, the metal could go, probably will go directly from the refinery to the brass mill, really just out of the back gate, and then for customers just shortly across the border in, say, New York State, where there's some manufacturing, go directly from that plant to the people who need to buy that for application into whatever products that may occur. So, instead of doing that, those same customers will have to be bringing that copper, probably from Arizona where most of the U.S. copper is produced, to a fabricating plant in Chicago or Detroit, where brass is made, and shipped to those same people in New York State who perhaps need. That would be one example.

I think when we start looking at these second generation consequences, we're going to find even more benefits from competition and rationalization in other sectors of our economy. I'm reminded of discussing in England the whole question of privatization of the electrical generating industry there. The main impact is on the coal mines. The coal mines are either going to have to be productive and cost effective or they are going to go offshore because they have created an element of competition among two generating companies. The privatization of it really wouldn't matter to you and I as a consumer but it really has a major, major impact in terms of productivity and the economy.

Question:

Larry, to add somewhat to the very first question. Assume you have successful negotiations with BPA and we get into a full-fledged, long-term electricity agreement, then it would be logical to assume that the way natural gas and oil are treated under the Agreement is the way electricity will become treated. And then the question, as you know in the Agreement there is a comment that the federal and provincial governments will be unable to pose higher prices on exported energy products. How will the U.S. side view Powerex/B.C. Hydro in those terms?

Answer: Larry Bell, Chairman

That structure, Jack, is a willing buyer/willing seller and that's all we contemplate. The only thing that's different in terms of the analogy here is what was talked about earlier. The pipeline is a common carrier. The transmission grid is infinitely more complex. There are many who would like to think of it as the common carrier but the analogy just doesn't quite work technically. Ken talked about electrons taking the easiest path and if you try to push it down here and there's an easier path, that's where it's going to go. That's just a simple illustration of the complexities involved in it. So, it's a little different and that's why I don't think that we'll get that levelization of price as it has happened in natural gas.

Comment: Panelist

I would like to comment on that, too. As free trade was being debated, most people interpreted that we could not sell gas for more in the export market than in the domestic. That is right in the sense that governments can't impose it but the willing buyer can certainly pay more. If the willing buyer wants to pay twice as much as the person here is paying, then that can be charged. It's probably not right. It won't happen too much in gas because it has become a commodity and can be moved around. The prices are level but it certainly can be done.

Question:

But that's easier to accomplish when you're Westcoast Energy than perhaps you're B.C. Hydro.

Answer: Larry Bell, Chairman

It may be. We have a commercial mandate. We have a shareholder - one, but we are a commercial operation.

Comment: Questioner

We're all shareholders.

Question:

Sam Fromowitz, U.S. Consulate here in Vancouver. As you know, in the U.S. Congress over the past number of years there have at times been expressions of concern about the level of dependency on Canada for specifically electricity imports, for example, the General Accounting Office study as to whether the United States is becoming overly dependent. The recent sales on the east coast from Hydro Quebec have generated new concern but are you picking up any indications of renewed congressional concern about the level of dependency on congressional exports of power?

Answer: Larry Bell, Chairman

The eastern seaboard and the west are seen as two entirely different markets. Our nervousness is that when the U.S. Government focuses on the eastern seaboard, we could just get caught up into some piece of federal legislation that would have an unanticipated impact.

There's a great opportunity to exchange energies and sell surpluses to each other. For instance, California exports to the Pacific Northwest during the winter. So we have seasonal exchanges and, in fact, the day before the cold snap, just to give you an illustration of what happens, we lost a major line from the Interior and we would have had an outage in the Lower Mainland if we hadn't had emergency standby backup from the U.S. system. It automatically cut in and nobody knew. We were back in business when the cold snap really hit. When the export of energy from California was interrupted by one of their major lines coming down, it took them two or three weeks to fix it and we fed as much energy as we could into the grid and supported the industrial base in the Pacific Northwest. The first ones to be cut off were the aluminums and there was some danger that their potlines would freeze up. We brought energy from Alberta and put it together with Burrard Thermal to help out.

WORKSHOP NO. 4 AGRIFOOD BUSINESS

Mr. Blair Wilson, Workshop Chairman, introduced the session by noting that the Agrifood business, including food and fish processing, represents the third largest sector of the B.C. economy.

Mr. John Schildroth made the following points as he spoke on five aspects of free trade and the agriculture business:

- 1) Tariffs: most agricultural tariffs will be phased out over ten years. Seasonal tariffs and tariffs on processed food products will also be phased out;
- 2) Market Access: the biggest plus of the deal is that bilateral trade in beef and veal will be exempt from Canada and U.S. import quotas. Import certificates for some grains will also be lifted;
- 3) Trade Law: there will be an elimination of export subsidies and a re-assessment of existing transportation programs for products moving to the U.S. market. The existing anti-dumping etc. laws will remain. The new disputes resolution mechanism will be useful to assist with trade irritants;
- 4) Customs Rules: national treatment is viewed as a negative, especially for the wine industry. The removal of the U.S. customs user fee is a plus;
- 5) Technical Standards: in spite of all complications, there will be a regionalization of quarantine rules for animals, a move to harmonizing standards and a move to reducing border checks of imported product to no more than either country would check the same product in their own country.

Mr. Michael Hunter discussed the impact of the FTA on the fisheries industry, noting that for the most part it would have little impact since the industry was not overly dependent on the U.S. market. Indeed, the industry has been exporting successfully for over a hundred years to a diverse market throughout the world. Although the deal would encourage the sale of more fish to the U.S., a lot of the products already enjoy free trade. Mr. Hunter then went on to note that the GATT issue regarding processed fish was of even greater importance to the Fisheries Council.

Mr. Wilson stated that the FTA was simply a new set of rules and as such a great onus devolved on the industry to learn the new rules. He pointed out that this would be even more important because of the rapidly changing competitive pressures the industry faced, and noted specifically the globalization of the food market, the shortening life cycle of food products and the growing consumer preference for fish as the three fundamental changes that the industry had to contend with.

BRIAN PARROTT, Rapporteur

WORKSHOP NUMBER 4 Chairperson and Panelists



CHAIRMAN: **BLAIR WILSON**
Vice-President, B.C. Division
Canadian Manufacturers' Association

Mr. Wilson has been involved in various initiatives to promote trade, investment and technology transfer with the U.S., Britain, India and the Pacific Rim. He is an active member of a number of committees including the Manufacturing Sector Strategic Planning Committee of the *B.C. Science Council* and the B.C. Agri Food Strategic Planning Committee. Prior to joining the *CMA*, Mr. Wilson held a number of senior management positions in the forestry products, project management and telecommunications fields and has operated his own consulting business for industry and government in the areas of strategic planning, organizational change and development, human resource management, and the introduction of technological change.



MICHAEL HUNTER is President of the *Fisheries Council of B.C.* and a member of a number of government advisory committees, including one of the panels of the Canada-U.S.A. Pacific Salmon Commission. Prior to joining the *Fisheries Council*, he worked for the Federal *Department of Fisheries and Oceans* where he was involved as a negotiator for Canada during the development of the Pacific Salmon Treaty with the U.S. He also served as a Commissioner on the International Pacific Halibut Commission, the International Commission for the Conservation of Atlantic Tunas, and the North Pacific Fur Seal Commission. Mr. Hunter holds a Masters degree in economics from SFU.

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available

JOHN SCHILDROTH is Acting Trade Advisor for the B.C. *Ministry of Agriculture and Fisheries*. He has worked extensively on evaluating the impact of the Free Trade Agreement on the B.C. agri-food, beverage and fisheries sector since the Agreement was first proposed in 1985. Mr. Schildroth is an agricultural economist by profession, and has been involved with a variety of other trade matters including the Agriculture Multilateral Trade Negotiations, the GATT Panels involving B.C. agri-food sectors, and trade/industry development efforts involving B.C. agriculture, food, beverages and fisheries.



RAPPORTEUR: **BRIAN PARROTT**
Prior to his position as Director of Research for the Mining Association of B.C., Brian worked for five years as an economist for the Provincial Ministry of Economic Development. He obtained degrees in Economics, Political Science and an MPA from UBC and UVic.

WORKSHOP NUMBER 4 AGRIFOOD BUSINESS

BLAIR WILSON, Chairman

In B.C., after lumber products and paper products, agrifood represents the third largest sector of our economy and it is a growing opportunity. During the morning and in past literature you have heard a great deal about the free trade agreement. My panelists and I will attempt to focus strictly on the agrifood business by which we mean agriculture, including the farming of fish, and processing, including the processing of fish. The format will be for John to lead off with a presentation of his views on the impact and some of the opportunities and challenges arising from the F.T.A. Mike will follow with a focus on the fisheries industry. I will follow with a few comments, particularly on food processing, and then we'll open the floor for questions.

JOHN SCHILDROTH, Panelist

A lot of time was spent in the F.T.A. negotiations discussing agriculture and the problems related to agriculture. Most people believe that agriculture will face a number of downside problems. I will attempt to give by example in the next few minutes some of the opportunities for growth and the challenges of adjustment that are going to be occurring in the agriculture areas as I see them over the next ten years.

Whenever I speak about agriculture and the FTA, I like to address my comments to five trade issues. I find it's easier for people to keep matters in focus, so I'll do that, very briefly, this afternoon. The first issue is tariffs, then market access, third trade law, fourth customs rules and fifth technical standards. I'll try to highlight where I see these five trade issues impacting the agricultural sector.

Tariff Reductions. First of all, most agricultural tariffs will get a full ten years to grind down to zero and be eliminated. This gives the sector a substantial adjustment period. There are some exceptions to the ten-year phase-out, in particular in the area of beef and prepared meat products. However, for the most part there will be a ten-year phaseout which gives us a ten-year adjustment period.

Secondly, seasonal tariffs on fresh horticultural products, as most of you are aware, are coming off at the same time as standing tariffs. The horticultural sector is very concerned about this, but there is a snapback provision that will be in place for the next twenty years that will allow them to get some protection, if necessary.

The third and perhaps the most contentious tariff situation involves tariffs on processed food products that use regulated supply-managed commodities. These tariffs are also coming off even though the prices on the supply-managed products may not come down. This means that we're looking at a dilemma here for Canadian processors of these products.

Market Access. Perhaps the biggest plus involves bilateral trade in beef and veal, which will now be exempt from Canadian and United States import meat quotas, except for third-country flow-throughs. The Canadian beef industry, including packers, is very excited about this development, viewing it as quite beneficial to their members.

Second, global import quotas on poultry are to reflect Canada's actual import levels over the past five years - the average total of global and supplemental import quotas over this time.

Third, Canadian import certificates for oats, barley and wheat are going to be eliminated over the next three to five years, depending on certain conditions, and be replaced by an end-use certificate. This will allow the importation of U.S. grain where it's competitive, where an end-use has been identified for that grain. There are certain conditions associated with this, but apparently the import controls on oats will come off this fall; on barley, next fall or a year this fall; wheat imports will remain controlled for at least two years.

Trade Law. Both parties have agreed that there will be no export subsidies to the other party. In particular there was concern over grain shipments receiving direct export subsidies going into the other country. In addition to this, public entities, in particular the Canadian Wheat Board and the United States Commodity Credit Corporation, will not be allowed to sell their stored grain into the other market for less than the acquisition price plus storage and handling charges. There was a very big concern that surplus grains on either side of the border might pour into the other party's markets.

Third, western grain transportation assistance will not be available for grains or oilseeds produced in Canada and shipped through west coast ports, if the final destination of that product is the United States. Although this seems to be a rather large negative, the reality is that the Americans argued that this was an unfair advantage for Canadian west coast shippers. Even so, we haven't seen an end to the Canadian shipments through the U.S. west coast. The Port of Seattle is still available for our offshore grain exports.

Fourth, the present anti-dumping, subsidy countervail and safeguard trade remedy laws remain in place and are still available to the agricultural community. In particular, horticulture should find this useful in terms of dealing with imports surges.

Fifth, we now have a binational dispute resolution system set up that should deal with many of the problems that we have had with our American counterparts in areas such as raspberries, pork, apples and so on. We think that many of these irritants and trade battles will be resolved much more expeditiously in the future because of the binational panel process.

Customs Rules. National treatment is probably the biggest negative hit faced by the food and beverage industry. The Liquor Distribution Branch is now required to provide national treatment to U.S. wines. This, in effect, means that their products must be treated exactly the same way on the shelf as similar B.C. products.

Second, U.S. states, Canadian provinces and local governments must accord national treatment to B.C., Canadian or American products in their marketplaces.

Third, the U.S. customs user fee must be eliminated. Agricultural shippers of products into the United States are quite pleased with this. These include the ornamental horticulture industry. The beef industry and others that already export into the United States will also be happy to see this fee eliminated over the next five years.

Finally, there may be some difficulties with rules of origin criteria that were mentioned this morning for agriculture commodities where we have a co-op situation. The best example, of course, concerns grains being made into feeds and then shipped into the United States. The Americans seem to be asking for some sort of check that the grain was actually grown in Canada and we're having a few problems with that. The customs brokers think we've got it resolved but it remains to be seen.

Technical Standards. This is perhaps the most complicated trade issue facing us. There are eight binational working groups that will address a number of technical issues including such things as pesticides, animal inspection, plant inspection, food additives, these sorts of things. These groups have been set up, at least on the Canadian side, and are beginning to consult the industry on how to harmonize, or make equivalent, our technical standards. I would say that this process is going to be a positive one and is certainly welcomed by many people in the industry, to remove what we think are nontariff barriers in shipping to the United States.

Secondly, there'll be a regionalization of quarantine rules for animals, again advantageous to our beef industry.

Third, there will be a harmonization of standards wherever possible. This is again of great benefit to those industries that already export, such as the small berry industry, ornamental horticulture and so on.

Fourth, there will be a notification, consultation and data-sharing process for technical standards that again should reduce the number of border irritants and hold-ups if you want to ship your product into the United States.

Finally, there is an agreement by both parties to limit border checks of imported product from the other country to no more than they would check their own product within their own country. And, again, we feel that that is going to benefit Canada.

MICHAEL HUNTER, Panelist

Let me first of all thank you for the invitation to participate today. I'm pleased to be able to draw attention to the importance of the fish-processing industry in B.C. and to the changes that we can expect in the new trading environment that we face.

It was interesting when I arrived here shortly after noon and picked up a newsletter from Border Brokerage Company. I think what they say in their message to our friends is exactly the kind of message that I wanted to deliver here today. What they say is, the world of international trade is moving like a roller coaster. One cannot stop without being left far behind. Rules, regulations and automation are changing as fast as the weather. As usual we are doing everything we can to keep up to our "flawless" government but we are left breathless in the process.

Well, that describes pretty well the way that our organization, the Fisheries Council of B.C., feels. Our organization is a trade association which represents the major fish processors in British Columbia, and some of the smaller ones. Those companies account for about 80 percent of all seafood produced here in B.C.

It may interest you to know that throughout the 1980s Canada has been the world's number one exporter of fish products. It may surprise many of you that within Canada, British Columbia is the number one fishing province in terms of value of production, not Newfoundland, not Nova Scotia. Forget your CBC film clips of the guy in the dory with the net. It's happening here in an industrial fishery. Three-quarters of a billion dollars worth of gross revenues over the last two years makes us the number one fish province in Canada.

In 1987, which is the last year for which complete figures are available, a year when our salmon catches, the principal species we fish out here, were low, the B.C. fishing industry as a whole employed 25,000 people. It involved some 14,500 direct person years of work, about the same as the mining industry. Fish, after forest products and energy, happens to be B.C.'s third largest export commodity. The fact is, we are part of an agrifood business that is extremely important to this province.

Fish exports alone increased from 580 million dollars in 1986 to over 700 million in 1987. Seventy-five to eighty percent of our production is exported to some forty different markets. In that sense, then, we've lived with free trade for a long time, selling our products, creating employment, generating significant foreign exchange in a very diverse and competitive international environment. This market diversity and the experience we've gained over a period of over a hundred years of selling, particularly salmon, but other fish products as well, around the world, means that we're not especially excited by the free trade agreement, nor are we threatened by it.

Unlike some of B.C.'s other export commodities, we're not overly dependent on the big buyer to the south. In recent years Canada has exported about 1.5 billion dollars worth of fish products to the United States but of that total, B.C.'s share is only about 152 million dollars, 10 percent of the national total. If you look at the figures another way, in 1987, 42 percent of our fish products exports went to Japan, 29 percent to the European community and just 18 percent to the United States. An exporter must look to markets where demand is strong and where prices are firm and, so, although we expect to sell more fish to the U.S. under free trade, our other markets remain more important, and we anticipate that they will continue to remain more important, than the United States for many years to come.

This lukewarm reaction on behalf of the Fisheries Council may surprise those of you who might remember Fisheries Minister Tom Siddon's claim during the election campaign that the FTA would create 6,000 new jobs in the fishing industry. I think I'd like to explain why we're a little bit skeptical about that. First, the FTA didn't really change much for our industry. The removal of tariffs on fish and seafood products may indeed help our east coast cousins but here in B.C. most of the products we sell to the United States already enter that market at a zero percent rate. Of course, we've been paying the customs-user fee that John referred to and we're pleased that that has

disappeared but that was illegal anyway.

When you look at what happened in the F.T.A. with respect to tariff reduction, we already enjoyed free trade with the United States. We also have advantages in geography. We're both producing salmon, we're both producing herring, we're both producing cod, and so on, but it's rather curious that we're closer to major U.S. markets than is Alaska, which is the other major source of salmon, in the north Pacific. We're closer to the U.S. markets than Alaska. Alaska tends to sell virtually all its products to Japan.

The U.S. consumption of seafood is rising. It's up slightly less than the Canadian total. We are consuming 7-1/2 to 8 kilos a year here while the Americans are a kilo or so behind us on a per capita basis. But it's growing and when the tariffs come off value-added products such as the breaded fishsticks and seafood entrees that we are beginning to produce here in B.C., I think that we should be well placed to take advantage of some new opportunities. So, when I say that we're not excited by the Free Trade Agreement, I don't want it misunderstood. We believe that opportunities exist but don't let's think that some great new dawn exists for fish products because I think that is stretching the truth.

Now, let me move away from the opportunities a bit and talk about the challenges because I think here is where we do have some difficulties. If we are to take advantage of the opportunities in the United States or elsewhere, processors of fish products need a secure source of supply as well as a regime of operating costs that allows them to compete wherever they are trying to sell. Unfortunately, the GATT dispute that we have had with the United States throws these two requirements of security of supply and the regime of operating costs into some question.

Whatever the final outcome of the GATT dispute might be over our salmon and herring regulations or export prohibitions, there is no question that there will be a liberalized regime and more fish will be exported to the United States. The trick will be to ensure that those increased exports are not raw fish but are value-added products. Even though we are not big producers of things that you might consider to be value-added products like fishsticks or seafood entrees, if you take the head off and the guts out and put it in a freezer, that doubles the value of that fish that the fisherman receives. The value-added portion, what we are already doing in B.C., is very significant.

It seems to me that free trade is just one aspect of a rapidly changing international trade environment. Besides our GATT dispute on fish and besides the FTA we have to look at Europe 1992. We have to look at the possible expansion of the European community to include the Scandinavian countries like Norway, which is one of our major competitors in the European market for salmon. As well, the Uruguay MTN round and other multilateral and bilateral trade negotiations are going to affect the international trade environment within which we operate.

These developments, together with rapidly changing trends in seafood consumption and the development of fishing industries in other countries, are ushering in for us a very important new era of international competition. In B.C. I think these trends are intensified because of the GATT ruling but irrespective of that we have to adapt to them. As the trade rules change, we are faced with these new competitive realities. If we are to maintain our commitment to quality, and we are very proud of the quality of B.C. fish products, and our ability to compete internationally under these new external realities, then the industry will have to review and rationalize its internal operations. No question.

But we believe it is also time for the government of Canada to review and rationalize the domestic regulatory environment in which we operate. I've said that as exporters we are an important industry. We are highly dependent on conditions in foreign markets. We think that in the light of changes to trade rules, it's time to ask whether the myriad of acts, regulations and guidelines that surround fish inspection and fish plant inspection are helping our competitive position in international markets. We happen to believe that that is not the case.

We want to see a system put in place that will do its job of helping to protect the resource, public health and safety and fish quality. But those same regulations must allow us to do our job of selling B.C. fish products competitively without having a burden of archaic regulations that no longer reflect the new commercial realities. A government regulation must ensure the health and safety of fish products but it must also be defined with business costs and markets clearly in mind.

The experience with GATT has shown us that in the fishing business, at least, trade is too important to be left to trade officials. In the past 18 months, I've had first-hand experience with the trade bureaucracy. I have seen how, in the hands of trade officials on both sides of the border, a relatively straight-forward fisheries dispute concerning security of supply has turned into a monster with a life of its own. The solution of the GATT dispute, whatever it may be and whenever it happens, will please no one in the fisheries business on either side of the line, least of all the original Alaskan petitioners, who were the ones concerned that they were losing through their processing facilities.

This, it seems to me, is what happens when trade theologians, the "mullahs" of External Affairs, who have no experience with business practices, and appear to have little interest in them, are allowed to dictate government policy. I think we have to be very careful and astute (when it comes to implementation of the free trade agreement) in watching that these same people do their job properly, that we do not fall victim to these same people who think they're going to put rules into place that are of benefit to Canada. They better ask us first and I wonder if that's going to happen.

Finally, I conclude by saying that no export market is handed to an exporter on a plate. But I would submit that for the theoretical benefits of free trade to become reality, we need a new flexibility, an awareness of international competitive realities, not just in our own businesses but in our government and its officials. I'm afraid that in the latter my allegation would be that those awarenesses are sorely lacking.

BLAIR WILSON, Chairman

I should tell you beforehand that I didn't counsel either person as to what they should say and I think that you've already noticed that. And then you get me. I have been told by the industry that I'm probably the best advocate for the industry because as far as they're concerned I know very little about them. Therefore, I ask all the dumb questions that perhaps people who are steeped in knowledge don't get around to asking.

If I can establish any point today, it is that in the real world of business, the Free Trade Agreement is very simply a new set of rules. Setting aside all the rhetoric, all the politics, everything else, we have changed the rules in our relationship with the United States. And when you have any change of rules in any activity, the onus is on the players to find out individually what those change of rules mean. That's what I've been trying to get across to the food processors. We are not going to re-fight the last election. It's four years to the next one probably. We have to get on in the meantime with sustaining jobs and creating wealth in this province. Consequently we have to understand the real world of a new set of rules.

The reality, as Mike has alluded, is that we have a different world. Whether there was going to be a free trade agreement or not was largely irrelevant to us, in the agrifood group, in '88 when we put together an industry group to design a strategic plan for the industry in the province. We also included one rep from the provincial government, and one rep from the federal government, but it was an industry-driven strategy. We now have our strategy and we will implement it as an industry. If government goes along with us, that's fine. If they don't, then we will have to do some things to accommodate that.

Within the development of our strategy, we focused on a number of points that are the reality of the current world as it applies to food. First of all, world markets for food products are becoming globalized. There is very little regionalization or narrow domestication of food products. Secondly, the life cycle of food products is declining while the number of new products is proliferating. And, finally, the consumer preference for fresh nutritious products has created a shift in the types of processed technology that must be used. Any food processor in this province or in either country that doesn't keep up with those three particular trends is going to be out of business whether we have a free trade agreement or not. That's simply the realities of the marketplace.

The agrifood sector did get hurt in two or three areas with the free trade agreement that we are now attempting to come to terms with. If you've read the de Grandpre Report, you'll notice that there was a special appendix dealing with those presentations that were made to his council about the impact of the free trade agreement on certain sectors, and I'll quote from it. He says, "My council identified a number of industry sectors which could face extraordinary challenges. Circumstances

that go beyond the normal competitive challenges of the marketplace". The industry sectors in question were canola crushing, cornstarch production, agrifood and wine. Specifically within agrifood we have poultry, dairy, fruits and vegetables and wheat. All with the exception of wheat are significant industrial competitors in this province.

Despite what de Grandpre has said, despite what the various experts on either side of the argument have said, the main concern of the food industry as it developed its marketing strategy, and this may surprise some people around the marketing boards, was not that marketing boards exist, but that they have totally a production focus. They do not have a marketing focus and as long as they do not have a marketing focus, we will have great difficulty in adapting products' processing to accommodate these trends that are going on in the world. You are not going to eliminate marketing boards tomorrow nor are you going to have a free trade agreement with marketing boards. They are contrary to each other and, as Mike said, any mullah who contemplated that from on high would realize it. While people are contemplating that, however, industry has to get on with being competitive within the world trends that I have suggested. And industry intends to.

There are challenges. They tend to pertain to the market regulated. Market regulated means very simply that we have one price in Canada, the U.S. has a lower price and as the tariffs are reduced, we have to purchase our products at a higher price and compete with the Americans purchasing their products, not through marketing boards, at a lower price.

Economics are very simple. They don't work on Canada's behalf. Consequently, we're going to have to do some things which the industry is already doing and that is specializing, that is creating value added products that go beyond the simple competition, for example a can of corn versus a can of corn. For example, there's one plant across the border in Washington whose sole function is canning corn. It can can in one month all the corn that B.C. produces and consumes and still have excess capacity. The reality is, therefore, that we don't compete in that particular kind of corn. We have to get into other kinds of corns and this is where the marketing board problem lies in terms of the allocations of kinds of crops that are grown that are not market-oriented.

I could go on throughout specific products but what I'd rather do is open the floor for you people to ask questions, and please believe me the gentlemen on either side of me are experts in their respective fields. I'd like you to keep your questions brief. Use the microphone. We will try and answer the questions. If we don't succeed in a very short period of time, I would ask you to defer until after and Mike and John and I will stay and chat, so that we can get on to other questions.

Question:

My name is Wendy Holm. I am an agriculture economist, President of the B.C. Institute of Agrologists, and Immediate Past President of the Vancouver Branch of the B.C. Institute of Agrologists. Two comments - I was with Beryl Plumtree, in fact I was responsible for the work that the Food Prices Review Board did on poultry and eggs. What we were saying at that time was that the level of support given to agriculture in Canada and the United States is basically the same. The United States uses a bottomloading system where they subsidize inputs. Whereas Canada uses a top-loading system.

We allow producers to set cost of production prices and for national supply managed commodities like poultry, eggs and milk, we have the import quotas allowed by GATT before we have a national supply management program. As was explained today, we are taking the tariffs off processed food products and I think the priority has to be good transition policy for our agriculture sector for our poultry and egg and dairy and other sectors that are going to be affected. It's very difficult to get government to go past the short term into the medium term look down the road but the medium term transition policy is critical because if we lose that producing sector, we also lose our processing jobs because we're not going to bring the product up from the States, we're going to process it where it's grown. So, that is, I think, critically important.

Secondly, I will try to be really brief on this. Water's absolutely included in the Free Trade Agreement through a combination of Articles 105, 409, 711 and 2201.9. 711, by the way, is the section on agriculture and it specifically lists water as a good. This is absolutely critical to the sustainable development of agriculture. It's absolutely critical with respect to the super tanker exports from B.C. with Promotion Falls if we find out eight years down the road that we are losing our major

freshet which is hurting our fish farming and fishing industries and we say, right, now we're going to re-direct that resource to the higher good of the province. There are more jobs in fishing and in fish farming than in raw water exports.

Answer: John Schildroth

All I can comment on is the contracts. We've gone over this before. If you tie into a contract, you're obligated to meet the terms of that contract. Whether people like it or not, whether we're talking about water or energy or any other good, prior to the Free Trade Agreement and under GATT obligations, we were tied into those commitments, for example electricity, just as sure as we're tied into them if we signed new contracts. It's part of being a global community. Now, Canada is a trading country and we derive our wealth from trading both processed products and raw products with other countries. We can always choose not to trade but when you make that choice, you pay a price. If you choose to trade, in all fairness, we must put ourselves into the place of those receiving the goods. One wants some guarantees that you will meet your contractual obligations. We would feel the same way if we weren't getting product delivered to us that had been promised.

The best case that I can cite is the Japanese experience of 1970 when the United States, as the grain situation and oilseed situation worsened, (if you remember those years of high prices, very low supplies, mass starvation worldwide), just turned to the Japanese and said we're not honouring our contracts. The Japanese have never forgotten that. That is why it took so long to get them around on opening up their border to agricultural products because of that fear. So, I think my point is simply that if you choose to trade, you have to recognize those obligations.

Comment: Wendy Holm

It wasn't a question of not honouring our contracts. It's a question under the FTA, once a contract is concluded prior to the FTA we have the right to say, no. Under the FTA we don't. If you look at the Columbia River Treaty, we cannot divert water for agriculture because of the upstream rights that were sold off under the Columbia River Treaty. I think that Canadians have a right to know if the Canadian government has sold off all of our rights as upstream users of the resource. For them to stand up and say yes, that's what this deal took.

Answer: Michael Hunter

I don't want to carry on the water argument. I think, Wendy, your views are pretty well known. But something that John said kind of rang a bell in my head and that was you know you don't have to trade, but when you do decide to trade, you've got to be up front about it and expect to live up to your contractual obligations. I don't have any problem with that except in the context of our industry where when I refer back to this GATT case, and excuse me for a moment, I don't think it's a digression because I think it sets some principles. Canada is all for GATT except when it suits us not to be. I'd have no trouble with this GATT business being lily-white and virginal about it, if I could buy a Toyota automobile without paying a ridiculous price that's inflated because of automobile import quotas. Either you're honest or not.

What makes me even more annoyed is when I look at the Atlantic coast fishing industry and the fish processing industry and find that under the FTA they have certain processing requirements in the provinces that were grandfathered and moreover at the federal level there are regulations in the fish inspection regulations that are very protective of industries like the Nova Scotia scallop industry. I think I had better re-write to ask how come we are being sacrificed. How come if we're in the business of trading and entering into contractual obligations, in this case the GATT, it can be the FTA, either you're going to live by it or not. Don't tell me that I've got to live by it but you sure don't. That's not right.

Question:

One question perhaps, just on the fishing dispute with the U.S. right now on the inspection or landing rights. What are the potentials for resolving it and how might those play out when you speculate into the future and how it could be resolved with the GATT and with the negotiation that's going on?

Answer: Michael Hunter

Basically the solution being touted is one where Canada removes its GATT offensive export prohibitions, that Canada will bring in a requirement that salmon and herring be landed in British

Columbia for conservation reasons for counting, for biological sampling and so on, that U.S. buyers will get access to raw Canadian materials at a place called a landing station which will be a facility on land to which certain of the provincial fish inspection requirements apply with respect to construction and operating the way that facility is operated.

The fact is, that solution is a long way from the original promise of the Government of Canada that said fish would be maintained in Canada because they recognize the value added and the need to maintain employment, that there would be inspection of Canadian fish products because Canada had a reputation to protect abroad. We have lost that commitment.

There is no commitment that raw materials leaving Canada are going to be inspected as to whether or not they're wholesome or fit for human consumption. We think that's a major hole in the whole process and basically the B.C. fish processing industry is being asked to submit to new international trading rules or domestic interpretations of those rules which I think for any other country would probably be less troublesome than it is for us. It's the fact of our geographical position with respect to Alaska and Washington that's creating a lot of the difficulty.

If you look at New Zealand and say, international rules, do they apply to New Zealand? New Zealand doesn't care because who's going to be in their waters buying their fish? Certainly not the United States. So, we're, to some extent, the victims of geography as well as the policymakers.

But I must say that I feel quite strongly that the original government announcement that we were going to become GATT consistent with respect to these regulations, we supported that announcement because we felt that the government understood that in doing so there were certain conservation and fish quality tenets that needed to be sustained. We have serious doubts that at least on the inspection and quality side, those tenets are being maintained, and as we sit here today Canada has still not outright rejected a proposal from the United States that could see direct deliveries of Canadian fish into the U.S. I have to ask why would you put the fox in the chicken coop? Why ask the Americans to count our harvest when we have to go and negotiate with them in another forum, the Pacific Salmon Commission, about the level of what our harvest would be? It's ridiculous.

So, the solution is that the petitioners in Alaska were looking for some security that they could access Alaskan fish to put through their plants. What upset them was that a Canadian company went up and bought fish direct from U.S. fishermen. What they wanted was protection against that happening. They have achieved absolutely nothing, no security when this is all through. In fact, the U.S. trade representative in negotiations with Canada has said, we don't care if you take the U.S. to court, to GATT with respect to the Magnuson Act which is their equivalent to the fisheries act. It's that act which conserves U.S. fish resources, which conserves those resources for processing in the United States. Here we have a country that has all the rules and regulations it needs, passed by Congress, to assure that a fish caught in the Gulf of Alaska goes to a U.S. processor. There's no way that a Japanese or a Canadian could buy that fish if a U.S. processor says that he wants it. And yet we're here being lily-white. Well something stinks in the State of Rome, frankly.

Comment: Blair Wilson

I'd like to throw out a couple of things to you people.

Canada, in my view, can focus on all our problems - the bottle of wine half empty. Alternatively, we can focus on our opportunities. What we've tried to tell you very briefly is yes we do have a few problems but so do the metal bashers, so do the electronics industry, so does any industry in the world today that has to compete in the world.

I guess my concern is that we will expend an incredible amount of energy gnashing our teeth while all our markets are usurped by others who also have their problems. Maybe all someone wants is to put shoes on their kids feet and, therefore, will work for a lesser wage than we are prepared to work for. So, they undercut us in the market and that's not fair because we feel we have a right for many of the things we have.

I think Mr. Clark perhaps didn't address it entirely the way I would, but I would like to throw it out. For example, are you aware that there is no major hotel in British Columbia that features B.C. wines? Are you aware that the majority of white wine buyers in British Columbia do not buy B.C.

wine? Are you aware that those same B.C. wines that they don't buy have won medals around the world for their quality and I'm speaking here of the Estate Wineries? Rather we will go for other products coming from elsewhere and while sipping our wine it seems to me sometimes we bemoan the fate that the Japanese or the Americans or others have imposed on us, such as the softwood dispute which was largely our own making to a degree.

With all due respect, Mike, the fish dispute was much of our own making, the co-pricing dispute with the Japanese was largely our own making. The U.S. dispute with the Japanese about microchips was the U.S.'s own making but they could slap on a hundred percent duty. For those of you who are interested in this industry, Agrifood is the third largest in B.C. It might even be under-scoring your job or your education, if you happen to be students, because of the tax base that it's on. What we need, in my view, is more creative approaches to an industry that is not going to get easier, in a world that is not going to get easier. If we don't do that, then B.C. can kiss off the fishing industry and most other agrifood in British Columbia.

I think that where the real challenge lies is for us to look for these creative solutions. I had hoped that there would be more questions from students and everybody else as to some of things that we can do specifically. That's what I'm looking for quite honestly and I know in terms of problems, we've already done this. Existing industries have contacted John's ministry and received solutions. It may surprise you to know we have very expert people in Victoria. We also have very expert people, at least in our industry, in handling our issues. We know they are not supermen or superwomen and they will occasionally make mistakes but in the meantime the industry, with this strategic plan which you will hear more about in the near future, is trying to get on with the future of our industry.

And I would encourage others of you who have this interest to please take that focus - with all due respect, Wendy, yes there is a problem around water - no, we are not going to solve it here today and if we wait until we solve it before we get on with the industry, we're not going to have any industry. So, it is an issue that needs to be dealt with and the right people need to deal with it but in the meantime the rest of the world is going to get on with things.

Question:

One further question perhaps on another issue not related to the U.S., but to beef and beef exports to Japan. It has always been heralded as a big potential market and apparently there is some regulation that's changing in the early '90s, which will allow a much greater level of beef to be imported into their market. Have there been any developments dealing with that area?

Answer: John Schildroth

The United States took Japan to the GATT over their import quotas and the GATT ruled that the Japanese quotas were, in fact, illegal and the Japanese and the United States came to an understanding. Now that was largely on prepared beef products. Subsequent to that, the Americans and the Japanese sat down and negotiated a deal on beef and citrus quotas.

The elements of the agreement are, I think, pretty straight-forward. Up 'till now the Japanese have largely set import quotas into Japan on such things as regular boxed beef and sides and this sort of thing. They would set a quota annually around 100,000 to 150,000 metric tonnes. Although much more was shipped into Japan than what the quota allowed, this was the official quota. The quotas were what we called "tariffed" and we had what we called "tariffication process". The quotas are now a very high tariff rate and they are going to come down over the next five years to zero. The first round of tariff reductions from what we call this tariff rate quota has already occurred.

Now, the Americans have an advantage in that market simply because of the way they grade their meat, but there's a great deal of interest in Alberta and B.C. in competing with the Americans. It's going to be a market that we're going to have to do a little work on and decide how we're going to approach it, but I think it's got some opportunities. Obviously B.C. is going to be riding Alberta's coattails to a certain degree because there's simply a much bigger beef industry there. We have a competitive industry but we're much smaller than Alberta. So, yes, that has happened and those tariffs are coming down and I think it's a very positive development.

Question:

John, do you see us getting free trade with the other provinces, particularly in this sector when we were talking last week about the situation with dairy quotas. When they were originally set, Ontario's population represented a greater percentage than it does today but the quotas haven't changed. Will that be being addressed?

Answer: John Schildroth

Interprovincial barriers in both agricultural products and alcoholic beverages, of course, are now being addressed. The Ministry of International Business and Immigration, for example on alcoholic beverages, is represented on a committee that's a cross-Canada committee that's going over this right now.

With the free trade agreement there's no question that some of these barriers have to come down. The simple reality is that in the next two years California wine producers will have better access to Ontario and B.C. We've just said that isn't on, I mean that's not acceptable and as a country we're going to have to address that now. On the agricultural side as opposed to the wine, there are two types of issues. One is the one you alluded to, Gordon, on supply-managed problems - those are going to have to be addressed by the Ministries of Agriculture in consultation with the trade people.

But there is also the question of food standards and quality standards on some of these products and those have to be addressed. And that's going to require perhaps a little more scientific review. I would point out on that particular one, in fact on all of these, that the United States is not free of these problems either. Americans are now complaining that California standards are so high it's becoming difficult for other Americans to ship into the California market. So, I don't think we're unique on this one. So, yes, it is being addressed and again I think it's going to be satisfactorily resolved.

Second answer:

I'd just like to add to that, Gordon. You may or may not be aware that recently a four-western-province, in essence, interprovincial free trade document was signed. I think with all due respect to the signers, they don't entirely understand what that means but they've been persuaded that it is necessary, and I think it demonstrates guts to go ahead into something and say, okay we've got to do it, now somebody who's the expert work out the details. And just because of that initiative the Atlantic provinces are now planning to sign an eastern Canada free trade agreement and we have only Ontario and Quebec in the middle and they are the main offenders. It takes some odd ways to resolve some of these situations that are based in history that is no longer relevant. But I think there is a lot of action in that area.

The details are, in some cases, difficult to work out. Once again, when it's to the advantage of Ontario, they will get in. When it's to our advantage, we will get in. Let's be very honest. In all of these negotiations, it depends on whose ox is being gored. If we can time it right so that it is to the advantage of all ten provinces and two territories at once to do something, then we'll have an agreement. It doesn't mean people will violate it behind the scenes. As Mike has alluded, we all want it our way, that's the real world but we can all change the rules as we go along or we can agree to continue to operate the rules almost arbitrarily. That's the real world.

Question:

John, you have been talking about standards. We have had voluntary consensus standards through the Canadian General Standards Board in food products for years. I'm going back to the old Canadian government specifications for the purchasing of food. Do you see those standards being updated and brought into line with today's marketplace or are we going to try and deregulate?

Answer: John Schildroth

Largely I think we're looking on the food side at a positive development. When I was talking about standards, I was talking, of course, about the bilateral discussions and the technical groups, for example, on food additives, labeling and packaging. The first concern that was raised was that we were going to lower our standards to the lower American standards. When you talk to Americans, their concern is they're not going to lower their standards to Canadian standards. So, they feel the same way about it as we do. I don't think we're going to end up with any sort of lowest common

denominator on either side of the border. But I do think there are some areas where there can be some progress. Barry Morgan from Health and Welfare Canada has said that we're 95 percent of the way there, without the free trade agreement. We're looking at 5 percent, and feel that most of it can be accomplished.

WORKSHOP NUMBER 5 FORESTRY PRODUCTS

Most of the ten fine-paper mills in Canada are not world-class size, and suffer from having too small a specialty market in Canada to provide all of them with a specialized market for all their products. Some of the mills are upgrading to world-class scale and size for commodity products, some are expanding into very specialized product niches, and some who have not as yet done their planning may get caught in the middle. Passing of the FTA made some of these investment decisions possible.

The most significant factor affecting exporting into the U.S. with paperboard and paper products is the exchange rate on the Canadian dollar. A rising dollar offsets the benefits of the FTA. When that happens, we have to compete on the basis of quality and service. Our printing quality, for example, is superior to that routinely found in the western U.S.

In specialty hardwood products, the story is much the same - exchange rate fluctuations are masking the impact of tariff reductions under the FTA to date. What is more significant is the FTA provisions for intra-company transfers between Canadian and American operations. As well, the transfer of capital provisions may be useful.

In the final analysis, it is very important to think in terms of global competitiveness. The reductions in tariffs can assist in that, as can "value adding partnerships" between large companies that have marketing power and smaller, entrepreneurially driven companies that can provide specialized products.

JIM MATKIN, Rapporteur

WORKSHOP NUMBER 5

Chairperson and Panelists



CHAIRMAN: **ROGER WIEWEL**
Senior Vice-President
Product Development
MacMillan Bloedel Limited

As Senior Vice-President of Product Development, Mr. Wiewel is responsible for expanding value-added opportunities for reconstituted wood, custom cutting and high-end paper products. He began his forest industry career 37 years ago with *Weyerhaeuser*, first in production and later in sales. He subsequently worked with *Stora Kopparberg Corporation* and *Southwest Forest Industries*. He holds a degree in mechanical engineering from the Carnegie Institute of Technology, and an MBA from Harvard.



LAWRENCE SAUDER is Executive Vice President of *Sauder Industries Ltd.*, a privately owned manufacturer and distributor of specialty building materials. Mr. Sauder has been with the company for 12 years and has extensive experience in dealing with distribution in the United States, having spent six years, first as General Manager and then as Vice President of U.S. Distribution with *Sauder Industries*. The company has eight distribution centres in Canada and ten in the U.S.



KEITH LACHANCE is the General Manager, Vancouver Plant, of *Somerville Packaging*, a division of *Paperboard Industries Corp.* *Somerville* is a major manufacturer of packaging materials. He joined *Somerville* in 1979 with extensive experience in the pulp and paper products sector, having previously worked for both *MacMillan Bloedel* and the *E.B. Eddy Company*. He is a chemical engineer and a longstanding member of the *International Association of Printing House Craftsmen*.



LANCE SKERRATT is President and CEO of *Island Paper Mills Company*. He has led the company's sales and marketing effort for the past several years, making entries into new markets and new product ranges. Under his direction, the marketing group has been recognized with the Canada Awards for Excellence Gold Medal for 1986 and the CPTA Communications Award for 1987 and 1988. Mr. Skerratt, who holds an M.B.A. degree from the University of Western Ontario, has had extensive experience marketing to the U.S.



RAPPORTEUR: **JIM MATKIN**
Jim Matkin is President and CEO of the Business Council of B.C. Prior to joining the Business Council in 1983, Mr. Matkin served as Deputy Ministry of Labour and Intergovernmental Relations for the Province of B.C.

WORKSHOP NUMBER 5 FORESTRY PRODUCTS

ROGER WIEWEL, Chairman

Thank you. When we at MacMillan Bloedel looked forward to the prospects of Free Trade, the critical areas to us were packaging and fine paper. We fundamentally had free trade in lumber and wood products and newsprint and pulp.

So, I thought we should start here with Lance right in order of the table. Lance.

LANCE SKERRATT, Panelist

Thank you, Roger. To just give you a little bit of background on Island Paper Mills, for many years we were the fine paper division of MacMillan Bloedel and are now jointly owned by Noranda Forest Industries and MacMillan Bloedel. We are one of ten fine- paper mills in this country. I appreciate the invitation for me to be here because many of the mills in our country are generally perceived to be going through some challenges and hardships with regards to Free Trade. That is because most of the mills (of the ten) are not world-class size and the specialty market in this country is not large enough to provide all of them with a specialized niche for all our products.

We are typical of that group in that we have some major challenges. And what we are doing at our mill, which is approximately \$150 million in sales per year, is a major product upgrade in terms of specialty papers to get ready for the future, be it in Free Trade or other opportunities outside North America. But, basically we are taking our operation and are investing \$100 million to go from a commodity range of products into specialized coated free-sheet papers.

I think that this is one option that several of the Canadian mills have considered. Some have also chosen to upgrade their facilities into world-class scale and size. From a cost point of view, we have chosen to go the specialty route by upgrading from uncoated fine papers into a coated free-sheet product. That is a very large investment for a company our size. (As I mentioned, \$100 million.)

You could probably divide the fine-paper mills in our country into three groups if you want to look at Free Trade and the impact on the mills. There are those mills which have a specialty future, be it value added or specialty products. There are those mills which will be low cost commodity producers. And there is a third group that are going to be in a difficult position. Those are the ones who have not made major investment plans and may be caught in the middle.

I have a concern for those mills and am concerned for the future and the planning that they are going to have to do in order to survive. Fortunately, I would put us in the first category as a company that has chosen the specialty value-added route to go as a strategy. I think that over the next several years this will prove the way to go for our particular operation.

I was asked to comment on some of our success and opportunities in the U.S. market and some that we see. We currently ship about 25% of our product to the U.S. market. That percent was zero as recently as 1983, but with our expansion we tripled our size and obviously our sales have taken off very nicely in the U.S. market, with a lot of hard work and a lot of planning.

I don't think I will be giving away any secrets if I mention to this group that one of the things that makes for success in the U.S. market is getting to know your customer. It sounds like a very trite thing to say, but where we have had success is a situation where we sat down as a group with our customers and talked about their future, our product, how it would have to evolve along with our service to become more of a package.

I wouldn't really recommend to anyone that a "me too" product with competitive pricing is a particularly healthy strategy for a manufacturing operation. In our situation we concentrated on the service aspects, developing new products, developing special relationships and I can say that all of those things apply.

It has not been a "me too" product. It has been a situation where we set up a strategy with our customers and some of our customers turned out to be very familiar names in industry that were start-up events for us in terms of new products, new relationships. There is no doubt in my mind, that the success that we did achieve was from sitting down and evolving into a relationship with the customer. We looked at the needs of the customer and didn't simply add more product into a market that didn't particularly need more product.

We would like to think that we developed something, be it a service, fulfilled a need, or differentiated a product that somebody actually had a need for in the U.S. market. That is really the basis for our strategy in coated paper. We know there is a need for this particular product range. Free Trade, I think, gave us a sense of comfort and enthusiasm about the investment.

Free Trade, including maybe fair trade, I perceive to be a situation where we know the rules of the game. We have some confidence that nobody is going to change the rules of the game and in our situation our \$100 million investment became more practical and achievable. Our Board of Directors felt far more comfortable making that decision with the passing of the Free Trade Agreement.

So, I am excited about it. I am optimistic about our industry. I think there is going to be some hardships for those who don't do their planning and their investment in a very cautious way. Generally, I think the consumer will be the real winner.

The obvious attraction for us is economy of scale. We could not achieve the development of a specialty market in this country alone. It is obvious that the U.S. market is a much bigger market. I don't think the factor of ten times is really the significant issue. The economies of scale we will have by access to the U.S. market and the expertise and what we learn from that market are somewhat intangible at this point. But, they are there and will form a base for our plans in the future.

So, trans-technology and the learning experience are benefits that we have seen already by dealing in the U.S. market. I think a very specific strategy, such as value added like our parents, MacMillan Bloedel and Noranda Forest have had for many years, could be the key to success for companies including ours.

KEITH LACHANCE, Panelist

Our products and those of our competitors in Canada and the U.S. will have easier access to each other's market areas through the reduction of the import tariffs on all paperboard and paper products over a five-year period, so that by January 1, 1993, there will be no tariff on such items. This applies only to those items originating either in Canada or the U.S.

To take advantage of this you have to make sure that your exporters certificate of origin is in and is with the broker within ten days of the goods crossing the border. Without that there is no Free Trade.

The tariffs will remain the same as before but with proper documentation and the certificate of origin the applicable reduction in tariff will be applied - 20% reduction in 1989, 40% in 1990, 60% in 1991, 80% in 1992, and 100% from 1993 on. The tariff item numbers which had been changed in 1988 to the harmonized system have similar numbers now for the same article both in Canada and the United States, which makes it very convenient, that is for the first six digits. The last four digits will not ordinarily be the same as these are for tariff rates.

Records have to be kept for six years following exportation and this includes records on any imported goods which are exported later. However, microfilming or electronic data is acceptable. Another thing that we have to remember is that originating in Canada or the U.S. means Free Trade eligible. It is not the same as country of origin. Tariffs into the U.S.A. from Canada on paper and paper work packaging are currently 2.8% for corrugated containers, 2.8% for folding cartons, 5.3% for sacks and bags. The 2.8% tariffs decrease by .56% this year if all your papers are in order and the bags and sack down 1.1%.

However, the Canadian dollar rising from 82 cents to 85 cents has offset all of the economic advantage that we would gain over this five-year period. And certainly rising from 75 cents to 85 cents has done far more damage to our exports to the U.S. than the gain from the FTA. We do have

an opportunity to get into the U.S. market, but how can we compete with those already producing in the U.S. What do we have to offer that they don't?

Well, the first thing is quality, particularly printing quality. B.C. printing is superior in flexography and most of our litho production to much of what is produced in the western U.S. Now, I am not referring to the top quality cosmetic boxes, liquor boxes, etc., but I am referring to corrugated containers, milk cartons, paper bags, and the average run of the mill litho carton production.

The second thing is service. We can sell in the U.S. if we are prepared to give service. We must determine what problems our customers have whether they realize it or not and how to improve on the performance from their existing suppliers. Trucking times ordinarily will take somewhat longer from Canadian sources than from a local U.S. supplier. We have to make certain that our products are there when they are wanted. This may cause a fair amount of education of the customer where he has been used to phoning today for what he wants delivered tomorrow. It takes two days to get to San Francisco and two and a half to get to Los Angeles by special truck, so we can't deliver it tomorrow.

Value added products probably offer a better opportunity than commodities in packaging. However, there are probably a few exceptions to this, possibly where a customer is interested in getting better print quality on a commodity type product. As regards our costs, supplies and some equipment should be available to us at slightly lower landed costs than prior to the FTA.

However, the biggest factor is exchange. If the Canadian dollar weakens from its present level, we will be in a much stronger position to compete in the U.S. and to prevent U.S. competition here in Canada. From what I read more people expect it to weaken than to strengthen. I don't know if that will have much effect on the dollar though. However, if we do better under the FTA than a majority of people believe, then I would expect the Canadian dollar to strengthen and reduce either our opportunities or our margins. On the other hand, should we not do quite as well as expected, then our Canadian dollar will weaken thus increasing our opportunities for margins. So, we sort of have a leveling factor in there which we have to yet see applied.

What successes are we having? We have been able to establish a full-time sales representative in the northern California market area. We have picked up three accounts. I think they are just average size by the U.S. standards, but they are certainly big as far as we are concerned. And we are now the favored supplier of two of these. Most of the work on these accounts was done in the last two or three years and we were able to get established initially when the Canadian dollar was 75 to 77 cents.

While this was advantageous it has made it impractical to recover our normal cost increases plus all of the increase in the exchange rates. If the Canadian dollar doesn't strengthen too much in the next little while, we will be able to get our margins back to where they used to be.

In the U.S. if we can get our suppliers to complete the certificate of origin form, we can make some benefits on our purchasing, particularly of equipment but also on some supplies.

What problems do we anticipate? Well, corrugated, because of its bulky nature cannot be shipped long distance and done economically. Therefore, for corrugated more opportunities will develop in the higher value added products or in very special products which may not be available from a close U.S. producer.

One Canadian manufacturer who was supplying a Canadian customer and then its satellite plant in the U.S. found that it was up against a rather unanticipated problem. The product was being shipped from Canada to the U.S. in the company-operated trucks, then the product was processed further in the U.S. and marketed there. However, the trucks were dead-heading back to Canada, and they got the idea that they might as well fill up with corrugated in the U.S. and bring it back to Canada. Not only did the Canadian corrugated company find that they were having trouble competing in the U.S., they found the U.S. was being delivered to Canada at no trucking charge, which bothered them somewhat.

However, thinking that over, there are a lot more U.S. plants operating in Canada than vice versa. So, if that same strategy is available in the reverse manner there could be some opportunity for us to ship back some product to the U.S. Any plant that has only a limited capacity available for producing export packaging should think very carefully before trying to enter the U.S. market. With any success at all, a limited reserve capacity in production will be used up very quickly. And when you fail to make deliveries on time and you annoy the customer, you get a bad reputation and you lose the business you have, and don't pick up any new business.

We ordinarily will be competing with companies generally capable of much larger production volumes than we can produce in Canada, or they may be more specialized in a very narrow product range. The Canadian plants have had to be versatile, not large producers, but able to produce everything in one plant.

Another possible problem or opportunity depending on how we handle it, I guess, is that as our domestic customers are helped or hurt in the sales of their products in the U.S. or Canada so will we be affected in our domestic markets by these gains or losses.

I personally believe that Canadians have a great opportunity under the FTA. Whether our successes exceed our failures will in most cases depend on us, how we anticipate the challenges, opportunities, and problems and what we do about them.

LAWRENCE SAUDER, Panelist

Our company produces a variety of what we call secondary building products, closer to the finished product. We manufacture moldings, doors, paneling, siding, specialty plywoods and so on. For example, we came second on the quote for the woodwork in this hotel. But we manufacture mill work like you would see throughout this hotel. Unfortunately, the job went to Quebec, so it wasn't really a matter of Free Trade with this order.

In addition to that we import a lot of wood products from around the world, particularly hardwoods, a lot of them from the U.S. and in fact again using this as an example, the maple that we would have been quoting in this job would have come from the east coast of the United States.

So, one of the offshoots of the Free Trade discussion was that the American hardwood industry was quite concerned that in retaliation the Canadian forest products industry might put a tariff on the hardwood products coming up here. But, as you can see that did not happen. So, it settled them down somewhat.

Our competition in these products comes from people similar to ourselves who are basically adding substantial value to raw materials, building specialty products for specific end uses, and they tend to be small, owner-operated businesses. Lots of them are in the Washington State market that ship up to here and then we ship down into their backyard.

Many of the products that we produce travel across the border both ways duty-free and many of them carry duties. We are in a wide range of products so it is not particularly appropriate for me to get into specifics of the duty on each one. It would bore you to tears. Generally, though, any products that have duty are in the 10% range and under Free Trade have come down under on either a five-year or 10-year time frame. So, they are coming down at one to two percent a year, which is not particularly significant for highly specialized value added products.

As a result, we haven't seen or been able to determine that there has been any particular impact to date of Free Trade on that end of our business. For every order that we are a little more competitive in Washington, a Washington producer might be a little more competitive up here. It has kind of gone back and forth. With exchange rates having moved as substantially as they have in the past twelve to eighteen months, we would find it impossible to be able to measure what impact a one or two percent reduction in duty is having to our business.

The two areas where we do see an impact in our business are on the people side of things. We have over the years transferred a lot of people between our Canadian and American operations and until Free Trade you really could only do that with management people. They have substantially relaxed the rules of intra-company transfers under Free Trade, which is going to be an interesting

benefit to us.

The other area that may be of substantial change to us is that being a small privately owned business, capital flow between the two countries is always important to us. They have changed some of the rules of that. However, at this point we can't assess that because they haven't told us what the tax effect of these changes are going to be. We can't really assess whether it will make a substantial difference to us. Today there is not an unfettered change through the border for the transfer of capital.

Being a free enterpriser, we are happy to see the rules set and presumably let the market find its own level. If you can't make it as competitively as your competitor, regardless of where they are, you better do something accordingly. So, we are happy to see that has been done and presumably we are not subject to the kind of countervailing duties that our industry was last year.

ROGER WIEWEL, Chairman

Thanks, Lawrence. Let me say a few words about MacMillan Bloedel in the wood business. Maybe it would be helpful if I say a little about MacMillan Bloedel.

I believe as a single company we are the biggest net exporter from Canada. When you look at General Motors and Ford, they import, they export, and we are number eight when it comes to exporter. As a net exporter, I believe we are #1. CP and Noranda would be ahead of that, but as a single company we are #1.

Half of our action is in the United States. We have investment in the U.S. of \$780 million. In Canada we have \$1.5 billion. Needless to say, the U.S. market is terribly important to us. But twenty-five years ago, we looked ahead and realized that we have to be globally competitive.

So, through the years we shut down our liner board machine in Alberni, we built a big liner board mill in Alabama. We worried about Island Fine Papers but went about venturing that and going into the highest quality paper known with assistance from the technology of Royal Dutch Paper Mills, (where we have a 30% Equity Position).

So, it is a combination of European technology and a joint venture with Fraser. That is how you have to do it. The key thing is what Lawrence said - If you are not globally competitive Free Trade or nothing is going to help you.

As an example of how important these duties are, I can remember when we were making telephone directories and having a hell of a hard time getting into the U.S. market. Since 1980 when we have been duty-free on ground wood papers, since 1980 MB production of ground wood papers has gone up 136.6%. That is 17% a year over 8 years. We are now the biggest telephone directory producer in the world.

You just can't do that with a hurdle of tariffs. We can now get access on coated paper as Lance says knowing that the U.S. won't change the rules on you. With regard to solid wood products, one of the key things I see is that we are surrounded in the lower mainland of B.C. by tremendous expertise of small companies with very entrepreneurially driven people, and we source hundreds of them, use dozens of them, as custom cutters, custom processors. And sometimes we sell them a log and buy back the lumber and reprocess it somewhere else. We sell twice as much wood as we make ourselves.

We have tremendous marketing power around the world and in the United States. I see it as a great source of strength and we have no ego to try to be all things to all people. I see that if we get more out of a log with our more sophisticated sawmills as we are doing, there is more high value wood for the local industry and the hundreds of small companies can process into components and finished products. That will be our strength. It is what I call a value adding partnership that we are working on with many small companies. That is the way we are going to drive our wood business. We can't afford to be a commodity on the west coast of B.C. anymore.

So, with that summary, hopefully now we have twenty-five minutes to field any questions you might have from the audience. When you ask a question, I would appreciate it if you could use a

microphone.

Question:

I would like to start off with a question, Roger, on the last point about the small companies that you are in a value added partnership with. Where might the growth be in that area. What might some of the products be that you could identify for us?

Answer: Roger Wiewel

Window and door components, specialty cedar products, any type of specialty wood products. Sometimes it is a relationship where we need the product so we custom process it, using someone else's mill. We pay the mill by the hour for the job. Other times we need a product in our distribution and we buy it outright from whomever.

So, there are many different relationships. Don't go into an area where the small guy is better suited to do the job. Don't invest your capital if there is capital in place and good management. Ninety percent of it is the management of the small company. If he is a good guy and we get along, then away we go. Many times he needs our marketing power. We can get a higher mill net and much more stable market. And we give him a contract that he can go to the bank with and get a dry kiln or whatever. So, it serves two functions. He gets financing, we get the niche in his expertise, and sometimes he needs our marketing power.

Question:

I don't think I heard any of the three panelists comment one way or the other on either the advantage or the disadvantage they have in terms of labor costs and how they are going to deal with that. I'd like to hear from all of them on that.

Answer: Lance Skerratt

I guess generally speaking our costs are a concern. For the fine paper industry in Canada, on a cost-per-ton basis, we are higher than our U.S. counterparts. That gets us back to one of two strategies, either get into a different type of business, value added in nature, such as coated papers, or lower your costs, or you are going to be the odd man out eventually. I think you have to have a plan that either relates to higher margins, or lower costs which will in effect give you the higher margin as well. You have to recognize it.

Question:

Where are you right now versus fine paper in the U.S. per hour?

Answer: Lance Skerratt

Our rate per hour is certainly higher. I hate to put an average on it. It would likely be in the 15% range right now if you compare dollar for dollar and exchange rates. It gets a little complicated comparing different skill levels as well. But it is certainly significant.

Question:

What about packaging?

Answer: Keith Lachance

Basically, as far as my particular plant is concerned, at the 85-cent dollar, we are slightly below our U.S. competition. We have more job protection. If activity slows down, in our contract we pay our rate for a longer period of time. So, as long as we are getting busier and busier and busier, this is not a cost. But when we get slacker it is a cost. I am not aware of any of the U.S. competitors that have that clause in their contract. There are a few other things that change the rate, but basically our rates are competitive or lower than the U.S. competition. But if the Canadian dollar keeps going up it won't be that way.

Answer: Lawrence Sauder

In our business typically we are double what our U.S. counterparts are on a dollars-per-hour basis. However, in most instances our total labor component in the product is lower than theirs is, through more mechanization. Generally we find a higher quality work force, not always but in many instances. Our biggest concern on labor is flexibility. I think that that is going to be the real telling story for the B.C. labor force. Maybe I could illustrate that with an example.

Let's say for argument's sake that we make this binder and today we are making the brass corner for it. Somebody comes along and says we can't use a brass corner anymore. We have to use a plastic corner. Today there is some question whether we can quit making the brass corner. And if you can't use the brass corner, you have yourself a small problem. So, that is one issue and the second issue is shift flexibility. And how many hours a day you can run and when you can run and if your competitors are running seven days a week, twenty-four hours a day, where does that leave you? Until recently one of our factories was the only one in North America that didn't run seven days a week. That is a tough competitive hurdle.

So, our major concern would be in those two areas in the terms of work preservation or contracting-out clauses and in flexibility of the work. My concern is to have either of those written in a contract with somebody saying they could predict the future, and if things change we are not going to. I don't think the world will put up with that anymore.

Question:

I just have a general question as to whether in your business you have much of a market in eastern Canada or even east of Winnipeg and whether you feel the FTA will have an impact on that market.

Answer:

We do ship to eastern Canada. I'm not sure I understand the question. Are you asking whether we will continue to do so under the FTA?

Comment:

I was imagining that the more distant the market the more difficult it would be for you to compete, and that the closer competitors in the United States may gain a competitive advantage through the FTA.

Answer: Lance Skerratt

You are certainly right about the distance factor. Our strategy in the fine paper business is that with a distance that far we would not ship a commodity product. It would have to be something value added or specialized for us to make a buck at doing that. You are right, and anything in the future we do involving that kind of distance, be it in Toronto or off-shore would have to be a very specialized product. As far as American mills affecting our traditional home market - you bet that is a major concern.

Quite frankly, though, we have been experiencing competition, fairly severe, for the last five to ten years. I go back to the original point that they are a difficult competition anyway but when you get into the commodity and pricing of commodity grades you are going to get some very tough times. You will have to find a different product niche or do something very special with your cost structure.

Answer:

I think too that some of the people in the various businesses in eastern Canada are going to find that they will lose some business to the Americans, depending on the product, and they are going to look to another market to sell that capacity they have. Certainly one of the places they might look is western Canada. That will vary from industry to industry. We expect to see some of that, where as before there was enough to go around in eastern Canada.

Answer: Keith Lachance

A few years ago we used to supply cartons as far east as Newfoundland. Then we transferred some of that business to our eastern plants and spent a little less on trucking and more on our margins. Corrugated rarely goes more than 500 miles. That is about the limit at which you can be competitive. Bags can go all over and I think some of the bags produced in B.C. certainly go as far as Winnipeg and western Ontario. I don't think they do much in the way of shipping to eastern Ontario.

At the present time as far as our folding cartons go, most of our business is in B.C. and Alberta, with a small amount of business in Saskatchewan and Manitoba. We have a growing segment of our business in California. I haven't seen too much in the way of folding carton competition coming into Canada from the U.S. That doesn't mean it won't. Maybe they are working on it right now and

haven't got around to it. But, corrugated certainly is coming into Canada.

Answer: Roger Wiewel

For MacMillan Bloedel I would say that if it is western red cedar, we will ship back there, hemlock door stock, any commodity. The competition is between north and south. There is a lot of fine paper south of the border in New England and the midwest, and Lance has to meet that kind of competition out there right now.

One of the things that we have noticed is that there seems to be a surplus of box cars going down to the United States, so we can get very attractive rates, using Canadian rail cars coming back to B.C. to bring product in.

And the opposite thing seems to be happening by truck. There are all kinds of stuff coming up from California. So, any time we ship to California our trucker does not have any trouble getting a load to come back. Our biggest problem is getting our palettes back. Whenever he hasn't got a full load, he brings back our palettes, which can sit down there for months and of course they gradually disappear as they sit there. We have to bring them back otherwise we are in trouble with the customs people.

JIM MATKIN, Rapporteur

I would just like to on behalf of the workshop thank our panelists, Roger, Lawrence, Keith, and Lance for a very insightful panel with some good concrete information that we can use. So let's give them a hand.

Thank you very much.

ROGER WIEWEL, Chairman

I would like to thank the panel too for volunteering. Thank you very much to all of you.

WORKSHOP NUMBER 6 THE SERVICE SECTOR

The Free Trade Agreement addressed the trade in the Services Sector. The workshop discussed the key elements of the effects of the Agreement on the Services Sector. The key factors were:

1. relocation and alteration of U.S. business visitor policies, which removes a significant hurdle to business travel and trade. This will allow Canadians better access to the U.S. market;
2. the undertaking by the two countries to encourage mutual recognition of professional licensing and certification standards.

It was stressed that easier access works both ways and that when selling your services you need to understand your market and the effect of U.S. competition in the Canadian market.

SYD LEWIS, Rapporteur

WORKSHOP NUMBER 6

Chairperson and Panelists



CHAIRMAN: JOHN MONTGOMERY
Vice President Sales
H. A. Simons Ltd.

Mr. Montgomery has extensive national and international experience in the forest industry. Prior to joining *H. A. Simons Ltd.* in 1985, a leader in the provision of engineering services to the pulp and paper industry, he served for three years as President of *Westar Timber Ltd.* and held a variety of senior management positions during his 18 years with *MacMillan Bloedel*. Mr. Montgomery participated in the Trade Sections of the *Canadian Pulp and Paper Association* and on committees of the *Council of Forest Industries of B.C.* He is a civil engineering graduate of UBC.



JILL BODKIN is Director of Financial Services for *Clarkson Gordon*. She has an extensive knowledge of regulatory matters, new market development and business planning in the financial services sector, having served as founding Chairman and CEO of the *B.C. Securities Commission*, and as Deputy Minister of *Consumer and Corporate Affairs* for B.C. from 1981 - 86. Ms. Bodkin assists clients interested in doing business under the International Financial Centre legislation and advises companies on how to profit from opportunities related to foreign trade agreements. She is Chairman of a national working group on trade in financial services and Chairman of the Small Business Finance Committee for the *Vancouver Board of Trade*. Ms. Bodkin was appointed by the Hon. John Crosbie to the Sectoral Advisory Group on Trade in Financial Services for the GATT Negotiations.



MARK IVENER is a U.S. attorney and an authority on U.S. immigration law pursuant to the Free Trade Agreement. He recently opened an associate office in Vancouver to represent Canadian citizens who wish to obtain U.S. investor and professional work visas. Mr. Ivener has practiced law in Los Angeles for over 20 years, operates his own private practice, and has lectured extensively throughout the U.S.. He is the author of *Handbook of U.S. Immigration Law*. He received his JD from UCLA.



GAVIN CONNELL is a partner in the Vancouver law firm of *Ray Connell*, practising in the area of commercial law and real estate development. His firm was established more than 30 years ago, and has developed a particular expertise and strength in servicing clients on both sides of the Pacific Rim. Mr. Connell is currently the President of the *Canada-Japan Society of Vancouver* and Director of the *Asia Pacific Foundation of Canada*.

RAPPORTEUR: SYD LEWIS
IBM Canada Ltd.



WORKSHOP NUMBER 6 THE SERVICE SECTOR

JOHN MONTGOMERY, Chairman

Let me kick off by giving you our perspective of the Free Trade Agreement from a consulting engineering point of view. Canadian consulting engineering firms have quite a history of exporting their services. Traditionally most of the work they've done outside of Canada has been in the developing countries, but having said that the United States has always been an important market for consulting engineering services. If we just look at export statistics we probably underestimate the performance of Canadian engineering firms in the U.S. The larger companies and our own included, in fact, have offices in the United States, either offices we've set up and built or acquisitions we've made and started from there. So we participated in the U.S. market from our Canadian base of operations and we participate in the U.S. market through U.S. offices or affiliates.

Given the current financial situation in a lot of the developing countries the U.S. market is becoming increasingly important to engineering firms, hence our interest in the Free Trade Agreement.

So, how has the Free Trade Agreement affected our situation in the engineering business? Let me say at the outset that I'm going to talk about the export opportunities, the opportunities in the United States for Consulting Engineers. Another fair body of opinion, and I'm inclined to agree with it, says that the Free Trade Agreement will create a lot of opportunities here in Canada, and that is in the design, engineering, and construction facilities. U.S. investors are coming here to invest because of the Agreement or some rationalization among the existing facilities as a consequence of the Agreement. But I'm going to talk about the opportunities, how it affects pursuit of engineering opportunities in the U.S.

There are actually surprisingly few areas of direct and immediate impact on the consulting business in the Free Trade Agreement. The one that is so significant, and I will come back to it, are the provisions for easier access for professional and managerial people.

Before I come back to that there are two areas of particular interest to consulting engineers that haven't been changed by the Agreement, at least not at this stage. The first is the area of licensing and certification requirements and this would apply to many of the other professions as well I'm sure. These licensing and certification procedures are still administered by the individual states as they are by the provinces in Canada. However, the issue of the problems associated with registration and the non-tariff barrier implications were at least recognized in the Agreement and three principles were established in the Free Trade Agreement.

The first was that regulatory measures should relate principally to competence or ability of providing services. So they become a competency issue and not a residency issue. Second is that measures should not impair or restrict nationals of the other party to the licensing and certification and that comes into the realm of the national treatment under the Free Trade Agreement. In other words you can't be discriminated against because you are a Canadian as opposed to being an American, but you must still follow the qualification procedures. Thirdly, the party shall encourage mutual recognition of the requirements. In other words, we should start to look at if you are certified in B.C. it's good enough for Oklahoma. That is something that will take some time, I'm sure, but the Consulting Engineering Associations of both the United States and Canada are now reviewing that issue.

The other area of importance to many engineering firms that operate principally in the public domain is the area of government procurement. It was mentioned this morning about government procurement improvements and that relates to the goods sector. Services were specifically excluded from the negotiations relative to government procurement. That being the case, whatever discriminatory or non-tariff barriers existed before still exist. The positive aspect again is that it was at least discussed and recognized. There is provision in the Agreement to revisit the issue of government procurement policies after the conclusion of the Uruguay round of the GATT Multilateral

Negotiations, and there is a grandfathering of the existing practices. The spirit of the Agreement is that nobody will put any more roadblocks in the way.

Having said that those two ostensibly significant areas weren't covered, then what's so good about the Free Trade Agreement? It gets us back to our access for professional sales and management people. And again it was mentioned in the discussion this morning that to our business that is by far and away the most significant opportunity for consulting engineers generally.

There are several different categories that allow for both temporary and permanent access for professional and management employees and for easier access for sales personnel in the United States. The details of those visa categories are the subject of a later workshop and in fact they will be the subject of some general discussion here. So I won't go into those. Suffice it to say that for our purposes and in our business, the significant impact of the Free Trade Agreement is in this area.

Again in our case, H. A. Simons is probably fairly typical of the larger engineering firms. We already have offices in Atlanta, Portland, Maine, Minneapolis, and Seattle. For us the significance is the ability to move our people back and forth across the border much more easily, to be able to sell much more competently the total capability of the firm in the U.S. market and particularly be able to rationalize among our offices. We can build a center of excellence in one process in Vancouver and another in Atlanta and shift people back and forth and realize that kind of economy.

I think that for other firms that do not have a base in the United States, it opens up an opportunity somewhat differently. If you are a very specialized firm, then you'll have easier access to that broader market. To sell your specialized skills in a large market is a very big plus. If you are a smaller firm or a more general firm, then easier access to the markets in the border states may well represent an opportunity for you.

So, essentially, that is to us the meat of the Free Trade Agreement - easier access. Having said that, there are a couple of points that have to be made. One is that while access is easier, the United States is still a very large and diverse regional market. And we are in the service business, in our case particularly as in most service areas, we're selling our peoples' skills. So you still have to be there, you have all the attendant commercial, competitive, and cultural realities to deal with and it is not necessarily easy. However, at least the encumbrance of getting across the border is out of the way. If you can see a market there, then you can have access much easier.

The other caveat is that the border door swings both ways and a number of the larger U.S. engineering firms are looking longingly again at the Canadian market - particularly the resource sectors where the capital spending is going on. So we will have that competitive aspect to deal with as well.

Finally, one quick point is that if this area of exporting your services, or expanding exports, is something that does represent an opportunity for you, the next round is the multilateral Uruguay Round of GATT Negotiations in which for the first time services will be included. Therefore, if there are aspects of the Free Trade Agreement that have caught your fancy or curiosity or concern, then it is timely to raise those issues with either your association or the Sectoral Advisory Group on Trade in Services for the Gatt Negotiations. I sit on one for General Services. There are avenues to get your concerns raised in relation to the Multilateral Negotiations. I would just like to make that point with you. That concludes my very brief remarks. I'd like to in turn introduce the other panelists.

First, Gavin Connell. Gavin is a partner in the Vancouver law firm of Ray Connell, practicing in the area of commercial law and real estate development. His firm was established more than thirty years ago. It was developed with particular expertise and strength in servicing clients on both sides of the Pacific Rim. Gavin is currently President of the Canada-Japan Society of Vancouver and Director of the Asia Pacific Foundation of Canada.

GAVIN CONNELL, Panelist

Thanks, John. Until the passage of the Free Trade Agreement, trade between Canada and the United States was governed almost entirely by the Multilateral Rules of the GATT. As most of you will know, services are not covered by the GATT, and prior to the enactment of the Free Trade Agreement no bilateral trade agreement existed between Canada and the U.S. which covered trade in

services. The Free Trade Agreement is therefore seen by many to be a significant breakthrough in developing principles to govern the increasingly important services trade.

The Free Trade Agreement may or may not create new opportunities for increased business activity for your service sector business. In order to make a valid assessment of what Free Trade means to you, you can ask yourself if it creates new opportunities by opening up new markets for you in the U.S.? Does it create new challenges for you because of new competition in your service sector originating in the U.S.? You need to develop a basic understanding of the service provisions of the Free Trade Agreement. And that is what I intend to help you with today.

The first point that I wish to make is that Chapter 14, the Services Chapter, should not be looked at in isolation. Part 4 of the Free Trade Agreement, which is entitled Services Investment and Temporary Entry, includes both Chapters 14 and 15. Chapter 15 sets out the agreed rules between Canada and the U.S. governing the temporary entry of business travelers, and thus compliments the rules in Chapter 14, which govern the movement of services. Free and open trade conditions require not only that goods, services, and investments be treated without discrimination, but that the people required to make sales of goods, to manage investments, and those trading in professional and commercial services should be able to move freely across the border. Mark Ivener will be dealing with Chapter 15 and the temporary entry of business travelers in just a few minutes.

Returning to Chapter 14, the general provision establishing the scope and coverage of Chapter 14 as it relates to services is found in article 1401, paragraph 1, where it is provided that Chapter 14 applies to any measure related to the provision of a covered service within or into the territory of the party enacting the measure. Or putting it another way, the rules contained in Chapter 14 apply to all measures of a party to the Free Trade Agreement relating to the provision of a covered service in its territory by service providers of the other party. The word "measure," when used in the Free Trade Agreement, is defined to include any law, regulation, procedure, requirement, or practice of a party to the Agreement. Please note that not all services are included in the scope and coverage of Chapter 14. Only covered services are included as defined in the Agreement. Thus the rules contained in Chapter 14 apply to all laws relating to the marketing of a covered service into the territory of the party enacting such laws.

What are the rules contained in Chapter 14? We can summarize them as follows: First, each party to the Free Trade Agreement must accord service providers of the other party no less favorable treatment than that accorded in like circumstances to its own service providers. That is, the parties to the Agreement must accord national treatment to the persons of the other party. The second rule, which is in fact only an extension of the first, provides in the case of the United States, that even though a state may treat residents of another state less favorably than its own, it must accord the more favorable treatment to Canadian service providers. The same rule applies in like manner to Canada.

The generality of the national treatment rule is modified by a number of qualifications contained in the Free Trade Agreement, two of which are of particular importance. The first, concerning licensing and certification, has been dealt with by John, who preceded me, so I'll move to the second, which provides that the general obligation of each country to extend national treatment is prospective. That is, neither Canada nor the United States must change laws or practices in force when the Free Trade Agreement came into effect, to conform with the rules in Chapter 14. Regulations and laws existing when the Free Trade Agreement came into effect, which discriminate against service providers on the basis of nationality, may remain in force. This is sometimes referred to as grandfathering. However, any new measures or regulations for covered services enacted after the effective date of the Free Trade Agreement will have to conform to the national treatment obligation of Chapter 14. This should ensure that new discrimination will not be introduced.

Next, what services are included in the scope and coverage of Chapter 14? More specifically, to what traded services do the national treatment rules of Chapter 14 apply? As I said earlier, what the Free Trade Agreement includes within its scope and coverage is a "Covered Service." Covered Services are those services listed in the Schedule to Annex 1408 of the Free Trade Agreement, pages 204 and 205. In Annex 1408 itself (pages 201, 202 and 203) there is provided by way of broad identification, and for reference purposes only, a list of the services covered by Chapter 14. However, it is only in the Schedule to the Annex that you'll find the Covered Services specifically

identified. This Schedule specifically identifies Covered Services by reference to the Standard Industrial (SIC) numbers applicable in each of Canada and the U.S., with the addition of three special sector services which are described in their own annexes.

In the Schedule there are two lists of SIC code numbers, one for Canada and one for the United States. The schedule's introductory paragraph provides that each country is to apply the provisions of Chapter 14 to the services included in that country's list.

How do you determine what services are covered services, when for the most part they're described in the Schedule to Annex 1408 by number only? The introductory paragraph in the Annex tells you that the services covered by Chapter 14 shall be limited to the services corresponding to the SIC numbers included in the Schedule to the Annex with the addition of the three special sectoral services I have referred to.

In the case of Canada, the Schedule refers you to the SIC numbers as set out in the standard industrial classification manual produced by Statistics Canada, Fourth Edition, Dept. of Supply and Services, 1980, which under each SIC number will describe the service concerned. Thus, by referring to the manual and using the two, three, or four digit SIC numbers listed in the schedule, you can find a description of each of the covered services. The manual is not part of the Free Trade Agreement, but can be obtained from Statistics Canada.

Many of the SIC numbers are qualified by phrases such as Management Services Only, but seemingly not in a consistent way. For example, although the qualifying language, "Management Services Only," is attached to many of the categories in the retail trade sector, no corresponding qualification applies to similar categories in the wholesale trade sector.

As well, keep in mind that the parties, that is Canada and the United States, each have their own SIC codes which contain different descriptions, categories, and sub-categories of activities. A service, which is a covered service for one party in the service schedule may not necessarily be a covered service for the other. Or it may be qualified in one case and unqualified in the other. For example, in the Services Schedule, the U.S. category, Eating and Drinking places, U.S. sic number 58 is qualified by Management Services Only, but the corresponding Canadian category, Food and Beverage Service Service Industries, Canada sic number 92, is not so qualified.

Finally, how do you identify which services are not covered services under the Free Trade Agreement? Only the cultural industries are specifically excluded by the text of the Free Trade Agreement. There is also excluded every service covered by the sic codes not found in the two lists contained in the service schedule to Annex 1408. It is by this method, i.e. that is they are not listed, that transportation services and basic telecommunication services are excluded, along with legal and medical services.

MARK IVENER, Panelist

I'm going to speak this afternoon relating to the new immigration consequences of the Free Trade Agreement as it reflects those of you who may want to come to the United States to either open up a business or work.

The Free Trade Agreement is mainly involving, for immigration purposes, the free movement of U.S. and Canadian business people engaged in investment, trade, and professional and commercial services.

There are four main types of work visas, or visas available for travel. I will discuss each of the various work visas and some of the information is found more detailed in my literature in the back of the room.

The first type of visa, which you may already be familiar with is called the B-1 Visa, that is the Visitor for Business. The second is brand new with the Free Trade Agreement. It is the Investor and Trader Visa, the E-2 and E-1. The United States has had treaties with thirty or forty other countries in the world, and this, as of January 1st, was the first time Canadians enjoyed the benefits of the Treaty Visa, which I'll discuss in a little while. The third visa is called the L-1 Visa. That is the Intra-Company Transfer Visa. That is where a Canadian Company has an office any place in

Canada, and wants to transfer an executive, manager, or an employee with specialized knowledge to a U.S. branch office. The final temporary work visa is called the Professional Visa. It has two letters and numbers. One is from the Free Trade Agreement. It is called the TC-1, which appropriately is called Treaty Canada. And the second is the H-1, which is the Professional Work Visa that we have had for years.

Now, all of these visas relate to business persons, those people who are engaged in a trade of goods and services or in investment activity, very importantly, without the intent to establish permanent residence, which you call here Landed Immigrant Status, which we call Permanent Residence, or as more commonly known as a Green Card. As a matter of fact, since I opened my office here in Vancouver, I decided to open up a bank account, and after opening up the bank account, the next week I went to cash a cheque and the teller asked, "Do you have your green card?" I said, "No, No, I'm a U.S. Citizen. I don't need a Green Card. I'm a U.S. Citizen." She said, "No, I mean your bank green card." So I am now the proud owner of a Canadian green card, which I show Immigration every time I go into the United States.

Again, the B-1 Visa. The B-1 is the Visitor for Business. In my pamphlet in the back of the room it details the specific categories which are called Schedule 1. There is a Schedule 1 and a Schedule 2 in Chapter 15 of the Free Trade Agreement. Schedule 1 covers seven general types of occupations and professions, such as those of you in research, design, manufacture, production, marketing, sales, distribution, after-sales service, and general service. General Service is professionals as well as those involved in management or financial services or public relations.

So as you see, almost every- thing relating to business is covered under this Schedule 1. And by the way, don't feel left out if you are not in Schedule 1, you can still come in as a business visitor. What happened was we had these categories even before the Free Trade Agreement. But they were never put down in specific categories, and when the negotiations occurred between Canada and the United States, it was determined to make categories to fit both country's previous immigration requirements relating to business travel. Now, someone can come into the United States on a B-1 Visa as long as they are not receiving remuneration in the United States. They can come in for a maximum initially of six months with extensions up to six months after that if they wish.

The big problem is U.S. Immigration at the airport, where you have to convince the immigration officer that you are really going for your intended purpose. If you come in too many times saying the same story, at the same time every week, or every month, all of a sudden it may be determined that you are not doing what you say you're doing, and you may be required to give more proof that your salary is paid in Canada, and you are really going to a meeting or a conference or to sell a product. You can certainly go to sell whatever product you have. And again, there is a whole list of what you can do under a B-1 Visa.

Some of the changes under B-1 are primarily related to after-sales service and warranty work on products and services. And that is if a product was purchased in Canada before the Free Trade Agreement, a service representative could only come from Canada to the U.S. for one year to service your sold product. Under the Free Trade Agreement it is for the life of the warranty or service agreement. For any other country in the world, a service representative can only come in for one year. So, Canadians can come in for the life of the service agreement. This does not apply to an article purchased in the United States then resold through Canada. It has to be something that is purchased directly in Canada.

The next type of visa that is for professionals. The most important visa is called the TC Visa. The TC Visa, like the H-1 Visa is for someone who has a four-year university degree. I'm going to explain the difference between the TC and the H-1. The TC you need a four-year university degree. You have to be on the Schedule 2 list. The list is in my materials at the back of the room. Most professions are on this list, such as computer systems analysts, accountants, lawyers, engineers, university or college teachers, nurses, medical technicians, laboratory technicians, scientists. Athletes and entertainers were omitted from the Free Trade Agreement.

So, if you're on the Schedule 2 list you would get a one-year renewable, potentially for the life of the job, work visa. For either the H-1 or the TC you do need a job offer. For the TC Visa it is very easy to obtain. You do need to show you are a professional, your degree, and that you are a

Canadian citizen. As you all know this Agreement only applies to Canadian citizens. And you have to show that the job in the United States requires your profession as the entry level requirement for the job. In other words you can't come in and show you are an engineer and be coming in for a sales job. You have to be coming as an engineer to do engineering, accountant to do accounting. Whatever, it has to be the same relationship.

There were some professions on the Schedule 2 list where you need more than a university degree, and some where you need the equivalent of a university degree. For example, management consultants, you either show that you have a university degree or that you have five years of professional experience as a management consultant. So, there is a much wider latitude for management consultants to obtain visas because they do not have to have a degree in order to qualify for the TC status.

The H-1 is for everyone who is not on the list. The H-1 is obtainable initially for up to three years. So, some people who are on the list can only get a one-year visa initially may want to apply for the H-1 because you get an initial three-year visa. But the H-1 is only good for up to 5 years. It is, however, possible to change after five years from an H-1 to a TC and remain on a job for a longer period of time. Basically, either way these cases can be approved at the border, at the airport, and do not have to go through the long arduous struggle of U.S. Immigration approval in the regional center where your job is located.

If you are a national from any other country in the world, it will take from two weeks to two months to get your H-1 case approved. If you're a Canadian citizen, it can be done within a couple days before travel. If you are a TC, the case can be done the same day as you travel. Either way free trade is very much in operation with the speeding up of the approval process.

Whether or not you qualify for the professional visa would be whether you have the four-year degree. For the TC, if you don't have a four-year degree you could still qualify for the H Visa. That is a benefit of the H Visa. You could have two years or three years of college or university and then have experience, maybe five or ten years, and equivalency can be obtained of your experience to combine the two to equal a university degree.

As a matter of fact, there was recently a case of a company president who had twenty years of experience and never had a degree, never went to college, but a professor did a summary and equivalency of all his experience to say that this person who has presided over a multi-national, multi-million dollar corporation for fifteen years of his twenty years and could teach courses, could qualify. But, that is the exception.

One of the final areas that I will discuss is the E Visa, the Treaty Investor and Treaty Trader Visa, which is brand new for Canadians as I said. Believe it or not, the United States had a treaty with Iran all through out the hostage crisis and everything that has occurred over the last ten years, and we didn't have a treaty with Canada until this year. So, who can tell? But the country that we have the most Treaty Investors and Treaty Traders would probably be no surprise - Japan. Over 50% of Treaty Visas issued to all nationals of all treaty countries are issued to Japanese.

The E-1 Visa is for people who engage in trade of products and services. You've heard mentioned that services are now introduced to the Free Trade Agreement and for the first time services are part of the Treaty Trader Status. Up until January 1st, we had no Treaty Trader provision of services with any other country. Now that we have it with Canada, we have the Treaty Trader with services with all countries in the world that we have the treaties with. Trade in services is not limited to but is available to banking, insurance, transportation, communication, data processing, advertising, accounting, management consulting and technology transfer. And for the Treaty Visas you have to show that at least 50% of the company, whether it be the E-1 or the E-2, is owned by Canadian nationals, either by an individual investor or even a Canadian company. It can be more than 50%.

Over 51% of the trade with the U.S. company that is owned by Canadians has to be with Canada. Fifty percent of the trade of the U.S. company has to be with Canada, and you could send to the U.S. an owner, manager, an executive, or someone with specialized knowledge.

For the E-2 Visa, which is the Treaty Investor, again you have to show at least fifty percent of the company is owned by Canadian nationals. You have to show that you are putting money at risk, meaning that you either completed your investment, or are well into the process of completing your investment. The investment needs to be generally in excess of \$100,000. It could be less, but most of the time is more. Again, this applies to owner, managers, executives, people with specialized knowledge. And all of these requirements are covered by the point that you can't be coming for permanent residence. But an E-Visa it is the next best thing to permanent residence because they are given for five-year renewable terms. So you could effectively stay in the United States on your investment, or trade in services, or trade in products for as long as you had your investment, as long as you said that sometime you plan to leave the United States sometime in the future.

The final category is the L-1, which I'll briefly go over and that is if you have a company in Canada that you have worked at, again, the categories are manager, executive, or individual with specialized knowledge, for at least a year. For the E-Visa you don't have to have worked for more than a day with the Canadian company before you're transferred. For the L-Visa you have to work at least one year. For a starting company in the United States, you get a one-year visa that is extendable for five years. And this is a company in the U.S. that is owned at least 50% by the Canadian company. The L-1 though is used primarily if you are in the beginning aspect, because if you haven't invested much but you have an office and you're just starting up your business, you maybe wouldn't qualify for an E-Visa. Then we would get you an L-1 for a year. After you're in operation we would change you over to the five-year renewable E-Visa.

These are the major types of temporary work visas that are now available under the Free Trade Agreement. This has been a major step toward insuring that open and competitive U.S. and Canadian trade and services and investment continues to flourish.

JILL BODKIN, Panelist

What I would like to deal with is the opportunities which arise from the Free Trade Agreement in the areas of financial services and investment. You have heard a number of the mechanisms which will assist people who are wanting to do cross-border work, be they Canadians working in the United States or United States professionals or organizations coming into the Canadian market to operate. I, along with John, would signal that the open border works both ways and on balance my message will be that there are considerable opportunities for those of us who are involved in the financial community in Canada, which result from the Free Trade Agreement. But we had all better remember that it is going to be increasingly competitive and that we need to be able to compete as our U.S. counterparts are coming into the Canadian market.

The particular communities that my remarks will deal with are those of accountants and consultants, where you have two different types of organization; one the independent firm, where the Free Trade Agreement provides considerable scope for practice in the United States, and also the firms such as I belong to who previously had an international organization. Ours is Arthur Young International and we operate under the names Clarkson Gordon Woods Gordon in Canada.

For firms in that category, which is certainly the main public accounting and consulting firms, the Free Trade Agreement certainly provides considerable scope for us to work across the border. In terms of serving our clients, there is not a huge difference in the sense that our Canadian clients previously had access to our United States partners and vice versa. So, certainly among the accountants and consultants it is probably the independents who gain most immediately from the Free Trade Agreement.

Another group are the accounting and corporate support people who operate within companies. Again, as your companies are taking advantage of opportunities to operate in the United States as you have heard, there are considerable opportunities to work on behalf of your company there.

The last category is financial institutions, where there has been considerable access at least in theory opened across the border as a result of the Free Trade Agreement. I'd like to deal with certain of the provisions which are important to those groups. There has been some reference to the notion of national treatment, which basically means that there will be terms and conditions no less favorable for companies from the other country than those terms and conditions that affect the domestic firms. It is important to note that that is in quite stark contrast to the notion of reciprocity.

Looking at financial institutions, what national treatment does is provide full access for United States companies to enter our largely deregulated environment in Canada where financial institutions over the last several years have been allowed to basically enter each other's area of the financial sector, with the banks most notably getting into the securities business, for instance. That has not happened in the United States, as a result of which national treatment acts to the favor of the United States financial institutions who, when they come into the Canadian market, are free to operate much more broadly in Canada than they are in their home market of the United States.

Canadian financial institutions going into the United States will operate on a basis no less favorable than that of the U.S. financial institutions, but because of some of the barriers to banking across state lines, and barriers which constrain banks from getting into securities and vice versa, Canadian institutions have a feeling that they have given more than they gained out of the Free Trade Agreement.

It remains to be seen what the pace of breaking those barriers down within the United States will be. There was certainly an assurance given within the Free Trade Agreement that Canadian financial institutions will benefit from the changes in the United States and, because of some grandfathering provisions, certain Canadian financial institutions who had operated in the United States on terms more favorable than the United States institutions were allowed to continue.

One of the important issues that the financial service community is looking at right now is pressures for reciprocity, which say that in spite of national treatment in the GATT negotiations Canadian financial institutions would like another country's firms to have access to the Canadian market only if Canadian firms have substantially similar provisions in that country's market.

With regard to professionals, the concept of national treatment really means that Canadian professionals must meet the standard that American professionals are required to meet. And there are some practical reasons for that. Accountants, for instance, who are working on U.S. projects must meet the standard of competence that United States accountants need to meet, and also need to work in accordance with U.S. generally accepted accounting principles for instance, if they are dealing with financial disclosure documents under the Securities and Exchange Commission.

Provisions in the Free Trade Agreement with regard to investment have important consequences for the financial services and investment communities. The Free Trade Agreement progressively raises the threshold for Investment Canada review on investments made by United States interests in Canadian companies. As the Agreement came into force in 1989 the threshold was raised to \$25 million Canadian dollars, for direct investments, and \$100 million for indirect investments. And the threshold goes up for direct investments the following year to \$50 million Canadian, \$100 million Canadian, and \$150 million Canadian on with the annual increases.

There is also a provision that there can be no imposition of local content, local sourcing, or import substitution requirements unless they were there previously, for companies in either country that are owned by investors from the other country between Canada and the United States.

One of the consequences of those provisions is that the production and distribution axis is shifting from an east-west to a north-south axis. And you see examples such as Mark establishing an office in Vancouver. You see affiliations being formed and I think we will see a great deal more work being done up and down the west coast in the financial community.

Another force at play is that our Canadian market is much more concentrated than the United States market. John talked about the reality of the United States being very much regional markets. And that is also an important force particularly when we are dealing in a professional advisory sense with the United States companies who are looking at the Canadian market.

The implications for business strategy and the competitive position of those forces are that for Canadians providing services into the United States market, the demand will be increased. As well for Canadian companies who are seeking capital, there will be increased access to United States capital. One of the areas that we think that will be a real advantage to Canadian companies is related to our venture capital availability in Canada and particularly in British Columbia which is much less than elsewhere. The degree to which the opportunity for investments in British Columbia based

companies becomes known, the degree to which people who are involved in advising companies on finance, and the degree to which the knowledge and access into the much more developed United States venture capital community is there, should be a real advantage to B.C. companies.

Another area where there will be a demand for Canadian professional services is on U.S. examination of opportunities for joint ventures, licensing, and strategic acquisitions in Canada. Here I am not talking about service companies, but goods as well. U.S. companies may be able to gain entry through these kinds of agreements to the Canadian market for less than the full cost of opening up new business in Canada. They may choose to improve the location of production through a comparatively favorable cost, due to our exchange rate. Relative to some places in the United States, we are seen to have a better work force. There may be physical security issues which would cause U.S. companies to locate in Canada.

Acquisition costs are relatively lower for Canadian companies than they are for the United States companies on measures such as the price of acquisitions relative to assets, for instance, or earnings. There will be rationalization of Canadian and United States operations. All of those create a demand for financial services that in turn will be an advantage for Canadian suppliers.

One of the things we are finding is that the United States companies are only beginning to look at the consequences of the Canada-U.S. Free Trade Agreement. So, for Canadian providers of financial advice and services, now is the time to be working with those companies in terms of opening up that market. We think that the Free Trade Agreement does provide considerable advantage to companies to work across the border and we certainly encourage our colleagues in the B.C. financial community to look at those opportunities and take advantage of them.

JOHN MONTGOMERY, Chairman

What we would like to do now is open the panel to questions and if you could go to the microphone, state your name and ask your question.

Question:

I'd like to ask Mr. Ivener if it is as easy for Americans coming to Canada as it is for us to go there and more particularly, I'm hiring a sales manager for a three to six month, maybe a year period. How easy is it to get a visa for him from Phoenix, Arizona?

Answer: Mark Ivener

The rules are exactly the same for Canadians coming to the U.S. and vice versa. So, it is just a matter of contacting Canadian Immigration for a U.S. citizen coming to Canada. They fit within the same categories that I've outlined. The same basic rules, there are a couple of minor differences for intra-company transferees, otherwise everything is the same, relating to speed of getting of approval and qualifications.

Question:

So he would go to the airport?

Answer: Mark Ivener

You would need to check with Canadian Immigration, but that is where it would be done, yes. If it were as an investor or trader that is done at a consulate.

Question:

It sounds like a lot of the people who have been successful have already got some kind of operation in the United States. Is that the best way for a new service industry is to line up with somebody in the states? We've seen the legal profession doing that. I'd like some comments from the panel.

Answer: Jill Bodkin

I could start off on that. I think the reality of location in the United States is really related to the kind of distribution issue that you have as a provider of services. So much of the way that you market yourself is related to being known to your clients. One way or another you have to get into a very diverse United States market. Professionals are a very small community within their own profession, so there may be other alternatives through professional conferences and so on. Location

does become pretty important because of the client's access to the individual who is providing the service.

Comment: Jill Bodkin

For the independent service-providing company, in many cases you are in a specialized area anyway and so finding a niche and coming to know the clients in that area (it may not be a geographical niche) may limit your costs of entry. You may also be able to find one person who is accredited in the United States and qualified to work with you to provide that specialized client with services.

Comment:

I would like to make the comment that I think the Agreement addresses investment by Canadians into the United States and vice versa, but does not preclude local state laws. Within the U.S. there are states that have enacted some very draconian legislation to keep out foreign investors or to make certain odious requirements of foreign investors. Some states feel very threatened and are going to enact even further legislation to keep out foreign investors. I think, unfortunately, that Canadians need to be aware that there are state governments that will not be as receptive as the state of Washington, for example.

Comment: Jill Bodkin

There are also provisions that Canadian provinces put up. I was in a meeting with the province of Ontario about some legislation that they had been enacting dealing with competition in an industry on behalf of a client last week, and they did make the comment that this was one where they had deliberately decided not to take advantage of what they could have done, which was to bring in an anti-U.S. provision, but they had systematically gone through everyone of their pieces of existing or proposed legislation and made decisions. In more cases than not, they were enacting barriers.

Comment: Mark Ivener

For the small investor I'm not aware of any major hurdles in the states. I'd be interested in hearing later if you know of any. Certainly there are none in California, and I have represented investors from all over the world who have invested in a number of states. I have not run into any particular problems relating to this issue. The way I see alot of Canadian professionals or other professionals coming in where they may need to comply with licensing requirements in California or whatever state, is that they usually do align themselves and get the work visa, the professional visas based on not needing to be licensed themselves because the company they are with is licensed.

JOHN MONTGOMERY, Chairman

Thank you very much on behalf of the Business Council. I'd like to thank the panel. They have done a fine job in looking into their various important parts of the sector. Hopefully, they have given you some good ideas in connection with your own business.

Thank you again.

WORKSHOP NUMBER 7 MARKETING AND DISTRIBUTION IN THE U.S.

We now have a marvellous opportunity to expand our marketing activities into the U.S., but to do so requires imagination, a continental view and the discipline to search out on a consistent basis the necessary distributor network. Once you appreciate the size of that potential market, make the necessary product adjustments and then have the discipline to go after that market, you "would have to have the worst product on this planet to fail".

When developing the U.S. market, make very sure that you've checked your exposure for product liability and for hazardous wastes.

It's a very wise thing, if you're planning to acquire property in the States for your business, to make sure that you will not at some point in time discover hazardous wastes on that property - there is a possibility that you could be liable for their removal. In some circumstances it might be appropriate to retain legal and engineering consultants to conduct an environmental audit of the business and property.

Because of product liability statutes that are designed to reach beyond the retail seller and the wholesaler, but which also permit recovery against a non-manufacturer in certain circumstances, it is very important to seek counsel on this before placing a product into the mainstream of U.S. commerce in any of her states.

All customs duties on qualifying goods travelling between Canada and the U.S. will be eliminated by January 1st, 1998. However, federal sales tax, excise tax and countervailing and anti-dumping duties will not be eliminated. Furthermore, an importer requires a valid exporter certificate of origin in order to obtain the benefits of the reduced duty rates under the FTA. Examples of preparing a certificate of origin are discussed.

The last speaker pointed out that it is absolutely critical to plan in advance in respect of, and to be sure that you are in compliance with, U.S. tax law. Even if you do not have any taxable income, there could be severe penalties for failure to file the appropriate return.

You are only subject to U.S. tax on business profits where you have a permanent establishment. By planning your tax exposure in advance, you can reduce both federal and state taxes, and avoid double taxation on money repatriated to Canada.

And then finally on a little bit of a lighter note just to "warm your heart at night," you should know that the Internal Revenue Service has a complete contingency plan in case of nuclear war, including the postponement of the collection of delinquent accounts in hard hit areas.

BYARD WOOD, Rapporteur

WORKSHOP NUMBER 7 Chairperson and Panelists



CHAIRWOMAN: MARGARET EVANS
Director, International Trade
Peat Marwick

Margaret Evans is the Director of International Trade for *Peat Marwick* in Western Canada. She is based in Vancouver and heads a group of marketing and financial consultants who are currently assisting a number of B.C. and Alberta companies develop market penetration strategies for the U.S. She first became involved in international trading after attending IMEDE, one of the top European business schools, in Switzerland. She has worked for Dutch, Portuguese, English, American and Canadian corporations and is well versed on the difficulties of doing business across international borders.



TERRY PRESHAW is an Attorney with *Ogden Murphy Wallace* of Seattle. She has been admitted to the Bar in British Columbia, Colorado and Washington. Her practice emphasizes Canada/U.S. trade matters and Canadian/U.S. immigration law for businesses. Ms. Preshaw is a member of the *American Immigration Lawyers Association*, the *Canadian Bar Association* and the *Washington State Bar Association*. She also writes a monthly column for Vancouver's *Business Report* entitled "Stateside" and writes and lectures in Canada and the U.S. on international trade and immigration issues.



WARREN DUECK is a Certified Public Accountant (US) working for *Peat Marwick* in Vancouver. His practice is devoted exclusively to serving U.S. tax consulting and compliance needs of *Peat Marwick* clients, with a view to optimizing a corporation's income tax position in both Canada and the U.S. He joined the Vancouver office earlier this year from a position as the chief financial officer of an international real estate development company. Prior to that, Mr. Dueck was a tax manager in *Peat Marwick's* Seattle office international tax group.



DAVID McCULLOUGH is a specialist in the marketing and distribution of high technology and technical products. His company, *Transamerica Microsearch Inc.*, of which he is President, provides cost-effective representation for a company and its products by locating and arranging wholesale or retail distribution throughout Canada and the U.S., utilizing telemarketing and computerized database systems. Mr. McCullough was previously Associate Publisher of a microcomputer sourceguide.



MARY JENKINS is a Consultant with *Livingston Consulting Group*, an organization specializing in the international movement of goods, with particular emphasis on changes under the FTA. Ms. Jenkin's area of expertise is in Customs law, regulations, procedures and documentation. She is certified by Revenue Canada and has successfully completed a 2-year Qualification Course for the *Canadian Institute of Customs Brokers*.



RAPPORTEUR: BYARD WOOD

Mr. Wood, a Business Consultant with over 16 years in industry and in consulting to public and private sector clients, has been retained to coordinate the Business Council's Free Trade campaign. He received a B.A. (Physics) and an MBA from Brigham Young University.

WORKSHOP NUMBER 7

MARKETING AND DISTRIBUTION IN THE U.S.

MARGARET EVANS, Chairwoman

As you can imagine, marketing and distribution in the U.S. is a very broad subject and deciding how to tackle it in four fifteen-minute presentations is not simple. I think you will find that there are some basics in each of our panelist's speeches here that you will find useful, whether you are just planning to enter the U.S. market or whether you are planning an expansion of the business you already have.

We have four panelists. We heard this morning that the benefits of Free Trade are three to one in favor of Canada. So we have good proportional representation with three Canadians and one American. Actually, we have one person with dual citizenship. Three of our panelists have worked in both the U.S. and Canada and are extremely well qualified to talk about cross-border transactions. You are really getting first hand knowledge from people who have worked in both countries.

I'll move quickly to our first speaker, David McCullough, a marketing consultant who specializes in distribution networks in the U.S.

DAVID McCULLOUGH, Panelist

I'd like to talk to you today about perceiving this continent differently. I want you to see no borders. I want you to ascend maybe to a hundred miles above this planet and to look down on it. To be a Canadian right now is to live in the most wonderful spot on this earth. And the most exciting thing about it is that you get to sell to America. So living here and selling there is about the best position you could ever hope to be in.

I want to talk to you about four real elements in tackling this continent. The first is to be objective. Cancel out all the preconceived notions. Sentences like "We can't be there. Our freight is too much." Or "They will never accept our product. They have a plant there.", "We can't move into this area because of this, this, or that.", "I've been in the business for twenty years and I know everybody in the business."

This planet now moves at too fast a rate of speed. You cannot know everything. You have got to be open to everything. And you cannot make any assumptions until you really hammer, hammer, hammer, talk, talk, talk, to a large number of target areas. When I talk to you today about distribution, I'm talking about the very peak of what makes products move across the continent.

That peak is composed of manufacturers' agents. There are massive associations in the United States packed full of manufacturers' agents looking for new products to take into their territories. In the next tier down are the wholesale distributors. Wholesale distribution is an enormous phenomenon in the United States. It is not in proportion to our differences in population. In other words, the American population is ten times that of Canada, but American distribution is much more than ten times Canadian distribution. So, we are talking twenty times as much, thirty times as much in some areas. The numbers, the sheer weight of the numbers is dramatically on your side. I want you to be objective enough to pull away from any conceived notions you have about what is down there and what is waiting for you.

I want you to be objective enough to do something else, to be daring. I want you to look at your packaging. I don't care if you have been doing it the same way for twenty years. It pays you to bring in ten people that you are selling to. Pay them to get a decent opinion about the boxes, the packaging, the look of whatever you are shipping down there. Because right now, on this planet, what is in the box isn't half as important as what is around it. It is what people perceive as value that is crucial, crucial, crucial to selling down there, here and anywhere.

From here to Burnaby packaging is important, much less from here to New York. So I want you to be objective with that. I want you to say to yourself, "Desktop publishing is not really the answer to making all our promotional materials up." In fact, the one thing desktop publishing has

done on this planet is to make bad graphics universal. Now regardless of race, creed, culture, or nation, we all get the opportunity to be absolutely terrible at presenting our ads, our brochures, and our boxes. So that is another area of objectivity.

I also want you to be objective in pricing. Pull away from the market and say to yourself, "What discounts do the wholesalers really need to make money with my product?" Don't try to force on them what you can afford. You have got to bring yourself into line with what really makes the wheels move across this continent. I many times tell a client that if you can't afford those discounts that make a distributor take your product, that gives the ten percent to the manufacturer's agent, that gives the forty or forty-five points to the retailer, you are better off raising the price of your product than you are trying to force those networks to work on a basis of commissions, profits, and discounts that do not fit the reality of the market place.

Second major area: Scope! Scope! I don't want you to see this planet with Bette Davis eyes, I want you to see it with transcontinental eyes. One of the crucial, terrible mistakes Canadian companies are making is underdistribution. A new company almost has a better go of it, of seeing this continent at it's real worth, than someone who has been around 10 years. I constantly hear, "David, we have distribution in the United States." "How much?" "Los Angeles." "Where else?" "Texas." "Anything else?" "No." "No?"

Those distributors would have to have sales forces in the thousands to cover the United States of America. I want you to just get a little feel for the populations of cities down there. Let me read you a few to bring this home to you. New York - 8.2 million, Chicago - 6 million, Los Angeles - 7 million. How many Canadians have ever thought to put a distributor in Philadelphia? Philadelphia is the fourth largest city in the United States - 4.7 million. Here is one for you - Detroit - 4.8 million. And then you go down the list - Baltimore, Maryland - 2 million. On and on it goes. There are 60 cities here that have populations bordering on one million people.

Wholesale distributors can make a living within a handthrow of their offices with populations like these. The target numbers are tremendously on your side. Do not make the mistake of underdistributing down there. You could throw a stone in any of these cities and get a wholesaler in any product line I can think of.

True story: Man comes to me with a little sporting goods product. I go into the electronic systems and I say to those computers - give me wholesale sporting goods. I put several conditions on it and six thousand popped up. When you have numbers like that, you would have to have the worst product on this planet to fail! So, I want you to have scope! I want you to see America for what it is worth!

Thirdly, I want you to be disciplined. We are not talking multi-million dollar, multi- tens of thousands dollar projects to get distribution. I want you to do something simple and extraordinary. I want you to devote two man-hours a day to continental distribution. I want you to call one new distributor every twelve minutes for two hours. At the end of the first week you will have fifty. At the end of the second week you will have one hundred. At the end of the third week, you'll have a hundred and fifty. At the end of one month, you'll have two hundred. In two months you'll have four hundred. In three months you'll have six hundred. And you'll have them from coast to coast. Get yourself a computer or a card index to keep track of them. Target manufacturers, agents, and wholesale distributors city by city, state by state. Get on the phone and do it!

You cannot lose. The numbers will always be on your side, unless your product is a real bunker! So I want you to have discipline. You have got to do it to make it out there.

Fourth, I want you to have imagination. To offer a price sheet and a product is no longer good enough. "Here's my price. Here's my product. Buy it." Forget it! I want you to table what I call "Quid Pro Quo" Deals - something for something. Be imaginative! "Buy this truckload of pencils, we'll pay for the freight." "Take a thousand of these, we'll protect you in New York." "Take a hundred of those, we'll give you sixty days of no competition at all." "Exclusive New York if you sell a million the first year." I want you to be imaginative! "Quid Pro Quo" - something for something.

Ask them to buy your product, to stock your product, and offer to protect them if they do it. The United States is a magnificent market place and you can sell to it with imagination. There are absolutely very few cases where you will not come out of that exercise without landing yourself a manufacturer's agent who will sell you into wholesale, retail, or end-users, or a wholesale distributor who will sell into retail for you. In what ever discipline is out in this audience today, you name it, go out there and give 'em hell!

TERRY PRESHAW, Panelist

The two topics that I am going to discuss are areas that might not come to mind when you or one of your clients are thinking of setting up a U.S. subsidiary. The topics are hazardous waste and products liability.

Hazardous waste laws and regulations affect all U.S. businesses, both new and old. Canadian companies contemplating the creation of U.S. subsidiary firms or branch operations should become familiar with the laws pertaining to hazardous waste in order to protect their interests. Some people find it shocking to discover that activities which were legal in the past can now be a source of liability.

Since 1980 there has been a tremendous expansion of environmental liability, and one of the more interesting aspects of this expansion is that activities that were even licensed and encouraged such as landfills, liquid waste disposal pits, now have severe environmental liability ramifications.

Our ten years of experience with the SuperFund Act has revealed several evolving trends such as an expanding definition of hazardous waste. For example, in Washington, petroleum products are now classified as a hazardous substance and as a consequence, underground storage tanks for gasoline are now a heavily regulated area. There is also an expanded basis of liability to consider. For example, lenders can now find themselves liable for the cost of clean-up of properties polluted by hazardous waste if the lender has foreclosed on a contaminated property and is deemed to be the owner, or if the lender has participated in day to day decisions or exercised control over the owner's decisions. The levels of clean-up required have also become increasingly sophisticated as more and more voters become environmentally aware. Thus property owners, lenders, transporters, and generators of hazardous waste have found themselves jointly and severally liable for the cost of clean-up of contaminated properties.

One should also consider when thinking about purchasing a building or property in the U.S. for your business, that some buildings might contain asbestos or PCB's, which can also pose significant civil liability risks. As of 1987, there were more than forty thousand toxic waste court cases pending in U.S. courts with about 500 new claims filed per month.

There are two major federal laws to consider. The first I refer to as the Super Fund. It is more technically known as the Comprehensive Environmental Response Compensation and Liability Act, otherwise known as CERCLA. It was amended in 1986 by the SuperFund Amendments and Re-Authorization Act. It's primary purpose has been to cause the identification and elimination from our environment of hazardous substances that are spilled or otherwise released as a result of human activity.

CERCLA empowers the Environmental Protection Agency, the EPA, to prevent present or future releases of hazardous substances to the environment. Significantly, this act gives the federal government the authority to recover SuperFund expenditures from "responsible parties." "Responsible parties" has been defined as "owner or operator of property from which a release is made or threatened, or an owner or operator of property during the time hazardous substances were placed on the property. Also any person who arranged for disposal or treatment of such hazardous substances, and any person who transports such hazardous substances for disposal or treatment at property where there is a release or threatened release."

The only defenses available are acts of God, acts of war, and act of omission by a third party other than employee, agent, or contractor of the defendant, or any combination of the foregoing. And finally, the defendant must establish that he exercised due care regarding the hazardous substance and took precautions against any foreseeable acts or omissions of any such third party.

The second major federal law to consider is the Resource Conservation and Recovery Act, otherwise known as RCRA. RCRA regulates the generation, handling, transporting, treatment, storage and disposal of hazardous waste. It has been referred to as requiring "cradle to grave" regulation of hazardous waste.

Because businesses frequently engage in each of these activities, close attention must be paid to the requirements of RCRA. Now for some practical advice.

Persons interested in acquiring property in the U.S. should evaluate the property to be acquired prior to acquisition to determine the presence of hazardous waste. One should be aware of the appropriate circumstances in which to retain legal and engineering consultants to conduct an environmental audit of the business and property. An environmental audit will disclose hazardous waste problems and suggest methods of limiting liabilities pertaining to the hazardous waste.

One should also consider legal documentation of the obligations of the parties pertaining to hazardous waste. And finally, a careful inspection of the property is appropriate, to insure that neither asbestos nor PCB's are present. I must again emphasize that any business that generates small quantities of hazardous waste or has underground storage tanks, or buys or sells, lends upon or leases real property that may be affected by hazardous waste, asbestos, PCB's, or other toxic substances must pay close attention to the relevant laws and regulations.

Failure to do so could result in substantial financial liabilities and civil and criminal penalties.

Now, another cheery topic - product liability! In Washington we have a products liability statute called RCW 7.72. That statute basically says that, "A product liability claim includes any action or action brought for harm by the manufacturer, production maker, construction, fabrication, design, formula, preparation, assembly, installation, testing, warnings, instructions, marketing, packaging, storage, or labeling of the relevant product." As you can tell the statute is quite broad.

The basic approach of this Act is to create a hybrid of warranty, negligence and strict liability law, and to require it's application to virtually all products-liability cases. The Act was passed primarily to provide protection to Washington retailers and wholesalers who under the prior law had often been liable for 100% of the plaintiff's recovery, without being actively involved, and more importantly, without being able to obtain contribution from the parties primarily at fault, i.e. the manufacturer.

A product seller is defined as, "Any person or entity that is engaged in the business of selling products. And specifically includes manufacturers, wholesalers, distributors, retailers, lessors, or bailers of the original product."

A manufacturer is defined as, "A product seller that designs, produces, makes, fabricates, constructs, or remanufactures the relevant product or a component part."

Now, let's talk about liability. A product seller other than the manufacturer is normally liable only if the harm has been proximately caused by the negligence of the product seller or breach of express warranty made by such product seller, or intentional misrepresentation or intentional concealment by such product seller.

Just thinking a minute about distributors, it is prudent to put a clause in your distribution agreement stating that the distributor will only make those warranties and representations as authorized by the manufacturer in the first place, in order to limit their liability.

A manufacturer is liable if the plaintiff's harm was proximately caused by the negligence of the manufacturer, in that the product was not reasonably safe and designed, or not reasonably safe because adequate warnings or instructions were not provided. And a non-manufacturer will have the liability of the manufacturer if there is no solvent manufacturer subject to jurisdiction in Washington or the state of the plaintiff's domicile or a court determines that enforcement of a judgment against any manufacturer is highly improbable, or if the product seller is a controlled subsidiary of the manufacturer, vice versa, or if the product was marketed under the trade or brand name of the non-manufacturer.

Back to some practical advice here. Ideally, businesses with a product liability exposure will obtain appropriate insurance coverage. But in some cases, the high cost of insurance coverage will be prohibitive. In such a case, the Canadian parent company may seek to set up a self-insured U.S. subsidiary. There are some risks with this approach. For example, designer liability could still be a problem. If we assume for a minute that the Canadian parent designed a product and then transferred the intellectual property design, etc., to its new U.S. subsidiary, there may still be a liability problem for the parent when coupled with Washington's long arm jurisdiction statute and complemented by the rules of minimum contacts. This could ultimately lead to an enforceable judgment against the Canadian parent company.

One must also consider the applicability of other states' product liability laws. As you know, we have fifty different jurisdictions down in the States, and each one has its own nuances. So it would be prudent to seek counsel to make sure that your product is not going to put you at risk in any particular state that it may be sold in.

Finally, I leave you with this consideration. Even advertising novelties such as calendars, pens, etc., are considered products. Therefore, when given away, those products can create a liability exposure. It is very important that you seek counsel with respect to the potential problems of product liability before you put your product into the stream of commerce in the United States.

MARY JENKINS, Panelist

Good afternoon, ladies and gentlemen. It is a pleasure to be here this afternoon. This has been a pretty exciting program so far. Before I start, I'd like to draw your attention to some handouts which are at the back of the room. The first page of each has a classification number. These handouts are more or less integral to this presentation, and without them you might have difficulty following, since we are going to be doing a couple rules of origin. We are going to complete an exporter certificate of origin. If you don't have one I would suggest that you get one now.

Since time is short, I'm going to be limiting my remarks to a brief discussion of the practical aspects of importing and exporting under the FTA and specifically rules of origin and the certificate of origin.

As a bit of a background, the Canada-U.S. Free Trade Agreement will eliminate all customs duties on qualifying goods traveling between Canada and the United States by January 1st, 1998. Federal sales tax, excise tax, imposed under the Excise Tax Act, and countervailing and anti-dumping duties imposed under the Special Import Measures Act will not be eliminated by the Canada-U.S. Free Trade Agreement.

The elimination of customs duties is being implemented in a series of reduction phases known as staging categories. In order to obtain the benefit of the reduced duty rates under the FTA, importers would have to obtain a valid exporter certificate of origin from the exporter. And that works both ways. If you are exporting to the States, you would provide the importer in the States with a certificate as the exporter and vice versa. The exporter in the States would have to provide the Canadian importer with a certificate attesting to the fact that the goods exported do indeed meet the origin criteria set out in the FTA.

The first step in determining whether or not goods will qualify under the FTA for these reduced tariff rates is the actual classification of the product being exported as well as any imported components which go into its production. You will see why as we get more into this.

The harmonized description and coding system of tariff classification is useful in Canada since January 1st, 1988, and in the U.S. since January 1st, 1989. It is tied directly into the FTA. For those of you who are unfamiliar with the harmonized system, there is an example in your handout, right on the very first page.

The first six digits of the harmonized system number are international in scope and will be the same for like products traveling to Canada from the U.S. and vice versa. However, the duty rates for each country will be different in most cases. It is possible to obtain tariff classification rulings from the relevant customs service. For goods exported from the U.S. or imported into the U.S. you may obtain classification rulings from the U.S. Customs Service. For goods exported from Canada or

imported into Canada you may obtain classification opinions from your local customs assessment division of Revenue Canada.

Once your goods have been classified, you may then determine which staging category is applicable. If your goods qualify under the origin criteria, they may be free immediately, which is a hundred percent reduction as of January 1st, 1989, or by 1993, which is a twenty percent per year reduction, or by 1998, which is a ten percent per year reduction. In the case of central office telephone switching apparatus these goods would be free by 1991.

The staging category of your product will obviously have a considerable impact on its marketability, especially if it is staging category A. This is whether you are an importer or an exporter. There is some information on the staging categories following your classification number in your handout, including some excerpts from Annex 401.2, which contains the staging categories of goods.

Once you have determined the staging category of your goods under the tariff schedule of Canada - Annex 401.2 - or the tariff schedule of the U.S., same Annex, you will know what benefits may apply to your goods if they qualify under the origin criteria. It is the exporter of the goods who must determine whether or not his goods qualify and who must prepare an exporter certificate of origin. Rules of origin exist with regard to any preferential tariff treatment and the FTA is no exception.

There are three major categories of rules of origin under the FTA. First, there is Origin Criterion A, and you will find a couple of pages on the criteria in your handout. Origin Criterion A refers to goods wholly produced in Canada or the United States. Origin Criterion B refers to goods which are transformed in the U.S. or Canada so as to be subject to a change in tariff classification or to a change in tariff classification plus not less than fifty percent value added, or in one instance there is a rule which applies specifically to goods fabricated from feathers. And then there is Origin Criterion C, which calls for a 50% value added under certain specific circumstances where no tariff classification change is possible.

Now, A is quite straightforward. It applies only to goods which contain no third country content whatever. The second set, B, are best illustrated by example. To illustrate origin criterion B-1, I draw your attention to the example in your handout of an umbrella frame, which is classified under harmonized system number 6603200000. There is a ten digit number involved here.

There is also a rule of origin which can be found in the 1989 Customs Tariff, which includes all the rules of origin by the section. Each section of the Tariff contains a number of chapters.

Chapter 66 is in Section 12 and when we look through the rules, we find that Rule 1 is the one that applies. And that one reads "A change from one chapter to another." That is not a difficult rule to meet. What this means is that any third country materials imported into Canada or the U.S. or both must be changed sufficiently in Canada or the U.S. or both so that the classification number under which they are imported is in a different chapter from the export product into which they are incorporated. So looking at your example, you can see that the third country materials imported are teakwood, under classification heading 4407, in the little box, that is Chapter 44. And hardware is still under classification heading 7318 which is Chapter 73.

Now the goods are transformed in Canada and they are made into an umbrella frame, which as I said, is classified under heading 6603. That is Chapter 66. Since the umbrella frame is classified in a different chapter from the components which made it up, it qualifies under this rule, because the only requirement is that there be a change from chapter of the imported components to the exported product.

So these goods would qualify for the preferential tariff treatment when imported into the U.S. or Canada. It should be noted that as well as meeting the origin criterion, the goods must be shipped directly to Canada or the United States, depending on which direction they are coming from. And they must be properly certified.

Now, with regard to the classification and value added rule, which is origin criterion B-2, if you turn to your handout, you will find one that is titled "Stages in the Determination of Origin of a Garden Umbrella." It is really an exciting little story.

The first page you'll see is an excerpt from annex 4012 and from that you can see that the goods are classified under heading 6601 specifically 66011000, garden or similar umbrellas. You'll see that there is a base rate, that was the 1988 rate, of 11.3 % and at staging category B. That means in five years this will be duty-free. So, it is worth while doing the exercise.

The rule of origin applicable is Section 12, Rule 4, which reads, "A change to heading number 6601 or 6602 from any other heading number outside that group is allowed provided that the value of materials originating in the territory, meaning Canada or the U.S., plus the direct cost of processing performed in the territory, constitute not less than 50% of the value of the goods when exported to Canada. That is a formula.

On your sheet you'll find the garden umbrella, classification number, the rule, and underneath that the formula, which is taken directly from the rule. The value of the materials originating in the territory plus the direct cost of processing or assembly over the value of the goods when exported times a hundred. And the result has to be not less than 50% for the goods to qualify.

If we look at this we will see that in the case of the garden umbrella, the third country material imported is an umbrella frame, which is under heading 6603. That frame has a value of \$40. The goods wholly produced in Canada or the U.S. consist of laminated fabric under heading 5903, \$30, marble, under heading 2515, \$10, and lacquer, under heading 3208, \$5. Then we have some processing in Canada, lacquering, etc, which comes to \$15. Now the product, the garden umbrella, when it is exported is worth a hundred dollars. So, do the goods qualify?

On the next page are our calculations. You take the formula and fill in the numbers, the value of material originating - \$45; the direct cost of processing - \$15; over the value of the goods when exported - \$100; works out to 60 over 100. Now 60 over 100 is more than fifty percent.

The goods will qualify because they meet two requirements. They meet the tariff classification requirement because the imported component is classified under heading 6603, and it is outside the group 6601 and 6602. Also, we just did the calculations and decided that the value added requirement has been met. So, if the umbrella is properly certified and is shipped directly to Canada from the United States or vice versa, then it would qualify under the Free Trade Agreement for the reduced duty.

Origin Criterion 5B3, as I mentioned before, is one specific rule, and it refers to goods fabricated from feathers. It merely states that the goods shall be treated as a good of the country in which the fabrication occurred. So if you import feathers and make a skirt out of them, that is a Canadian skirt.

Now, Origin Criterion C, as I said before refers to specific instances where there is no change in tariff classification possible because of the circumstances of the importation. In this case there is a value added only requirement. So, again, the value of the materials originating in Canada or U.S. or both, plus the direct cost of assembling, must constitute atleast 50% of the value of the goods being exported. And if this is the case the goods will qualify under Criterion C.

Once these Origin Criterion have been established, the exporter must then prepare and Certificate of Origin. The importer needs the certificate of origin at the time of imporation of his goods in order to obtain the benefits of the preferential tariff treatment. Otherwise he is going to have to pay the higher rate. Also, in your handout is a list of definitions. The definitions are goods wholly obtained, direct cost of processing, etc., taken straight from the FTA.

Now, to the exporter's Certificate of Origin. In your handout is a completed sample of a Certificate of Origin. There are blank U.S. and Canadian certificates along with the instructions. I picked a Canadian certificate because it is the one I have seen more often, but the rules for completion are pretty similar in both directions.

As the name suggests, the Exporter's Certificate of Origin must be prepared by the exporter of the goods. Either country will accept the other's certificate. However, for shipments to the United States the certificate must be completed in English. They will not accept it in French. In order to better understand the requirements of the Certificate of Origin, let us complete the one in your kit. We will also discuss the differences in requirements between the two countries as we go along.

Field One is self-explanatory: name, address, tax identification number for goods going to the States are required.

Field Two: If you are using a blanket certificate for a certain period of time you would complete this field. The thing to remember is for shipments coming to Canada the maximum period of twelve months is allowed, whereas for shipments going to the States, you only have six months.

Field three also is self-explanatory. Note that it can be either the exporter or the importer. This is a recent change. You cannot put the name of the customs agent or broker in that field, however.

Field 4 should be completed when the exporter is not a producer. However, a lot of people don't want to reveal their sources. So, in Field 4 it is acceptable to Canada Customs and presumably to U.S. Customs to put "Available to Customs on Request."

Field 5 contains the Origin Criteria that we discussed - A, B, and C. The important thing about Field 5 is that one of those criteria which applies to your goods has to be listed in Field 7. You can see that I've used the same examples that we did earlier - the garden umbrella and the umbrella frame.

Field 7 - the rule has to be put next to the description of the goods in Field 8. And that description has to be sufficient for the goods to be classified to six digits. In this case garden umbrella and umbrella frame is sufficient. And then right across from it is the tariff classification to six digits which I have inserted.

Field 8, as well as the complete description, must include model numbers on a blanket certificate, and model numbers and serial numbers, if it is one shipment only.

Field 9: self-explanatory - gross weight. It can be estimated on a blanket certificate.

Field 10 is to be completed for single shipments certificates only.

Field 11 has to have the place, date, signature, and title of the exporter or it will not be accepted by Canada Customs. Also, the signature has to be someone in the exporting company whom has knowledge of the goods. Someone who can testify to the origin, not the shipping clerk or the receptionist.

And finally, there is a recent additional requirement of Canada Customs, and presumably U.S. Customs too, that the telephone number and a fax number of the signator be included. Apart from mentioning that this certificate has to be kept on record for six years by the exporter and the importer and that the exporter has to keep records relating to the origin of his goods for six years, that completes my topic for today.

WARREN DUECK, Panelist

I'm going to talk about the U.S. tax law of marketing decisions. And as long as the bottom line is more important than market share, you are going to want to listen to how your marketing decisions may impact your taxes. Explaining U.S. tax law in ten minutes is a little bit like explaining the Free Trade Act to Canadians in the November 1988 election. Everybody has an opinion, but nobody has read it.

The key thing I want you to come away with is how important advance planning is in respect to marketing decisions and how they impact U.S. tax decisions. The diversity, size, and affluence of the U.S. economy has made it the premier market in the world. It has the lowest tax burden in the developed world. The maximum personal tax rate is 28% and that allows for deducting mortgage interest and certain taxes and a multitude of other things. The corporate tax rate is at 34% and several states, for example Washington state, have no state income tax. Despite the low U.S. tax rate, U.S.

tax law is substantially more complex than any other country in the world, including Canada.

The U.S. seeks to tax people worldwide and does it quite effectively relative to other countries. Just to give you a real thumbnail sketch of the difference in complexity, if you take the Canadian Income Tax Act, the regulations and the treaties that are included, it is about two and a half inches. The U.S. tax law alone without regulations is thicker than that. If you added the regulations you are talking about a foot of volumes just on U.S. tax law.

The U. S. tax law has prepared itself for all types of eventualities. In fact, this is something that will really warm your heart at night. The IRS has recently issued administrative procedures in the event of a nuclear attack. Within thirty days of a nuclear event, the IRS is prepared to assess, collect, and record taxes, analyze, and report on tax legislation, issue rulings, forms, and regulations. Doesn't that make you feel comfortable? In addition, the collection of delinquent accounts will be postponed in hard hit areas. Areas outside the conflagration will continue to be subject to normal collection and enforcement procedures. The IRS is prepared for everything.

With respect to you, a Canadian, doing business in the U.S., there are some critical aspects that you should be aware of. The IRS is stepping up its efforts toward international investors in general. Their international audit operations are right now staffed with 500 auditors. They are authorized to increase to 2500. The non-compliance that exists, and I can speak from my own experience here in Vancouver and other international cities, is massive. There is a real opportunity for the IRS to collect more revenues, and in light of the current U.S. deficit, there is not very much shyness on the part of the U.S. government collecting those taxes.

You should be conscious as well of the application of penalties for not complying with U.S. tax law. A lot of people think that "Gee, I didn't make any money, so I can't have taxes." But you may have penalties for failing to file and comply with U.S. tax law. The critical aspect is planning in advance and making sure you are in compliance with U.S. tax law.

Let us just talk a little bit about the touch of U.S. tax. Free Trade does not have any direct U.S. tax implications. Canada and the U.S. have a tax treaty. It is the longest and most complex treaty for both countries of all their treaties worldwide. It just underscores the nature of the relationship between the two.

But there is an indirect impact of Free Trade. And that is that the states and counties of the U.S. have been competing already for several years with each other. You can expect to see that same competition, I believe, here by Canadian provinces and municipalities that have to now compete for those investment dollars with their American counterparts. I think you'll find the Canadian government at all levels more competitive in that respect. That is obviously a positive sign.

You are only subject to U.S. tax on business profits where you have a permanent establishment. That is where you actually have an operating facility in the U.S. Here is a general definition of a permanent establishment: a fixed place where business activity is normally carried on, an office with your name on the door with a person inside. That essentially constitutes a permanent establishment. It could be a branch, a factory, a workshop, a mine, or a quarry. It also includes carrying on business through a U.S. agent. We'll talk just a little more about that later on.

When there is an establishment in the U.S. the profits generated from that permanent establishment are subject to U.S. tax. If you store your goods in the U.S. that doesn't give rise to a permanent establishment or U.S. income tax. If you deliver your goods in the U.S., display your goods, advertise your goods, those things do not give rise to a U.S. permanent establishment or U.S. income taxes.

The theory is that you will never actually pay two taxes. You will only pay the higher of the two taxes. That may be split between the U.S. and Canada, but you will never actually pay twice. That is most often the case, but not always. So, you need to be concerned if there is an opportunity of double taxation.

Another important aspect is with respect to state taxes. State income taxes are not covered by the Canada-U.S. Tax Treaty. You may not be subject to any U.S. income tax but may be paying tax

in Florida, California, or other states. You have to be very conscious of state income tax laws. Again, Washington, I mentioned earlier, does not have income tax, for individuals or for corporations.

Marketing plans. There are five different plans that we'll just zip through in terms of what the U.S. tax impact is. These are exporting to the U.S., using an agent in the U.S., a manufacturer's representative, a licensing agreement, or using a joint venture or subsidiary to do business in the U.S.

When you export to the United States, when you are just selling products into the United States, and do not have a permanent establishment, there are no U.S. income tax implications. In fact, there is an opportunity even when all your production is going stateside, to avoid U.S. income tax entirely and in Canada for profits up to \$200,000 get the benefit of the small business tax rate of 23%. So, you could be in an excellent position in terms of your taxes when you export to the United States.

You can still store your goods in the states, advertise your goods. That is not going to cause a problem. You should be conscious of, in addition to state income taxes, of state sales taxes and excise taxes that may be appropriate for your particular product.

Second, using a manufacturer's representative is exactly the same as exporting, except you have an agent that works exclusively for you, to represent your product. If this agent is dependant upon you then the activities of that agent will be attributed to you. And if that agent has business in the U.S. or lives in the U.S. you will be considered to be doing business in the U.S. and having a permanent establishment. The result is you are subject to U.S. income tax.

Now, nothing prevents you from having your sales people in Canada make trips stateside to meet clients, prospects, or to do sales calls down there. That does not in and of itself give rise to U.S. tax. If, however, they set up an office there it will. Or if they approve contracts in the U.S. there is an exposure to U.S. income tax.

One common problem we have is one about owner-manager businesses. I'm the President, I'm also the only sales person, I'm in charge of production. I mean I do it all. So I get down stateside and I meet with a client and he says he wants to buy my product. Am I going to wait to get back to Canada for approval? Well, technically, I am going to give approval in Canada. I am going to want to ship it from there. Because if I actually delivered those goods to that individual there I would be subject to U.S. income tax.

Licensing agreements. Revenues arising from a licensing agreement where you are receiving royalties or a license fee or a franchise fee are probably going to be taxed on a gross basis. In other words, all the expenses that you may have attributable to those costs will not be deductible in determining what your U.S. income tax is. Typically the rate on royalties is 10%. To the extent that there are some services provided with respect to a franchise in particular, you have to make sure that you separate those streams of income. Because to the extent that it's involved with services you will be able to make deductions against it.

The key issue when you are dealing with licenses, franchises, or royalties is where does the income arise. If you are signing a deal with a U.S. distributor or selling a license to operate that product stateside, it will be deemed to have arisen in the United States. So, there is some critical planning you need to do in terms of royalties, franchises, and licensing. There are many complex issues in that route.

When you use a joint venture, you are going to be deemed to be doing business in the United States and will pay tax on that income at U.S. tax rates.

When you invest in the United States through a subsidiary, there is another super planning opportunity for tax reasons. You can actually reduce your tax exposure and be subject only to U.S. Income Tax. If you use a U.S. corporation, you'll pay U.S. Income Tax. When those profits are distributed back to Canada, you'll avoid tax at that point in time.

I'll give you one quick example on structuring finance in the U.S. This is a critical issue in avoiding U.S. withholding taxes. If you are going to do business in the U.S. and have a U.S. business, source your funds where your business is, and that is in the U.S. There are some ways around that, albeit not simple, but source your funds in the U.S.

I think the last comment I'll make is just that the critical function here is planning. Whenever there is a border involved, things will be more complex. I think the Free Trade Agreement and the political debate that followed is evidence to that fact. But this should not be viewed as a deterrent, but as an opportunity. Because the U.S. tax system does provide a lower burden. So, you may actually have an opportunity to sell your product and realize a higher margin because of U.S. tax law. The secret to that again is in proper planning.

MARGARET EVANS, Chairwoman

I'm afraid I am going to have to cut the question time off. But I believe all the speakers will be at the meeting at 4:45, so if you have anything specific, perhaps, you could look for them then.

I'd like to thank them all for participating. I'm sorry we couldn't solve all the issues today. But I think there has been enough information for you to realize what you need to consider, and these are just four of the people who could help if you are planning moves into the States. Thank you for attending.

WORKSHOP NUMBER 8 BANKING AND OTHER FINANCIAL SERVICES

As expected, the impact of the Free Trade Agreement on the financial services sector has been generally positive but modest. Banks, trust companies, insurance companies, and investment dealers based in Canada and the United States have enjoyed with some qualifications considerable access to the markets in both countries over time. There have been some immediate results under the Agreement. Canadian banks gain the right to distribute securities in the U.S. issued by Canadian governments. U.S. banks are seeing more traditional Canadian business in response to anticipated opportunities in the U.S.

There remain some legislative barriers to free trade and there are other legal differences which should disappear as the two economies and legal systems grow closer. Equal national treatment has been established. This means that institutions like Canadian banks will be permitted to operate in combination with other entities like investment dealers in the U.S. when U.S. banks gain that right under U.S. law.

While principles of strict liability and the use of punitive damages by U.S. courts continue to present fundamental deterrents to Canadian insurers contemplating doing business in the U.S., as the economies grow closer, so will business practice, legislation and jurisprudence. The net result will be a stronger, more competitive, and more efficient financial services sector in both countries.

JIM STEVENS, Rapporteur

WORKSHOP NUMBER 8

Chairperson and Panelists



CHAIRWOMAN: Mrs. ALIX GRANGER
Vice President
Pemberton Securities Inc.

Mrs. Granger has held a variety of management positions in the investment field in the past 10 years. Prior to her appointment as Vice President of *Pemberton Securities*, she was an Investment Manager and Chairman of the Investment Management Committee for *F.H. Deacon, Hodgson Inc.* In addition to other directorships, she is Chairman of the Pacific District Council of the *Investment Dealers Association of Canada*. She also has several publications on the market including a consumer's guide to Canadian Financial Institutions. Mrs. Granger holds an M.A. in economics from UBC.



PETER HEBB is Vice President of *Central Guaranty Trust Company*, and Chairman of the *Vancouver Board of Trade/World Trade Centre*. His diverse business background has included management and executive positions with companies in the furniture and financial sectors. A business graduate from UBC, Mr. Hebb became a Fellow of the *Trust Institute* in 1986.



NICK BATISTIC is an A.I.I.C. with *Marsh & McLennan Limited*, the largest insurance broker in the world, with over 22,000 employees in over 250 offices worldwide. He has been involved with the Insurance industry for 23 years and with brokerage insurance for 7 years. Mr. Batistic joined the Commercial Brokerage division of *Marsh & McLennan* in 1988, and has particular interest in the ramifications of Free Trade for B.C. manufacturers.



PETER WARNER is Vice President and Manager of Commercial Banking with *Seafirst Bank* in Bellingham, WA. Mr. Warner has 24 years of experience in commercial banking in various positions in lending and management, including 12 years with *Seafirst*. He has a Bachelors degree in business administration from the University of California at Berkeley, and is an honours graduate of Pacific Coast Banking School.



RAPPORTEUR: JIM STEVENS
Jim is the Pacific Regional Director of the Investment Dealers Association of Canada/Canadian Securities Institute. Jim holds a B.A. from the University of Winnipeg, an LLB from Osgoode Hall Law School, and an MPA from the University of Victoria.

WORKSHOP NUMBER 8

BANKING AND OTHER FINANCIAL SERVICES

ALIX GRANGER, Chairwoman

My name is Alix Granger and I am the Chairwoman of this workshop on Banking and Other Financial Services. I'd like to welcome you to hear our very excellent panel that we have assembled for you today. The first speaker is Peter Hebb.

PETER HEBB, Panelist

I hope to be able to give you an overview of the effects of the FTA on the financial institution sector of the broader financial services industry. Of the four pillars of the broader industry Alix Granger comes from the securities side and I am going to combine banks and trust companies. The insurance side is represented at the table, and Peter Warner is covering the banks. I hope that I don't cover any ground that he intended to.

Of the financial institutions side, we traditionally talk about the three types - the credit unions, trust companies, and the banks. In that credit unions typically restrict themselves somewhat on a geographic basis within a Canadian market, it is probably unlikely that they would be thrust into the United States market in any great degree.

Working for Central Guaranty Trust I feel I know more about that industry. The third sector is banks, which you all would expect is the largest and most likely to most active in the United States. You probably know that they are very active there already. The corollary is that many U.S. banking institutions are already active in Canada and the American perspective will be given by Peter Warner in a few moments.

It is interesting to note that insurance services collectively were included in the main body of the provisions of the FTA. Financial services by financial institutions are covered in a separate chapter in the FTA, Chapter 17. The main reason for the separation is that financial institutions have had previous access back and forth between Canada and the U.S. almost on a Free Trade basis already.

The largest six Canadian banks maintain something between 10% and 20% of their assets mostly in loans in the United States and as implied, many American banks have a sizable portion of their assets already in Canadian funds in Canada. Banks in Canada are fully regulated by the federal government.

Trust companies may be regulated on the other hand by either the federal or provincial government. Those trust companies that are provincially regulated such as Montreal Trust, are not covered by the FTA, only the federally regulated trust companies.

Banks in the United States are regulated by both state and federal governments. Consequently, Canadian banks doing business in the United States are regulated by a state government and not protected by the provisions of the FTA. One could argue therefore that American banks operating in Canada, because they are totally covered by the FTA, have a marginal advantage over Canadian banks. Nevertheless, the FTA enables Canadian banks operating in the U.S. whether they own a Canadian securities dealer or not, to participate as underwriters and dealers in securities issued by Canadian governments and their agencies trading in the States.

Offsetting that advantage is the obvious quid pro quo, that American banks operating in Canada will be allowed to deal in Canadian securities markets which may cause competition here. I think that most people would agree that greater competition tends to end up bringing more benefits to the consumers of those services.

In an overall sense, therefore, financial institutions on both sides of the border will be able to compete in the other country within the overall spirit of the FTA for all goods and services. Our largest institutions will still be protected by the 10% maximum ownership rule, and for the smaller and medium-sized institutions there will still be federal government approval required for U.S.

acquisitions.

Canadian financial institutions will on balance continue to have access to purchasing effective control of U.S. financial institutions. Acquisition of the Harris Bank by the Bank of Montreal a few years ago in the midwest and the recent acquisition by Royal Trust of a large savings and loan bank in Washington state are cases in point. My own company, Central Guaranty was reported last week to be looking to purchase a western U.S. bank in addition to our holding of about 10% of U.S. Trust Corporation.

Although such cross-border competition is favorable to institutions in both countries, there is a far greater set of advantages that will come to the shareholders of trust companies and banks in Canada arising out of the FTA generally. Basically, as overall economic activity increases under the Agreement in all sectors, the overall demand for services in Canada will increase and this will favorably affect the bottom line for shareholders of those institutions.

As other workshops up and down the halls today are hearing, all sorts of service industries, from architecture and engineering to professional consulting and computing services, are likely to benefit from the Agreement. The principals, employees, and the shareholders of these firms virtually all do business with financial institutions in Canada, not to mention the full spectrum of manufacturers who also benefit under the FTA.

In addition, approximately \$400 million of U.S. Government procurement has been opened to competition for Canadians which did not exist before. The Trust Companies Association of Canada is on record as saying that, "Anything which promotes the economic welfare of individual Canadians or Canadian business is beneficial to the Canadian financial services industry. Anything which advances economic growth and development increases the demand for financial services and provides our industry with new business opportunities."

Major trust companies in Canada, while smaller than the major Canadian banks, have a relatively greater financial strength due in part to the fact that they do not have significant problems with either foreign or domestic non-performing debts. Trust companies are effectively restricted from engaging in appreciable off-shore lending and are thus well capitalized to take advantage of the FTA.

When you add to this the fact that trust companies have been highly innovative in providing new financial services, especially to the consumer market in Canada, one can see that trust companies are well placed to expand into the United States.

In both Canada and the United States financial institutions have been very active in the commercial lending market on a historic basis. Our banks in particular feel that they have done very well in the U.S. market even though many foreign banks have been active competitors in Canada.

On the consumer services side, while U.S. banks, and trusts, and savings and loans are free to come up here and expand in Canada, I would ask you to remember that there is a very large start-up expense in establishing a branch network. Most shopping malls in Canada have restrictive covenants to prevent additional financial institutions from locating in those malls.

And while there are still several corners on commercial shopping streets on which new U.S. financial institutions could locate branches, there would be a very high cost of setting up in competition with those people already in the business. In this regard Canadian trust companies and banks feel that they could meet such new competition head-on and basically retain the good will that they already have of their customer bases.

So, for every such move into Canada as previously mentioned there is an equal opportunity to move into the United States market, which in Canada's case happens to be ten times the size of the Canadian market.

We in the Trust Companies Association of Canada feel particularly strong in our belief that we can meet such competition head-on and use the opportunity to expand our own financial institutions into appropriate niche markets in the American economy.

The bottom line is that as Canadians in all walks of life from coast to coast will benefit from the FTA, so will those of us who provide financial services to those Canadians.

ALIX GRANGER, Chairwoman

Thank you, Peter. That was an excellent start on our discussion of what Canadian financial institutions are doing to further trade in the United States as a result of the FTA. Now, Nick we would like you to talk to us about the insurance problems and potential of doing business in the United States.

NICK BATISTIC, Panelist

Let's start off with a little story called "The Blind Snake". He is wriggling along the forest path. He bumps into something soft and furry and he says, "Oh, excuse me." And a voice says back, "No problem." The Snake says, "No, really I apologize. I am blind and I can't see where I'm going." And a rabbit says, "That's a coincidence. I'm blind as well." So, they sit down there in the sunshine to have a little chat. The Rabbit says to the Snake, "I wonder if you would mind doing something for me? Would you mind checking me out and telling me what you think I am. I have been blind since birth, and I have no idea what I am." The Snake says, "I would be glad to." He checks the Rabbit out and says, "In my considered opinion, I think you are a rabbit." "Oh, thank you!" said the Rabbit, "It's such a relief. I never knew!" The Snake says, "Look, I've been blind since birth the same as you and I don't know what I am either. Would you mind checking me out?" So the Rabbit says, "I'll be happy to." He checks the snake out and says, "You're cold, slimy, and smooth with a forked tongue. I think you are an insurance broker!"

Insurance can sometimes be dull, but we will try and make sure that it is not that today. When you do business in the United States, regardless of whether you are doing it on a send-your-goods in, or when maintaining some kind of presence in the U.S., you are essentially going to be covering six main areas, as indicated in the chart following. And if you maintain a presence of some sort, you have automobile and worker's compensation if you are actually employing people down there.

INSURANCE CONSIDERATIONS

1. Customs Bonding
2. Property:
 - Equipment
 - Goods
 - Transit
3. Time Element:
 - Business Interruption
 - Extra Expenses
4. Liability:
 - Premises
 - Operations
 - Products
 - Completed Operations
5. Automobile
6. Workers' Compensation

The key difference in doing business in the United States comes in the liability section, as indicated in the following chart. The completed operations, where you are doing it, how you are doing, is pretty standard coverage to whether you are doing it here or south of the border.

If you are a manufacturer, there are some essential key differences between liability law in the U.S. and here. In Canada, if you are a manufacturer and a customer alleges a problem with a product, the customer has to show that the manufacturer failed to take reasonable care in the production of that product. It is very straight forward.

**COMPARATIVE PRODUCTS LIABILITY
LAW
CANADA VS. U.S.A.**

For Manufacturers:

Canada

1. Negligence only.
Customer must show manufacturer failed to take reasonable care and loss was reasonably foreseeable.
2. No express warranty.
Erroneous statements in advertising or literature attract liability only where negligence can be shown.
3. Punitive damages are rare.
Small rewards.

United States

- Strict liability.
Customer need only show a defect, irrespective of negligence.
- Express warranty.
Manufacturer may be strictly liable to customer for erroneous information in manufacturer's literature or advertising.
- Punitive damages are commonplace.
Large rewards.

In the United States it is strict liability. All the customer has to do is show that there is a defect in the product, and then you as the manufacturer are on the hook.

In Canada, we have no express warranty. If somebody makes an error for instructions, if it is not directly done by the manufacturer, it is done by a third party, there may be no responsibility attached to you as a manufacturer. In the U.S. there is an express warranty and as a manufacturer you may be on the hook. Period.

The last item on the list is punitive damages. In Canada it is quite rare. When they are awarded, they are small awards. In the U.S. punitive damages are common place and can be very large.

Now, damages for liability fall into three main categories. Punitive damages are awarded by the Court as a punishment for something that has been done wrong. If you take a short cut and the Courts decide that you shouldn't have taken that short cut, and they really want to rap your knuckles, they are going to do it with a punitive damage award.

The last chart, opposite, looks at vendors in the United States. If you are just taking a product and selling it it is still a little different. We have different standards or commercial codes that apply from country to country. Sometimes in Canada you can exclude liability with appropriate contractual language in your literature for the use of the product. There are restrictions in the United States where you can't always do that. There are differences there and it is still based on interpretation of negligence.

In the United States if somebody picks up a Flymo Lawnmower, one without wheels, and does their hedge with it and drops it and it lands on their foot and cuts their foot, the customer can sue because the product is not safe for that purpose. That is true. It is not likely to succeed in Canada. People generally, if they do something stupid like that, don't expect the manufacturer to have to stand behind them. Not so in the U.S.

**COMPARATIVE PRODUCTS LIABILITY
LAW
CANADA VS. U.S.A.**

For Vendors:

| <u>Canada</u> | <u>United States</u> |
|--|--|
| 1. Sales of Goods Act implies terms. | Uniform Commercial Code implies terms. |
| 2. Generally able to limit or exclude liability with appropriate contractual language. | Restrictions on right to exclude or limit liability. |
| 3. Negligence. | Negligence. |

As it concerns you insuring your business in Canada for doing business in the United States, you have to understand a little bit about how insurance companies perform their functions and how they arrive at their theories. To insurance companies the world is flat, it's square, and is divided into quarters. The main quarters are the United States, Canada and other developed countries, developing countries, and communist countries. As far as Canadian insurers are concerned, there are two principal categories, the United States and Canada or others. There is a different response to how they do business in the United on an ongoing basis because of what I showed you before with the differences in interpretation in regards to product liability.

When an insurance company decides that it is going to do business with you, they want to know what you do, how you do it, and where you do it. Is everyone familiar with the standard industry codes? Every industry that is operating in the U.S. has a code allocated to it. Insurance companies have something similar and they determine what classes of business they will write this year. What you do, how you do it and where is important to the underwriter when the application goes in for insurance.

From the insurance company's viewpoint what they do, how they do it, and where becomes a great effect on you. Whether or not you know it, they have reinsurance treaties, automatic treaties where they are insured by other insurance companies on an automatic treaty basis.

That treaty basis changes from year to year depending on the competitiveness and results in certain classes. Depending on how keen your insurance company is to do business this year and how keen their reinsurance organizations are this year decides whether or not they will insure you next year.

Where they do it, in the United States or not, and with whom they do it is important for the purposes of treaty. There are perhaps 150 insurance markets that operate in Canada. It may come down to a couple of dozen who consistently do business in the U.S. through thick and thin because of the commitment made long-term with reinsurance. So, it is really important for you people, as you prepare your product to be insured, to understand what your insurance broker is doing for you, and make sure that your broker explains the choices behind the recommended market. Quite frankly, as a broker, I do not know how the insurance industry is going to handle the long-term effects of Free Trade. The way we are all doing business now will be different from what it will be five years from now.

It is really important that you listen to your broker and make sure that you think they make sense for what they are trying to do for you.

PETER WARNER, Panelist

From the perspective of a U.S. banker, the Free Trade Agreement does not appear to cause any major changes in the banking climate on our side of the border. It will make entry into your banking system somewhat easier for us through either acquisition, possibly new charters, or expansion of existing charters that we may already have. I see that as a long-term impact, nothing very immediate. Over time you will probably see a greater U.S. presence in Canada.

If that happens, I would certainly agree with the opinion expressed earlier that it would be unlikely to happen to any great degree on the personal banking side. For a U.S. bank to come up and attempt to establish a branch network or to really compete effectively in the personal market would be pretty difficult.

You could possibly see things such as increased credit card issuance across the border. It might appear attractive to us to attempt to tap into your teller machine network. Those kinds of things can be done increasingly without a physical branch presence these days, and certainly that trend in banking is going to continue. But to actively be on the ground here competing branch for branch does appear unlikely.

You will probably see an increase in our presence on the commercial side. Commercial lending is a function that can be done without a lot of overhead, a lot of branches, a lot of people even. If that does happen, and I think it will, you will probably see increased competition, possibly in the area of rates, credit liberalness. Banks generally, from my own experience, who try to compete or buy their way into a new market on the basis of liberal credit policies, generally soon regret that. Certainly there are a lot of well-publicized cases in point of that practice. However, it does continue. It is a way to get into a market and you may well see some of that.

The more immediate impact that I see from our perspective is that there will be an increasing number of Canadian companies who find it attractive to establish a presence on our side of the border for manufacturing, distribution, possibly even services, and as a part of that strategy it will become attractive for them to establish a U.S. banking connection.

We are already seeing quite a bit of that. In the last year or two we have probably seen three or four inquiries a month in Whatcom and Skagit Counties, where I am located, as opposed to maybe three or four a year in previous years. Part of this no doubt is in anticipation of the FTA, part is simply in recognition that even pre-Free Trade there were some real benefits available in terms of penetrating the U.S. market by having a physical presence in the States.

There is in fact a contrary view that would suggest that if Free Trade ever becomes a total reality, if the border ceased to exist, that an actual U.S. presence would become less attractive. There would be less reason for that and maybe that flow would decrease. I don't think that is going to be the case in the near future, though. There are many factors which do make this attractive and certainly just the greater awareness of the advantages of selling into the States is going to continue to bring Canadian firms south of the border.

The good news is that companies that do come south and do want to talk to a U.S. bank, particularly for financing requests, will find a much greater receptivity on our part. That really is a change from where things were three or five years ago. Historically we have been a bit reluctant to do that kind of business, partly out of lack of knowledge and lack of comfort with the types of things we are looking at. Also, many of the requests that came our way really turned out to be fairly speculative and types of things that we were not very interested in.

The requests we are seeing now, however, are typically from very well capitalized firms with established track records, the type of business that really does look very attractive to us. We are starting to recognize that as a growth segment of our economy and a segment in which we are very interested.

We offer a full range of banking services, very similar no doubt to what your Canadian banks offer. We have all types of depository services, both demand and time accounts, some of them interest bearing. We have cash collection services and wire funds transfer. One advantage that we

often see is that if you are collecting funds in the States, rather than send the cheque to Canada and be subject to your mail service, it appears to be much more attractive to collect the funds in the States and wire the money across. It gets there a lot quicker, I am told.

We offer a full range of international banking services and trade finance. We will soon offer Canadian dollar accounts, which should be attractive to many companies. I have a colleague here, David Hayden, from our international department, who might to address inquiries of that nature during the question and answer period.

The one area that we get lots of requests in is in loan business, credit, and financing the U.S. operations. We are still a credit-driven business and that is what a great portion of the requests to us involve.

There are some legal constraints as to what we can and can't do for you. Your banking law prohibits us from engaging in banking business in Canada. The definition of banking business is a little bit fuzzy, and in fact our attorneys are right now doing some research to attempt to give us a better definition of what really is allowed and what is prohibited.

When a Canadian company establishes a U.S. subsidiary with a physical presence in the States, we have no problem in providing any and all banking services to you. If there is no physical U.S. presence, there is a clearly defined U.S. portion of your business that we can carve off and finance or provide services to, we are often able to do that.

On the other end of the spectrum, we are clearly prohibited from coming to Canada and competing with Canadian banks for your Canadian business, and indeed it would not make much sense for us to do that. I guess the bad news is that if you are turned down by your Canadian banker on a deal, I can't encourage you to come to us for a second opinion.

Under your law, if one of your companies pays interest out of Canada to a foreign lender, those interest payments are in most cases subject to a 15% withholding which must be paid to your government and is essentially a tax on our activities in Canada.

If you have a U.S. office, if the payment is actually made from the States, our interpretation is that that does not apply. But, if the payment is made from Canada to us or to any other off-shore lender, that 15% is applicable. In theory we could get around that by cranking the rate up 15% and arriving at the same yield to us. But, as a practical matter that would probably make the transaction financially not competitive and would also create some very serious bookkeeping problems for us and you. So, as a practical matter of having a presence in the States, it is necessary for us to finance you without that becoming a serious problem.

Another legal issue which is involved in financing Canadian companies is that we can actually take a security interest, perfect a lean, and if necessary realize on collateral. However, your system of perfecting leans is somewhat more complicated than ours and rather unfamiliar to us.

There is another factor there is to realize on that collateral. We need to undertake legal action in both countries, two separate legal actions, your Canadian banker may very well be there ahead of us.

So, for us to make a loan we generally desire that there be assets located in the States to provide whatever collateral protection we need, and that the subsidiary in the States be capitalized to meet our normal lending requirements without having to rely on the financial strength of the Canadian parent. That does indeed sometimes make it difficult to put a loan together.

If it is not practical to bring the capital across the border or if there are not assets that can be separated to bring across, a Canadian bank can provide us with a letter of credit to cover the loan made in the States. When it is possible to do that, it is a way to allow us to look to the Canadian strength of the parent to support the loan in the States. We find that that is often times the way we can put a deal together.

A couple of other general things about our lending practices - our domestic loans are usually priced against our prime rate, 11 1/2% today, and normally spread something over prime depending on

our perception of the financial strength, the risk, and possibly relating the other account balances and other services involved.

We generally require personal guarantees even though I have just said that actually proceeding against assets across the border is difficult for us. As a normal lending practice we require personal guarantees for a closely held company. I think most of your Canadian banks do that as well but sometimes we hear surprise expressed at that request, which leads me to think that that is not quite as common up here as it is down on our side.

As a last thought on lending, there are government supported development programs which offer financing to companies locating in those counties. The idea being to promote economic and particularly job growth and those loan programs work very well in connection with bank financing.

Often a loan like that will provide all or part of the normal capital requirements to meet our standards. The loan generally is subordinated to the bank loan so we look at it as a capital input. Many deals that we have put together with cooperation that way, and it works very, very well.

So, in summary, if you are thinking of finding an attractive strategy to come south, we would be very pleased to talk to you.

ALIX GRANGER, Chairwoman

I am going to finish up with the institutional side by talking about the investment industry.

The investment industry has been more severely hit and in some ways decimated by the deregulation of financial institutions. But, two years ago it started off with the government allowing for the purchase of any investment dealer by either a bank or a trust company or by a foreign owner. That actually was phased in over a two-year period. The result of that was they threw wide open the ownership of the industry to these banks, trust companies, and foreign owners and you had an avalanche of purchases, mergers, and so on in the industry.

You had the large banks buying investment dealers, Royal buying Dominion Securities, Nova Scotia buying McCloud, and so on. This has had an enormous impact on the investment industry and how it serves people.

At the same time as the Canadian government and their agencies threw open the industry to allow virtually untrammelled foreign ownership of the industry, there were still roadblocks to investment dealers moving into the United States. If you have the Royal Bank of Canada which owns Dominion Securities and Dominion Securities is operating down in the States, the Royal Bank can't have a branch in the United States.

The other area that is affecting some players in the investment game is an SEC crackdown on say, Penney Mines, the more speculative claim to financing of companies down there that there was quite a rash of up here. That is going to limit some of the financing going down into the United States.

Throwing the industry wide open also created regulatory problems because it is more difficult to regulate an industry when you don't know who the players are. I think the classic example here was a company called First Vancouver Securities, which we referred to as First Laundered Securities. They came up and opened an operation in Vancouver and it subsequently came out through an investigation, that this was partially financed by Marcos' money. So, it is a very difficult thing to track down.

We are finding that we need toward move to a greater degree of cooperation with international agencies to see that the securities industry is being properly run and financed and in turn giving the public a fair shake. Some of those measures that have taken place are within B.C., Ontario, and Quebec. Their securities commissions have an understanding with the SEC in the U.S. so they have reciprocal access to information. This should be very helpful in trying to deal with the increasing internationalization and cross-border flows in this area.

The self-regulatory organizations such as the Investment Dealers Association and Stock Exchange have also joined in an international council of self-regulatory organizations. Their first meeting was in Japan in December and then Canada is hosting a meeting in June. This will help the flow of information and handling all the problems that are created by a wide-open investment industry.

I think the industry has financed a number of companies down there or companies that are moving into the States. That I think is where we can serve people and very well.

That basically is all there is to say about the investment industry, unless you have some questions later on. What I would like to do is sum up what we have heard now and then throw it open for questions.

Starting with Peter's point that Canadian banks and trust companies are now much more interested in moving into the U.S. either through direct ownership of corporations or setting up their own subsidiaries. There has been a long tradition of some of our banks having subsidiaries in the States, and I think they are going to be far more aggressive in that area and more anxious to assist the Canadian banks down there. At the same time the American banking system is now becoming a lot more responsive to the needs of Canadian companies moving into the United States and setting up branches and subsidiaries there. There are pros and cons to dealing with a Canadian subsidiary or moving in with an American bank.

Nick has pointed out the very real differences and problems created when you do business down in the States from an insurance point of view. He has shown that you need very sound guidance on any business venture that you take into the States, even if it is just trucking something down to Seattle.

With that summary, I would like to throw it open to questions.

Question:
(unintelligible)

Answer:

I can only probably answer that in general terms. There are significant differences in how the Courts interpret points of law, particularly when you have contract law which is what I think you are getting at, where there has been a breach of contract. As a generality, I would say that the U.S. Courts are a lot harder on insurance companies and interpretations in favor of a client in a given situation. But it is really tough because if you are insuring property then you know what your maximum probable loss is - the value of the property. With liability and breaches of contract, there is no upper limit. It is determined by the Courts. So the Court reaction is what determines the extent of the responsibility and there is a difference.

Question:

As a Canadian manufacturer or supplier of a product, I tell my insurance company that I do XYZ, but in actual fact I do XYZ and A. If a problem comes out of A, what can I do?

Answer: Nick Batistic

The interpretation of law between Canada and the U.S. would probably be quite similar there. It is a matter of proper disclosure to the insuring company. If you do not have your business properly described to the insurer and a problem comes out of your operational product that the insurance company had no knowledge of, and it would have influenced their decision in accepting the business, then you bet the decision would hold up in a court most of the time. I say most of the time because the courts can be unpredictable in that sense.

But it is established insurance law throughout the world that if the underwriter does not have adequate knowledge about what they are insuring and it is deemed to be the fault of the client, then there is a good chance that the company can raise a defense to that in order to stop paying losses. That is why you must be sure that your agent or broker is really competent in what they submit to the insurance company on your behalf in portraying what you do.

Question:

I have a question for Peter Hebb. How do you perceive the Free Trade Agreement interacting with the international financial business legislation in relation to foreign lenders setting up in Vancouver?

Answer:

May I just amplify your question slightly by stating that in Canada we have both the International Banking Centre legislation and the International Financial Centre which happens to operate upstairs in this building. The International Banking Centre is very narrow and restrictive and involves transactions between an off-shore borrower and an off-shore lender. And in simple terms, the paper work is put through in Canada. Under that legislation there have been some financial institutions setting up which hope to take advantage. So, it well could be a situation between an American depositor, for the sake of argument, and a Japanese borrower.

Under the International Financial Centre, which many people loosely use to refer to what I just described in the Banking Centre, there is a much broader thing. It involves some work in the insurance repatriation of off-shore companies and it involves listing on the Vancouver Stock Exchange from off-shore companies and other exchanges. I think your question is related to the former rather than the latter, although my answer will cover both.

The main competition that can be seen from the international activities that are starting to take place and focus in Vancouver and the Pacific Rim is going to come from the United States and in particular someplace like Los Angeles than it would typically come from another financial center such as Tokyo or Hong Kong. Los Angeles is the financial centre for the whole southwest of the United States. I feel this new legislation, both the federal and provincial thrusts, is going to help this in the long run.

There are great opportunities and I would say that anything we do here as a plus will probably be an off-set to what might otherwise have taken place in the States.

Question:

Is it generally easier for a Canadian bank to make an entry into the United States because of Free Trade than it would be for a third country to make that entry? If that is so, is there any likelihood that we would become a conduit for other countries?

Answer:

With my understanding of the question, there are not that I am aware of any Canadian banks under Free Trade or any other legislation that do not have the preferred status in entering the States as opposed to other foreign banks.

There is no preferred status and therefore there would be no particular benefit to a third country bank acquiring a Canadian bank or interest in a Canadian bank to get easier access to the States. I am not an absolute expert on that subject, but I think not. As to the Glass-Steagall Act, nobody knows when that will be amended. There is a lot of sentiment in our banking community to do that and some pressure to do it. But, we do not know what is going to happen.

If it does get amended, Canadian banks would automatically gain the same privileges American banks have. It is certainly conceivable that the amendment could take the form that would allow other foreign banks equal privileges. That really remains an unknown at this time.

Question:

Has there been any application of the anti-trust rules to Canadian based financial institutions in respect of their operations?

Answer:

I cannot speak for the Canadian Banking Association. Certainly the Trust Companies Association is not a cartel, so anti-trust rules in the States, while generally perceived to be more vicious by we Canadians than our parallel rules in Canada, I cannot personally say that I am aware of any great investigation of that. Perhaps Peter would know something about it.

Comment:

Only in connection with our banking industry and certainly there has been lots of consolidation, some major mergers. Anti-trust really is not an issue with those that I am aware of. More at issue is simply some remaining banking legislation which puts some constraint on mergers and combinations across state lines and across certain industry lines. Those barriers are falling fairly rapidly. There certainly is, if not a consensus, at least a strong body of opinion that banking in the U.S. will become truly inter-state and really almost unconstrained in terms of what can be done geographically. If that happens, that would certainly suggest that anti-trust will also not be a major issue in those kinds of combinations.

Question:

What kind of opportunities follow now in the Canadian securities industry due to the FTA?

Answer:

We can go into the States and underwrite government securities there. Any new sort of area of business that we can move into is a plus of course. I was on the Sectoral Advisory Committee on Trade Negotiations on Financial Services for the FTA and I really came away thinking that the securities industry really hadn't gained anything through the FTA.

To my mind, we lost some things. We certainly lost a lot of control over our industry through measures that I mentioned such as throwing open the ownership and the deregulation of the whole industry. And we don't seem to have gained anything in return for that, except for a lot of problems.

ALIX GRANGER, Chairwoman

If there are no more questions I would like to just thank on your behalf the very excellent panel presented to you and I am sure if you have particular questions afterwards that you would like to address to any of them, they would be very pleased to do it.

Thank you very much for coming.

WORKSHOP NUMBER 9 FEDERAL EXPORT ASSISTANCE PROGRAMS

The federal government, through both the International Trade Centre of the Department of Industry, Science & Technology and the Western Diversification Office, have a mandate to assist the private sector in trade development activities in the United States.

The International Trade Centre's activities range from the Program for Export Market Development, to the new Exporters to Border Program, to identifying export opportunities and advising companies how to go after them.

The Western Development Office has a mandate to assist in diversifying the economy in Western Canada. The paper expands upon the WDO's mandate and provides illustrations of projects that have been approved.

JIM O'HARA, Rapporteur

WORKSHOP NUMBER 9

Chairperson and Panelists



CO-CHAIRMAN: VICTOR LOTTO
Regional Executive Director
Industry, Science & Technology Canada

Mr. Lotto, prior to joining *Industry, Science and Technology Canada* in September 1988, was Canadian Ambassador to Venezuela and the Dominican Republic for three years. He has had overseas postings in South America, India, Europe and the Middle East and was Consul and Trade Commissioner with the Canadian Consulate in Detroit, Michigan. Prior to his Venezuelan appointment, Mr. Lotto spent three years as Director General, Export Marketing Bureau, at External Affairs in Ottawa. Mr. Lotto's educational background includes a B.A. in political science and economic history from the University of Toronto, with post-graduate work in public administration at Carleton University.



CO-CHAIRMAN: ROBIN DODSON
Assistant Deputy Minister
Department of Western Economic Diversification

Mr. Dodson has worked in the area of regional economic and industrial expansion in Western Canada for nine years. Prior to joining *WD* in 1988, he was Regional Executive Director for the *Department of Regional Industrial Expansion* in Vancouver, and served as Director General of the *Department of Regional Economic Expansion* in Victoria from 1980-83. Mr. Dodson is a member of the Board of Management of *B.C. Research*. He has an M.A.Sc. in electrical engineering from the University of Waterloo, and his doctorate in operational research from the University of Lancaster in the U.K.



ZEN BURIANYK is Senior Trade Commissioner at the *International Trade Centre ITC* in Vancouver. He joined the ITC after an extensive career in the foreign service as Trade Commissioner for Canadian Consulates/Embassies in the United States, Israel, Spain, Kenya, Yugoslavia, and Chile. Mr. Burianyk has a B.A. in economics from Michigan State University, and undertook post graduate studies at the National University of Mexico.



RANDY HARROLD is Director General of Trade for the *Department of Western Economic Diversification* in Winnipeg. Mr. Harrold was Associate Deputy Minister of Intergovernmental Affairs for the Saskatchewan government prior to joining the Department and has had extensive experience with *External Affairs* both in Ottawa and abroad. From 1983-84, Mr. Harrold was Deputy Director of U.S. Transboundary Relations and Canadian Representative to the International Joint Commission. He holds a B.A. in political science from the University of Alberta, and a Masters degree in international economics from Carleton University.



RAPPORTEUR: JIM O'HARA
World Trade Centre Vancouver

WORKSHOP NUMBER 9

FEDERAL EXPORT ASSISTANCE PROGRAMS

VICTOR LOTTO, Co-Chairman

Welcome to this session. Robin Dodson, the Assistant Deputy Minister of Western Diversification, and myself were appointed Co-Chairmen for this session. But I think you all know that federal civil servants have a problem being co-chairmen. So, we have asked our good friend, Jim O'Hara, who is the Executive Director of the World Trade Centre and the Rapporteur for this workshop to keep us all in line.

And obviously by the overwhelming numbers we have here today we have done an awfully good job in the past of telling you about what the federal government can do for you. So, Jim, over to you.

JIM O'HARA, Rapporteur

The agreed upon process for this afternoon is that Victor and his colleague Zen Burianyk from the International Trade Center will speak first and after they have spoken, questions can be entertained. And then followed by our friends from the Western Diversification Office who happen to be Dr. Robin Dodson, Assistant Deputy Minister, and Randy Harrold who comes to us all the way from Winnipeg who is the Director General of Trade for Western Economic Diversification.

VICTOR LOTTO, Co-Chairman

What I shall attempt to do is give you a very general overview of the activities of the Dept. of External Affairs with the respect to trade promotion in the United States. I'll probably even touch on some of the activities that External does in other markets as well, but I will try to concentrate my efforts on the U.S. market.

I'll start by mentioning that there are a number of funded programs, but I think the emphasis is really on the type of specialized advice that B.C. exporters can get right here in Vancouver at the International Trade Center. The International Trade Center is a recent organization that has been established in the office of Industry, Science, and Technology. We are located in the Scotia Bank Building on the ninth floor, and Zen Burianyk is the Senior Trade Commissioner who looks after the group of very effective officers who work with him.

Zen has had a number of years experience with trade promotion and specifically had postings in Chicago and also in New York. He recently came from New York. Another one of our officers has served in Dallas, another one in Detroit. So we do have this very specialized market knowledge on various areas of the United States based right here in Vancouver.

You heard this morning Don Campbell, the Senior Assistant Deputy Minister for External Affairs, talk about our trade development thrust in the United States. On the 27th of April we will hear the news of what the budget is going to do. I can assure you that there will be no reduction of funds dedicated toward the promotion of trade with the United States.

The International Trade Center has this special link with our offices in the United States, and as you heard this morning, there are twenty-two trade posts in the United States which will shortly be expanded to twenty-seven. So, there is good market coverage with experts in each of these situations who understand the peculiarities of the different markets within the United States.

People just have to look at California. If it were a separate country, it would be the eighth most important country in the world, and we have four offices now serving the California market. Again, I want to stress the advice that is available right here in Vancouver and we are always willing and able to talk to individuals on how they should approach the American market or any other market for that matter.

One of the principal External Affairs programs looked after by Mr. Burianyk is the Program for Export Market Development, which provides funds to an exporter to visit a market. In the event the

company is successful doing business in a particular area, the funding is then returned to the Canadian government.

It is a rather excellent program from a cost benefit point of view. As a matter of fact, looking at some of the statistics on this, for every dollar we spend on the Program for Export Market and Development, there is a fifty dollar return in new exports.

There are also other programs that are looked after under our auspices. One is the New Exporter to Border States Program, which was mentioned this morning by Mr. Campbell. It has been an extremely successful approach at the U.S. market with our various regional offices cooperating with the provincial trade offices. We put together a group of new exporters and send them on a bus to Seattle, where they get first hand experience talking to U.S. Customs officials, and dealing with our trade personnel in the Consulate as well.

This again has been a program which was started initially as an export education but in the three years it has been running it has produced \$50 million worth of new export business.

Now, as we heard this morning, there is a second approach being made which is called the Nexus Program, where exporters who benefitted by doing business on the Border States Program will visit other centres of the United States again under the auspices of the International Trade Centre and External Affairs.

Throughout the U.S. over the next year a number of events have been planned. Participation in trade fairs, participation in federally sponsored missions, and bringing incoming buyers from the United States to British Columbia as well. Approximately \$20 million has been accorded to this activity, which incidentally is the largest amount of money within External Affairs being expended on a particular program.

We do have some literature at the back of the room for you. The other suggestion I have for you is that if you are new to the export business, or even if you have had some experience, but haven't had contact with our office, I hope you will come over and have a chat with us. As I said we are in the Scotia Bank Building. We conduct seminars on a regular basis, perhaps too regularly at times, on doing business with the United States or with the World Bank or selling to the American Government.

On Monday in cooperation with the Export Development Corporation there will be a seminar on financing sales to the U.S. and also export credit insurance with respect to doing business in the U.S.

On that note I'll turn over to Zen, who can be a little more specific and describe some case studies. As I look around the audience, I notice another trade commissioner, Peter Fraser, who is based in Seattle under the Interchange Program working for a public relations marketing organization in Seattle. Peter can also help you.

ZEN BURIANYK, Panelist

First, the International Trade Centre. Let me give you a little bit of a background on it. It is the offspring of the new Industry, Science, and Technology in the Department of External Affairs. While some of the persons you see in the International Trade Centre (ITC) have been in these offices for a number of years, the ITC is not just a rehash with a new name. One essential distinction is that External Affairs assumed the obligation to head up each ITC with a career trade commissioner with field experience. And, by 1991, to staff one half of the positions in each ITC, there being at least one in each province. In my own case, this is only my fourth year in Canada in the last twenty-five so I bring that foreign dimension to my job.

What do we do? Many things, and basically ours is a hands-on service. We try to entice and encourage companies that have never exported before, help them prepare for the export market, and give them a helpful shove out the door.

Much of our work with a new exporter is very fundamental and when you see some of the letters of inquiry received by our posts abroad you will understand the need for fundamentals. For example, when I served in New York and Chicago many letters received from Canadian companies

wishing to export did not include prices calculated in U.S. dollars. Also not calculating the duties can be fatal. Eventually duties will disappear, but at the moment they are a significant factor. It is difficult enough to get a U.S. buyer's attention and time. If he has to calculate the worth of the Canadian dollar, he is going to show you the door! He just doesn't have time.

We do a lot of work of this type, in showing a company how to calculate their price. We can introduce them to offices in our department that will help them determine their duties and customs classification which can be very tricky. We can get a definitive ruling out of Washington, for example, as to what the duty will be. Then they can go to the market and quote an exact price with the confidence that some customs official is not going to reverse himself, or a different customs officer is going to make a different interpretation.

We also try to identify the avenues for them and one of these is the use of trade shows. There are so many trade shows in the U.S. that it is hard to sort them out. We try to identify two or three that appear to be suitable then check with the post. How good is this show? If it is in your territory, have you attended it? Would you recommend a company going into it for the first time? This type of basic advice.

We still provide a fair amount of guidance to established exporters because they do need ongoing assistance on how to market, where and in which particular method. Should they use a stocking distributor or a representative? Do they require an export permit? The ongoing requirements of many companies mean that inevitably they will turn to us for assistance.

There is one thing Don Campbell mentioned in response to a question from the floor. A lady complained that she was not getting assistance from our posts and in many cases not even getting a reply. Having been at that end I am aware of the pieces of correspondence that come in on any given day, and the numbers are enormous. As Don mentioned, many letters received are from firms that are not export ready and this is where we come in. We can determine on behalf of the post whether or not you they are export ready. If not, we can help you become export ready. Then you need to approach the post, and the post is best approached through us.

We also hold a number of special events as Victor mentioned. Last week we held a typical one, although it didn't apply to the United States in particular. It was aimed at the consulting and capital equipment industry here in B.C. It was a seminar on the availability of funds through various institutions for Third World projects. We had experts speak on the World Bank, the Asian Development Bank, the African Development Bank, as well as officers from CIDA.

Incidentally, the concept of the ITC is to provide one-stop shopping and we are one of only two offices outside of the Ottawa/Hull headquarters to have CIDA officers on the spot, the other being Montreal. Ours is a pilot project and on the basis of success or failure, and it is very much a success so far, there is a plan to eventually establish a CIDA office in every ITC across Canada.

There are other events we hold, for example: We have an expert that conducts a seminar on how to get the most out of trade fairs. This has been a very successful one with us and we are going to be holding our third and fourth of the last eight months this June. To us this is an extremely important event as one of the very sad jokes in the trade commissioner service is, "How do you tell a Canadian at a trade fair?" "Well, he's the fellow sitting in the back of his booth." Unfortunately, this is too often true. The expert we have conducting the seminar is able to impress upon the listener that he has twelve seconds to make eye contact with that man hesitating in front of his stand, get a piece of literature and his card in his hand, shake his hand and get his card. It is that type of advice we pass on to the business community.

Other seminars we conduct concern advice in selling to the GSA - the General Services Administration of the U.S. Government. These are agencies, non-military, scattered around the country with the responsibility to procure for the U.S. Government.

We took a mission to a GSA centre just outside of Seattle that procures paints, brushes, cleaning compounds, and various chemicals for all U.S. Government departments. Their budget runs very close to \$350 million (U.S.) per year. So you have on your doorstep, if you are in this type of manufacturing, a very significant market.

Now, up on the screen are some of the programs Vic touched upon. The major program in our office is PEMD. It is major in terms of the budget we administer. Our budget for this current fiscal year will be in the order of \$1.2 million. That means we will process somewhere between five and six hundred PEMD applications in this fiscal year.

PEMD can be used to bring in incoming buyers. If your product is such that the buyer wants to look at your facility to see whether you can perform, then you have the ability to bring him in under PEMD. You can attend a conference or selling event, call on customers, or just beat the bushes. Also, in the event that the Canadian Government is not taking out a national pavilion at a trade fair, you do have access through PEMD. We will pay 50% of the cost of building your stand, assembling it, etc. In a place like McCormick Place in Chicago or the Javitts Centre, this can become quite expensive.

I must add that this amount is refundable on the basis of success. If you are successful in the market there is a very easy repayment schedule. While many think we do this to replenish the pot, a noble thought, the real reason is that without this recovery we would be in violation of the GATT. We would be vulnerable to complaints of unfair competition. There are two other programs of PEMD where there is assistance and that is for consortium bidding. This can be a very expensive proposition, also establishing a regional office in some part of the world. This is quite a well funded program. You can receive up to \$125,000 to assist you in setting up an office in Singapore or in Nairobi or anywhere have you.

There are other programs such as NEBS and despite what our provincial colleague said this morning, NEBS is a federal program. We work closely with the province. We don't compete, but neither do we like to give them all the credit. NEBS is, as Vic said, the introduction of companies into the U.S. market along the border. As a matter of fact we have a NEBS mission going tomorrow.

I'll give you a bit more detail. I believe we are taking about 25 people tomorrow. We put them on a bus and take them to the border. They listen to the U.S. Customs officers describe what sort of documentation is needed. They talk to border brokers and freight forwarders. Then we take them to our post in Seattle where the officers there will discuss with them how to market their particular product. We also bring in a banker who will tell them how to arrange payments, someone from the insurance field to talk about simple insurance and something that is becoming more complex in this day and age - product liability. This is a subject I feel hasn't been addressed to the extent it should be. There are some very severe pitfalls there.

In talking about the U.S. posts, the numbers are increasing and I don't know if I have them all. The following list gives you some idea of their location:

U.S. POSTS

CANADIAN EMBASSY - WASHINGTON, D.C.

CONSULATES

| | |
|---------------|--------------------|
| New York | Princeton, N.J. ** |
| Buffalo | |
| Boston | |
| Atlanta | Orlando, FLA. * |
| | Puerto Rico ** |
| | Miami ** |
| Dallas | Houston* |
| Cleveland | Pittsburgh, PA * |
| Chicago | St. Louis, MO * |
| Detroit | |
| Los Angeles | El Segundo * |
| | San Diego ** |
| San Francisco | Santa Clara * |
| | Denver, COL ** |

Minneapolis
Seattle

- * Satellite mini-post
- ** satellite to be opened in 1989

The ones more accessible to the Vancouver office and B.C. in general would be, naturally, Seattle, San Francisco, and Los Angeles. We have around 125 trade officers in our U.S. posts. Most of them are locally engaged and for two reasons. They provide the continuity and they become very knowledgeable in their field as it relates to Canada. When I left New York last October, I left two officers who had served collectively in the Consulate for 58 years. One works in the food products industry and he knew every food broker within a hundred miles of Manhattan, every fish dealer, whoever. He could tell you more about the food business off the top of his head than you could read in an encyclopedia.

It is this type of backbone support that we have in our U.S. trade offices, which is very important. The others are Canada-based career trade commissioners like myself who go from post to post to administer them and interpret the Canadian attitude and Ottawa's views.

Now, they are not there to sell for you. They don't have the time, there are too many other demands. They cannot make a sale and that is not their role. Basically, their role is to identify markets, identify a buyer and the Canadian vendors, and bring them together. They will tell you how to market in the U.S., whether you need a commission representative, an agent, a stocking distributor. Where should you go, should you go into a particular show? Should you go out on your own? The things we have already touched upon.

There is a fair amount of specialization in our U.S. posts to varying degrees, depending on the location. There are posts that have military installations nearby and they will likely have someone who deals with the military and in some cases exclusively. We have an officer who is in our Cleveland office who does not come in more than about one day a month. He spends most of his time stationed in Dayton, Ohio, where there is an Air Base. He works very closely with those people and identifies the needs of the military. He works with the military contractors and brings opportunities to the attention of the Canadian suppliers.

There are other offices that have individuals who specialize in investment, others in various commodities. Almost every office has someone who specializes in food products, apparel, furniture, or electronics to greater or lesser degrees.

Another area that we are becoming very much involved in is technology transfer. This involves selling your technology or acquiring technology if you have a particular need. It is for this reason that one of our new U.S. offices will be located in Princeton, New Jersey. I'm personally delighted to see this because it was on my recommendation. Believe it or not, one-half of the patents issued in the United States are issued to New Jersey. Everyone knows the reputation of Princeton University. It is a core of technology, so it is a very logical choice. It is also logical to have our office there instead of in Manhattan and have to fight the Holland Tunnel every morning for an hour and a half.

Some of the other things we try to do is alert you to possible pitfalls. Many people have the impression that because the Free Trade Agreement was signed things will be a bed of roses. In actual fact, I believe we are going to find that crossing the border will be a little more difficult in terms of documentation. The U.S. is not going to let Canada be used by third countries as a back door into the U.S. market. So, your labeling of origin is going to be much more important and your evidence of origin.

I'll give you an example of just how tough it can be. Shortly before I left New York a very small children's apparel firm in Toronto run by two lovely ladies shipped an order of children's sweaters to the U.S. valued at \$160,000. The sweaters arrived and were picked up by U.S. customs in violation of a very simple regulation - the size tag, which is very small as you know, was placed upon the country of origin tab and that is a no-no. They impounded the sweaters and, following our intervention, allowed the company to work on the weekend in the warehouse resewing the labels.

However, they still fined them \$35,000. It took them so long that Bloomingdales, the customer, refused to accept shipment because it was one day late. Again we intervened. Perhaps it was because Bloomingdales is now a Candian acquisition, but their buyer said, "All right, in this case I'll make an exception. I'll accept the order." But, he blacklisted the company and they are now known as an unreliable supplier. This is one example of typical pitfalls we try to bring to the attention of Canadian companies going into that market.

One of the joys of signing off on the PEMD program is that it gives me the opportunity to see what is going on in B.C. Believe me, the message that we preach of niche marketing is taken to heart here in British Columbia. We have some very good, original thinking companies in this province. I want to tell you about three of them to give you a better idea of what niche marketing is all about. We feel that you have a better chance of success when you go after a small portion of the U.S. with a product neither mass produced in the U.S. or Far East and addressing a particular need.

I have here a very simple product, produced in Burnaby. It is made of plastic, and do you see the loops here? This item is something that slips on a Sam Brown belt such as the one worn by police officers. There is a tear tab on the top. Inside is a pair of rubber gloves, made of some type of latex, which can be worn by policemen, ambulance operators, and anyone who comes into contact with the public and with bodily fluids. People in these occupations are scared by AIDS. Every RCMP detachment has these as issue. They have been sold to the New York Police Department and other police departments in the U.S. So, here it is, a very simple product addressing a specific need.

Another company we have been dealing with is in Kelowna. They have developed a system for cleaning waterways of heavy weed growth. It is remarkable, acting almost like a vacuum cleaner. You see a swath just emerge. We have plugged this company into a requirement in Egypt. Evidently the building of the Aswan Dam has resulted in the strangulation by weed growth of the Nile and the canals that run off the Nile. This company was sent over on a PEMD to investigate the market and were delighted by the response of the Egyptian Government. They are in the process of preparing their first bid for the Egyptian Government, and also for the City of New York for Central Park. The long-range requirement could run somewhere between 40 and 50 million dollars.

Another product, this one from Trail, is a very simple welded metal roto rack. I call it that for lack of a better name. It is a device that very simply attaches onto an automobile. If you are in the auto-body business it allows you to tilt the car on its edge. So instead of having to bend over to work on the bottom of the car, you can do work in an erect position. I heard from the firm a few days ago that they have their first major order from the U.S. for 2,250 units at \$300 each. This is a two-man shop that I visited in January that wasn't even heated. They were starting from scratch but they have addressed a market need and are going to do extremely well. We are sponsoring them into an automobile service exhibit in Los Angeles in June and from there it's onward and upward.

I have some literature that I've placed at the back of the room. We have quite an assortment if you would care to come to our office. I didn't attempt to bring a sample of everything as we just have too many pieces.

First, we have a Directory of Trade Commissioner Service Abroad. This is worldwide and it includes the U.S. posts.

Here is something very fundamental: "So You Want to Export?" In this we urge you to do your homework. There are a number of things you should do and look at before you walk in and talk to us. Another typical publication: "Selecting and Using Manufacturing Agents in the U.S." This could be a tricky business if you don't know exactly where to head.

Again, the Program for Export Market Development - PEMD. Here are the rules and regulations. Copies can be taken by you and application forms can be sent to you or you can call on our office.

We do publish regional market studies as well. For example, this is called the "United States, Upper Midwest." There is a "United States, Western States," and there will be one for the eastern seaboard. There are about 14 of these prepared for the U.S. alone. So, if you are really interested in the California, Arizona market, there is a publication that is appropriate.

Also, we do distribute the Canada Export publication which will keep you abreast of Free Trade developments on such things as "How do I cross the border these days?" It is no longer like the old days when Canadian architects, in order to carry their drawings into the U.S., needed to hide them in golf bags because they weren't allowed to enter without a special permit. Those days have ended and one can keep up through our bulletins.

I think I can open it up to questions if you have any particular ones that either Vic or myself can answer.

Question:

I've been talking to your colleagues in the New Zealand Trade Commissioner Service who are now charging a fee on a service basis for a lot of the informational and consultative type of information that you give freely. They have found that that is a very effective way of separating the men from the boys, so to speak. Do you ever see Canada going that way?

Answer: Zen Burianyk

Well, I certainly wouldn't want to discount the possibility. Anything is possible. My own personal view is that the Trade Commissioners around the world should be canvassed for an opinion. I feel that the Canadian business community pays their taxes, and that service is something they have already paid for. We do charge for some things. We have to. Our budgets are rather limited for such things as obtaining credit reports. If you send a telex down to our post in Chicago that you want a credit report on a particular customer that you are negotiating with, and you are not to certain about the bonafides of this company, we will get a credit report for you. But, if we are charged for it, we have to charge you for it.

Question:

You refer to your budget. What is your budget for B.C. for export promotion?

Answer: Zen Burianyk

PEMD would be the major part of it and for this year our budget will approach \$2 million. This will include the missions that we take to the Far East and as you can appreciate, taking a mission to the Far East is much more expensive than taking a mission to Los Angeles. Just to touch on the NEXUS and some of the missions we will take, we will be taking missions to San Francisco and Los Angeles for food products, shrubbery and flowers. Don't laugh, there are B.C. companies that are exporting flowers to Hawaii. These are niche markets, and the demand is so great in the U.S. that a niche market is an approach that is the most logical.

Question:

What is the best way for a small businessman to keep tabs on all the potential opportunities? We cover a lot of things that sometimes you find out about second-hand, third-hand, or when it is all over. What is a good way for a person to stay informed?

Answer: Zen Burianyk

I think that if he picks up our literature first of all and goes through that and finds out what approach he wants to take, then just maintaining contact with a particular officer in the ITC would enable him to keep up to speed. And we do tend to circulate information. If a company feels that they are export ready, they should register in our WIN System. It is one of the most important things in our operation. Our WIN System is a computer source list. In our case it is B.C. based. Headquarters would have one that is national and all our posts abroad would have access to this. We are all set up with the same type of computer system where we can punch in if we are looking for someone who makes stainless steel sheet for example. We punch it up and the two or three manufacturers of stainless steel sheet will come to the screen and we can print it out.

Comment: Victor Lotto

I wonder how many people have seen this publication, "Canada Export." It is something that is free of charge and comes out every two weeks. They are now including a Free Trade Bulletin and I notice in this particular issue at least it mentions that in the next issue it will contain a listing of all the events that External Affairs plans to fund in the States. So, if you are not receiving this, leave us a card, and we'll make sure you are put on the mailing list.

Question:

Would that one experience you related about labels finish someone in the United States market?

Answer:

With that one customer perhaps. It could happen to you here. You can be selling to Eatons and they can cut you off for slow delivery or various quality reasons. So what do you do? You start calling on The Bay. There is only so much we can do. You have to do things yourself. We make the regulations and advice available to you. In this particular case it was an inplant problem. Whoever was monitoring the production of these items failed to see that this was an important factor and allowed these to leave the factory improperly labeled. There is not much we can do. It is out of our hands at that point. The only thing you can do is watch your "P's and Q's."

Question:

How do we know what regulations apply?

Answer: Zen Burianyk

You can come to us and if it is a state regulation, we will obtain that from the state that you are investigating. We have the information in many cases in Ottawa. Our trade posts have the responsibility of relaying back to Canada any changes in any import regulation. It is the same sort of thing that American producers go through. They have to come up here and label in two languages. The American Consulate would inform them of that. That information is not difficult to obtain. You have to ask for it.

Question:

How does it work if you have different standards in the U.S.?

Answer: Zen Burianyk

Let's take something like an electrical appliance, where you have CSA approval. In the U.S. you would require UL approval. I think that CSA and UL are working closer now while they still require separate approvals, the approval of one speeds up the approval by the other. And eventually after the ten-year transition period ends, we will have the situation where one will count for the other.

Question:

Will the governments be working to similar standards?

Answer: Zen Burianyk

This is what I meant. This is going to be negotiated and hopefully it will become interchangeable. But, don't think it will apply across the board because when you get into something like pharmaceuticals, that would take a lot longer to accomplish. But that too is a possibility.

JIM O'HARA, Rapporteur

Thanks Victor and Zen. I think the conclusion is to not leave home without going to the Department of Industry, Science, and Technology.

Now we are going to hear from Robin Dodson and Randy Harrold.

ROBIN DODSON, Co-Chairman

Thanks very much Jim. I guess my objective here today is two- or three-fold. First of all to give that quick overview of what Western Diversification as a department of the federal government is all about, what we are here to do, and how we are going about doing it.

Secondly, to zero in specifically on the whole question of market development, and how our mandate and our capability relates to the question of market development in the United States and elsewhere.

Thirdly, with the assistance of my colleague, Randy Harrold, we are going to talk about some of the things we are experimenting with in terms of trade promotion and trade development activities with specific reference again to the United States.

The government has kept the mandate of the Department of Western Diversification simple. First, it is intended to provide responsible leadership for regional economic development in Western Canada. Secondly, we are here to undertake a strong advocacy role in order to represent Western Canadian views in the decision-making processes of Ottawa. And thirdly, we are mandated to use widely accepted business principles in setting up a unique Western Diversification Program in support of the diversification objective. I would like to touch on each of these mandate points individually.

First, the leadership role. On June 25, 1988, the Western Economic Diversification Act was proclaimed giving our Minister the responsibility among other things to guide, promote, and coordinate federal policies and programs in Western Canada. Secondly, to lead and coordinate federal efforts with provinces, business, and labor. Thirdly, to formulate plans and to integrate strategies to support development and diversification of the western economy. So, policy development, program development and practice were integrated to give WD a comprehensive approach to regional economic development.

Second, the advocacy role. Western Diversification does not lobby randomly on behalf of western interests. Our advocacy role involves selectively and responsibly representing the critical interests of the West in the development and delivery of national policies and programs including their design within the federal system. It involves respect for the interests of all Canadians. Let me put it another way as forcefully as I can. We do not advocate a kind of simplistic balance sheet approach to federalism - a "more for me" argument. Westerners have said they do not want that. They do have things that they want the Federal Government to do that will help. And things are being done.

Western interests have been pursued within the cabinet system in a number of areas, such as federal procurement, for example. Western Diversification officials work hard to keep plugged in to the inter-departmental processes and the day to day business of government in Ottawa. And we do that in order to insure that the interests of western Canadians and western Canada are represented. We participate on interdepartmental committees and with respect to procurement in particular we are now full members on the senior review boards of major crown projects and procurement review committees.

Third, the program side of our mandate. We have designed the Western Diversification Program to make it a face to face process. It is intended to be simple to understand, easy to access, and easier than most programs to administer. There are no application forms. We encourage our clients, the entrepreneurs of western Canada, to come to us with a two page summary of their idea for a discussion. We do that before they incur any extra costs. Our officers work personally with them, hands-on with them, in order to develop these projects.

With this kind of care, over 900 projects have been approved to date in western Canada since the Department began.

We will not support development in western Canada that will help put Canadians elsewhere in Canada out of work. In that we are in a real sense a national program. We do not support simple expansion or modernization of existing business activities. We do not support infrastructure. We have been approached for assistance to build ports, runways, canals, and roads, to subsidize air services and a variety of other things. Our reply is consistent. It is that there are other levels of government and other federal government departments, for example Transport Canada, which can be approached to assist with these projects.

And indeed, part of our role within the federal system is to insure that western Canadians are getting their fair share out of those other federal government departments.

The Western Diversification Program is not an entitlement program. Projects are dealt with by staff exercising judgement on a case by case basis. We don't fund bail-outs, buy-outs, or financial re-structuring. We don't fund retail or franchise development. We don't fund municipal infrastructure or post-secondary education programs. You must be getting the idea that there isn't much we do by now.

To be eligible for assistance, projects must relate to one of five things. They must relate to new

products, new markets, new technologies, import replacement or productivity improvement on an industry-wide basis. And that is how our Minister, originally the Honorable Bill McKnight, and more recently the Honorable Charles Mayer, have chosen to define diversification in the western Canadian context.

If a decision is taken to invest under this program, we do so through a repayable contribution. If the project is successful, the company will make money and the government should be repaid. If it fails, the government shares in the loss.

Since we opened for business on August the 4th, 1987, we have had over 120,000 telephone calls, that is more than 1,000 a week, and we are getting close to 10,000 office visits at one of our five offices across western Canada. In keeping with our name and our mandate, projects that we fund here in B.C. are as diverse as our geography and our economy. They come in all shapes and sizes, from nearly every industrial sector and service group. Quite a number of them will help inventive B.C. people take advantage, full advantage, of the opportunities presented by Free Trade.

You have probably already heard about some of the bigger projects, but let me give you some examples. Early on we contributed nearly \$9.5 million to the Fraser Valley Independent Shake and Shingle Producers Association to help launch a five-year market development program aimed at increasing U.S. demand for red cedar shakes and shingles.

We helped Western Star Trucks with their plans to design and build a new aerodynamic truck cab with a \$4.3 million repayable contribution.

In conjunction with the Province of British Columbia we provided loans totalling \$8.5 million to help Norvik Timber establish the largest hardwood manufacturing facility in North America.

But, I don't want to give you the impression that Western Diversification is only supporting large projects. As a matter of fact, the majority of our clients are small business people. WD funding is flexible enough to help small operators in the crucial start-up phase, topping off their own equity and sometimes encouraging other private investors to get behind the project. I'll give you a few examples.

We made a repayable contribution of \$80,000 towards Ergo Industries Development of a solar-powered submersible water pump. This product, which is produced in North Vancouver, will be a boon to areas where electricity is in short supply but sunshine is plentiful. Obviously the market is not in Vancouver. But it is in such areas as the Southern United States, as well as the Pacific Rim and many third world countries.

We provided \$55,000 in repayable assistance to a company called Power Fit Exercise Equipment. They design and market a compact, easy to use, and asthetically pleasing home exercise bench set. And there were not any western Canadian manufacturers of that kind of equipment before Power Fit came on to the market.

Pacific Cedar Yard Products Ltd., you have seen a picture of them on the front page of the Business Section of the Vancouver Sun a couple of weeks ago. This company found a ready market for its prefinished western red cedar gazebo kit in the pacific northwestern and atlantic northeastern United States. We provided assistance of \$190,000 to help them build up an inventory and to double the export sales to more than \$2 million during this current year of 1989. We were pleased to see that this company took top honors for the best do-it-yourself project at the 1989 National Home and Hardware Show in Chicago last month.

Just after our first anniversary in August of last year, we announced the 500th project that was funded by Western Diversification, with a company called Recco Research of Vancouver. They received \$149,000 to build up an inventory and market a people locator system, a practical low cost method of locating lost skiers, hikers, and equipment. Recco sells the sensor, an antenna, to facilities like ski resorts and produces low cost locator decals for the individual skier. In fact, you can see them marketed around Vancouver even right now during the ski season.

I'm proud to say that we have analyzed and supported these and other high quality projects with

a small, professional, and dedicated staff of 320 across the entire Department. We have about 50 of them here in Vancouver.

We work very closely with other federal departments and agencies such as Industry, Science, and Technology Canada. And we rely on them to assist us on complex analytical or policy issues. Western Diversification has established strong links with provincial governments and with industry. And in fact, a significant number of the projects that we do are analyzed by us and the province jointly, and often financial support is shared by both levels of government.

As you know, the Western Diversification Dept. Headquarters are located in Edmonton, not in Ottawa. We consider that to be a very important and more than symbolic decision on the part of the government. Each of the regional offices, and there is one in each of the four western provinces, are headed by Assistant Deputy Ministers. This is a high degree of de-centralization for a federal government department.

We have a Senior Assistant Deputy Minister in the Ottawa Liason Office. His organization plays a vital role in keeping the Department close to what is happening in the nation's capital. In addition to that, we have Sector Specialists in place covering eleven economic sectors critical to the economy of western Canada.

These eleven sectors are agriculture, forestry, energy, the service sector, trade, mining, manufacturing, technology, tourism, and transportation, and then we have one specific sector that we locate in our Ottawa office which we refer to as fiscal and tax policy.

Because we are a small department, we operate on a matrix management system. This allows our staff generalists, such as the people who work in our Vancouver office here in the Bentall Centre to be backed by industry sector specialists who are dotted throughout the Department across western Canada.

So, that really is the overall story of Western Diversification as it was conceived by the government in 1987, as it is currently being implemented across western Canada. I have brought some material which you will find at the back of the room including copies of the slides. The copy of the one brochure that we put out, which we refer to as our backgrounder, contains more information about how the program operates, and copies of our newsletter which we published last fall are there as well. If any of you would like to get on the mailing list for our newsletter, please leave your business card with either Randy or myself and we would be happy to do that.

Now, it is my pleasure to introduce one of those sector specialists that I talked about. Randy Harrold is our Director General in charge of our trade activities and functions. Randy, although he operates out of Winnipeg, is responsible for that activity across western Canada and in Ottawa.

RANDY HARROLD, Panelist

I'll focus on the services that Western Diversification can provide to develop new markets for western products and to assist the growth of exports. We run one simple program, the Western Diversification Program. In a general sense, it may be said that the whole Western Diversification Program is an export development program. In a vast majority of the more than 900 projects which have been given assistance, it is for new products, new technology or industry-wide improvement. The support is directed primarily to companies to improve their ability to export into new markets.

We do have some specific marketing projects as well. For a project proposal to meet the "new markets" criteria of our program, it can include promotion and acceptance of Canadian standards and project specifications, publication of information to promote Canadian products, market research and analysis, advertising, trade shows, seminars, field trials and other events, market development, import replacement, and export development. That was the broad mandate given to us in the program design approved by the Treasury Board.

The program provides market assistance to three types of projects: those proposed by individual firms; those which are systemic industry projects; and those proposed by associations.

Assistance to individual firms is normally provided if it is directed to the development of new as

opposed to existing markets. This can include developing a marketing plan, market promotion, or operation capital assistance. Industry-wide assistance is given on the basis of a campaign or market development program to expand existing markets.

Assistance for commercially-based marketing undertakings is normally in the form of repayable contributions. Contributions are repayable to meet obligations under the GATT code regarding export subsidies. Some systemic or non-profit associations have been given non-repayable contributions because they do not stand to gain directly in the marketplace.

Robin has given you the flavor for a number of individual firms which have been successful particularly in the export market out of B.C. A few others include Adventures in Learning, a producer of audio cassettes and a book distributor in the U.S. And their project was provided with a contribution for inventory building and project launch in the U.S. market.

With Sunshine Innovations, a manufacturer of modular pre-school play areas, assistance was given for U.S. distribution and inventory building. In Alberta, Vision Wall Technologies, producers of a high insulation window, which reduces heating and ventilation requirements in buildings, was assisted.

Dialguard Ltd., in Edmonton, is a manufacturer of computer security devices controlling access to computer systems through smart cards and code encryption. In Manitoba, Knit-Rite Mills, who produce patterned sweaters and knitwear, was given assistance for new technology and equipment to develop their U.S. market opportunities.

Palliser Furniture, which is a vertically integrated and diversified manufacturer of wooden and upholstered furniture, was assisted to develop their U.S. market through upgrading technology used in their production facilities.

Some examples of systemic or association assistance. Robin has mentioned the Fraser Valley Independent Shake and Shingle Producers. That was a \$9.5 million contribution for a five-year market program. Producers of shakes and shingles will provide \$11.5 million to the project for a total of \$21 million over five years. To Potash and Phosphate Institute of Canada, based in Saskatoon. A \$5 million contribution was made to diversify market opportunities, mainly offshore. To Prairie Implement Manufacturer's Association, a half a million dollars over three years was given to develop and market innovations in farm machinery and move those into the market.

As Robin indicated, any of our provincial offices can receive proposals from companies for market expansion, development, or new export product assistance. The proposals should in the first instance come in a letter, a two-page description. There will be follow-up contacts and the proposal would be examined on the basis of the financial viability of the proposal, accompanying business plan, and marketing plan. Assistance is normally on a repayable basis.

The Trade Sector office is located in Winnipeg and serves the Department. The cross-sectoral nature of trade requires integrated development planning in conjunction with other WD offices, with our regional offices, with the International Trade Centres. We meet frequently with the four International Trade Centres to plan and exchange information and strategies with External Affairs. And we also keep abreast of policy developments in Ottawa and elsewhere in order to advocate particular interests that westerners have in export development and trade policy. A current one is the request from a number of firms for acceleration of tariff removal under the FTA.

The Trade Sector also identifies particular trade expansion opportunities and supports them with program funding, with market assistance, with pathfinding with other government departments' programs, and with coordination and support.

We have developed some activities that you could call programs, that is to fill some program gaps, for example. We have assisted in the development of marketing consortiums. The first being Agri-Tec which is a marketing consortium of grain handling and storage equipment manufacturers based out of Manitoba but including some member companies from other provinces. That is a \$4.5 million project over five years for a marketing consortium. We will assist them with start-up costs, to provide a range of services to customers and to position themselves to bid on large international

contracts.

Work is ongoing on a similar consortium for environmental industries that stretches from British Columbia firms to a Toronto-based firm that has extensive operations in the west.

A second area of innovation has been our International Marketing Initiatives Program. Zen described to you the Program for Export Market Development. We can assist companies through IMI to attend particular events that are identified as priority diversification opportunities. For example, five West Coast firms were able to display their products at the Sea-Air-Space Show put on by the Navy League in Washington, D.C. this March. It was a procurement type of event. For the first time there were western firms represented at it. Five out of the twenty Canadian firms that went were from the Vancouver area.

At the Montreal Womenswear Show we assisted seven firms in the garment industry from the West to attend the international event in March where External Affairs was able to bring in 120 foreign buyers. So that was a second experimental international marketing initiative. We expect to pursue a number of those initiatives.

We also assist in investment networking and can support technology transfer proposals.

JIM O'HARA, Rapporteur

For fifteen minutes there will be a wrap-up of some of the sectors if you want to stay behind, please feel free. At 4:45 John Bullock is going to speak. This may be your only opportunity to pin these guys down if you have a question.

Question:

I guess the one question that I would have right off the bat is how you differentiate between the PEMD programs and the WDO programs if you are both involved in market development and market expansion. Who do you go to first?

Answer:

You go first and see if PEMD is available. If Zen knows that PEMD is not available, he usually is in touch with us and we see what we can work out as far as filling the gaps in existing programs.

Comment:

Just let me add one thing on that. There is one particular point that is very clear on PEMD. We can only give assistance for someone to use the PEMD to go out of Canada. There may be a major event in Toronto, for example, where 125 U.S. buyers may be present. We do not have the ability to finance a Canadian company going to an event in Canada. This is where WDO can fill that gap.

Comment:

I think another point is that as far as the mainstream WD program is concerned, we would be less interested in a single trip than we would in the entire market development exercise including market research and possibly the build up of a sales force, and the establishment of additional production capacity to support a sales drive. We would be looking at the entire exporter market development program rather than a single trip.

Question:

Under what conditions are WD contributions repayable?

Answer:

It really depends on the nature of the project. In order for the project to create sales, the project has to be a success. If you can separate the project and the sales and the revenue that the company is going to earn from that, and if it is clear whether or not the project is going to be successful, in most cases we would make it conditionally repayable on the success of the project. We get involved in a number of projects where an existing company has an ongoing operation. We may feel that because of the nature of the risk involved, that the company should repay us in any event, whether or not that particular project is successful. So, it really is a custom sort of negotiation.

Question:

Do repayments of WD contributions go back into the fund?

Answer:

Not strictly speaking. The Department adopted a policy very early on that in terms of what we are trying to achieve in western Canada, in terms of the nature of the business community, repayable assistance makes more sense. It has been palatable. It is more businesslike. It keeps us out of trouble with things like countervailing duties. And in addition to that, if we can demonstrate to the Federal Treasury Board that they are getting a good portion of the money back, it will make it easier for us to replenish the fund. If we exhaust the current resources we can show that the government has had a direct return of those funds. The money that is being repaid in a technical sense goes back to the consolidated revenue. It does not stay in the Department. We would have to get authorization by the government and another appropriation vote by Parliament to put that money back into our funds. Our feeling is that will be a lot easier if we can go to the Cabinet table three or four years from now and say, "Ministers, we committed and spent \$700 or \$800 million over the last few years and you have received back \$500 million of that."

JIM O'HARA, Rapporteur

Perhaps we should conclude and thank our guests from the Federal Government. Let's just hope that after the budget is brought down that there still is a Western Diversification Office or an enhanced Western Diversification Office.

(Note: the following pages have been supplied for inclusion with this workshop's transcription by the International Trade Centre.)

TRADE PROMOTION IN THE UNITED STATES
DEPARTMENT OF EXTERNAL AFFAIRS' PROGRAMS

External Affairs has the government mandate to promote trade abroad. The department is divided into five geographic branches. Each branch is responsible for Canada's entire foreign relationship, including trade interests, in the five major regions of the world: the U.S., Europe, Africa/Middle East, Asia/Pacific, and South America/Caribbean. Integrating all of the country's interests in one region into one branch, tends to avoid a situation whereby a political policy is developed which turns out to be at odds with, say, trade interests.

Promotion of trade into the U.S. is managed by the U.S. Trade, Tourism and Investment Development Bureau. Although this unit is located in Ottawa, it works to assist the private sector in cooperation with the International Trade Centres located in every region of the country, and the trade departments in each of the Provincial Governments.

External Affairs' programs are also delivered through trade posts in the United States. The U.S. is an array of many very large, but distinct, regional markets, each having its unique characteristics. In fact, several of these so-called regional markets are quite enormous. For example, the State of California, if an independent nation, could rank sixth among the world's industrial powers. Thus, Canada has been aggressively expanding its network of trade offices in the U.S. in order to service these markets on their own terms. There are now 22 trade offices in the U.S. - almost one in every major metropolitan centre in the country. It is planned to open another five in the next several months.

Funding for the trade promotion program in the U.S. is obtained from a number of sources. For the fiscal year 1989, there will be approximately \$20 million available to finance trade promotion activities in that country. This is the largest single program of any kind in the department and represents the government's very firm commitment to ensure that Canadian companies succeed in this market which is so vital to Canada's economic interests. With the advent of the Free Trade Agreement (FTA), External Affairs has in place a program designed to fully support Canadian exporters in their efforts to take maximum advantage of the opportunities flowing from that historic agreement.

Fairs and Missions - "Direct" Trade Promotion

Trade promotion events such as incoming buyers missions and participation in U.S. trade fairs are proven tools which materially assist in fulfilling the department's trade objectives in the U.S. Trade fairs are particularly important in the United States where new products are introduced, representation established, a considerable amount of business is transacted and Canadian firms get a very clear, concise picture of the competition.

- In the past 2 years the program has tripled. With a new infusion of funds, another substantial increase is planned for the current fiscal year.
- Central aim/objective: To ensure every small and medium sized "export ready" firm has equal access to government programs in the U.S.
- Events are closely related to opportunities flowing from the Free Trade Agreement.
- The department's plan during the current fiscal year is to mount some 400 events/activities with the participation of 10,000 Canadian exporters.

New Exporters to Border States (NEBS)

- One day intensive course in exporting at no charge to the participants.
- Managed by the provincial government and the federal government's regional International Trade Centre to border posts, i.e. Seattle from B.C. and Alberta.
- Results to date: This program was developed as an education tool, yet in 3-1/2 years direct export sales of more than \$50 million have materialized and 50% of the participants have achieved export sales.

New Exporters to U.S. South (NEXUS)

Aim: To build on the success of the NEBS program and recruit successful graduates of NEBS, mix them with some larger, more experienced exporters and take them into cities in the U.S. South where Canadian exporters have not been particularly active. It is planned to kick off this program in the spring.

New Trade Satellite Offices in the U.S.

Canada now has 9 offices in addition to the embassy and 12 consulates in the United States. A number of these offices have been established to target specific industry sectors, e.g. Houston - oil and gas; Dayton - defence; and El Segundo - high tech.

The government's plan is to open five new offices during the next year: Miami, San Diego, San Juan, Puerto Rico, Princeton, New Jersey, and Denver, Colorado. It is envisaged that Denver, for example, will be a natural service post for Saskatchewan and Alberta companies and Puerto Rico for Atlantic Canada exporters.

Free Trade Communication Initiatives

In partnership with the provinces and the Canadian Exporters' Association, the department has recently mounted three major initiatives across Canada:

1. Technical seminars on tariff changes (FTA related) and customs harmonization.
 - 12 seminars across Canada.
 - 2200 companies participated.
2. Seminars on U.S. federal government procurement opportunities.
 - 10 seminars across Canada.
 - More than 800 participants.
 - The next step will be follow-up missions to bring Canadian exporters to U.S. procurement agencies and buyers from U.S. agencies to Canada.
3. Seminars on export financing and insurance for the U.S. market. (EDC, Canadian Bankers Association, provincial agencies) - April 24, 1989 in Vancouver.

Aim: To help small and medium sized companies identify sources and processes for obtaining financing and insurance (including product liability and venture capital) to better enable them to export successfully to the U.S.

WIN Exports

The World Information Network for exports (WIN) is a micro computer based system designed to give trade officers easy and efficient access to the products of more than 22,000 Canadian exporting companies. It also allows individual posts to create files on companies in their territories which are interested in doing business with Canada. In this way American buyers can be matched instantly with Canadian suppliers.

The WIN exports system has been installed in all of the U.S. posts as well as in the U.S. Trade, Tourism and Investment Development Bureau at headquarters. WIN exports is a tool of considerable power and potential. It enables both field and headquarters officers to respond immediately to export sourcing enquiries and to effect substantial increases in trade development activities. The system is resulting in improved sales performance. This month, for example, WIN exports proved extremely useful in the Cleveland office by helping to locate seven Canadian fabricators of pressure vessels, thus enabling a Cleveland area firm to place \$400,000 worth of business in Canada.

Program for Export Market Development (PEMD)

PEMD is one of the major trade promotion instruments of the Department of External Affairs. The main objective of the program is to increase export sales of Canadian goods and services. This is accomplished by sharing the costs of activities that companies normally could not or would not undertake alone, to reduce the risks involved in penetrating a foreign market. PEMD encourages companies not previously involved in exporting to become exporters. PEMD also encourages existing exporters to enter new geographic markets and new product markets.

The program offers Canadian businesses financial assistance to undertake visits outside of Canada to identify new markets, to participate in foreign trade shows, and to bring foreign buyers to Canada. There are several additional activity areas also eligible for assistance each with the purpose of encouraging Canadian firms to actively seek export opportunities not only in the U.S. but throughout the world.

Analysis of Import Data on a Sectoral Basis

The department recently commissioned a study by Peat Marwick aimed at identifying opportunities for Canadian products to replace current U.S. imports from Europe and Japan. These have become less competitive as a result of currency changes relative to the American dollar. The department believes that American industry will be less sensitive if Canada's share of the market is improved at the expense of Europe and Japan, rather than through displacing U.S. industries, which often results in the utilization of U.S. trade remedy laws. Through extensive interviews with American buyers and importers, the study will determine specific potential for Canadian supply, the actual requirements of the market distribution channels, price points, and end users. The preliminary results indicate that American importers, faced with increasing prices from their European and Japanese suppliers, would like to learn more about Canadian products. Currently, many are unaware of Canadian manufacturing capabilities. Canadian industry associations and their members have been closely involved in this project, particularly in determining which product groups to choose, and in the design of the questionnaires. Industry association involvement is key to ensuring realistic results and follow-up.

The ongoing conclusions drawn from the study, as each product group is completed, will guide the department in its future programming. The U.S. bureau will target those sectors offering the most promise, and establish a series of promotional events (i.e. participation in U.S. trade shows, incoming buyers, etc.) aimed at encouraging potential Canadian exporters to exploit those opportunities.

Working with Trade Associations - Service Exports

In 1987 External Affairs compiled a directory of 265 Canadian industry associations which indicated that although many Canadian industry associations are quite small and have limited resources they are nevertheless interested in expanding their activities to include export promotion. Consequently, the bureau has held discussions with a number of associations to establish a process whereby assistance can be given for market studies and other appropriate activities which are necessary to ensure the successful penetration of the American market by their membership.

Partnership with industry associations expands the capacity of the department to deliver its programs to a much broader array of Canadian businesses in all parts of Canada. Moreover, it will lead to more effective dialogue in respect of individual sectors and enable export programs to be more closely attuned to the needs of specific industries to increase their overall probability of success.

Currently, External Affairs is concentrating its efforts on the services sector where much work remains to be done in assisting Canadian service exporters to carve out a larger stake in the U.S. market. The department is working with Canadian associations to develop clearly defined strategies and a series of promotional events to take advantage of the Free Trade Agreement and the opportunities it presents to Canadian exporters in the following areas: Architecture, Construction, Computing and Technical Services.

Investment Development

The Free Trade Agreement will create new growth and profit opportunities for direct foreign investment in Canada. These opportunities will lie in industries which are likely to benefit over the medium to long term from improved access to the U.S. market, especially in those sectors where the full potential of Canadian productive capacity necessary to exploit this market, and in light of Canada's competitive human and natural resource base, is not yet fully met. Because of the close linkages of trade, technology and investment flows, investment promotional activity in most cases will complement development efforts in the trade and technology fields, and vice versa.

The U.S. is Canada's largest, most diversified source of foreign direct investment. All levels of Canadian government, as well as private sector organizations, attach top priority to seeking out U.S. investors. In fiscal year 87/88, External Affairs' U.S. program produced over 400 serious investment leads. The objective of the program in the U.S., when introduced three years ago, was to create a positive attitude among prospective investors: "Canada is open for Business." The U.S. program's orientation has become both more comprehensive and more specific, under the banner "Canadians are excellent business partners." It is increasingly targeted towards cultivating leads in particular industry sectors, with a view to attracting to

Canada internationally competitive industries and technology-bearing investment. Target sectors include electronics, automotive, machinery and industrial equipment. Priority technologies include microelectronics, advanced industrial materials, biotechnology and advanced manufacturing processes. All of the U.S. posts have a clearly defined investment program in place and a series of promotional events is undertaken each year in conjunction with other Canadian partners.

Summary

It is almost redundant to repeat that the American market is probably the single most important element contributing to the continued prosperity of the country. The bureau has been successful in putting together a trade development program which on the one hand introduces new exporters to the market through the use of such devices as NEBS, and on the other hand, supports experienced exporters by providing them with the opportunity to expand their market share by encouraging them to participate in promotional events which increase their exposure to new segments of the market. The inclusion in the program of the development of a closer working relationship with associations, allows the scarce resources of the bureau to be leveraged such that more companies are covered by the program than would otherwise be possible. This is not unimportant in these days of ever increasing resource restraint. The program is front and centre in the department's and the government's strategy to ensure the Canadian business community is well positioned and well supported to take maximum advantage of the opportunities related to and flowing from the Free Trade Agreement.

WORKSHOP NUMBER 10 STRATEGIC PLANNING UNDER FREE TRADE

The workshop panelists all concurred that, while free trade creates a climate of opportunities, it is nevertheless up to each individual company to capitalize on those opportunities.

It was suggested that the first step to capitalizing on such opportunities involved assessing the firm specific impact of the Free Trade Agreement (FTA). This could be determined by examining the FTA in relation to tariff barriers, non-tariff barriers and the Rules of Origin as applicable to each individual company. Once a company understood the impact of the FTA, it was maintained that the next step involved developing a strategic plan designed to ensure that the company capitalized on the opportunities of the Agreement and minimized any negative effects. A strategic plan was viewed as an important tool to focus and maximize the resources of each company.

Information was also provided regarding a workshop program of the Ministry of International Business and Immigration (MIBI) designed to assist companies in the process of understanding the impact of the FTA and strategic planning. MIBI is planning to hold workshops in upcoming months, for a cost of approximately \$15 to \$30 per person. Interested persons were invited to contact the MIBI Free Trade Advisory Service at 1-800-663-7107.

KIMBERLEY COOK, Rapporteur

WORKSHOP NUMBER 10

Chairperson and Panelists

CHAIRMAN:

STUART CULBERTSON

Executive Director

Trade and International Economic Policy Division
Ministry of International Trade and Immigration



Mr. Culbertson represents the province in a variety of federal and provincial trade policy venues and is actively involved in the coordination and development of provincial positions with respect to trade negotiations, trade actions and export development strategies.

Mr. Culbertson is currently B.C.'s Trade Representative for the Canada /U.S. and Uruguay Round Multilateral Trade Negotiations. Prior to working for the province, Mr. Culbertson was Senior Assistant, Economic and Commercial Affairs, with the delegation of the Commission of the European Communities in Ottawa. Mr. Culbertson holds a B.A. in history and political science from the University of Toronto, and an M.A. in international affairs from Carleton University.

DENNIS GRIMMER is Director of the Trade Policy Branch, Trade and International Economic Policy Division, Ministry of International Business and Immigration. He has worked with the B.C. Government for eight years in Trade Policy. Prior to joining the province, he was a Foreign Service Officer with the U.S. Department of State, also for eight years. He has a B.A. in economics and history from Marquette University, and a J.D. from the University of Colorado Law School. He is a member of the Colorado and Washington, D.C. bars.



ERIC VANCE is a Certified Management Consultant working as a Manager with the *Coopers & Lybrand Consulting Group*. He specializes in economics, trade, strategic and business planning and marketing. Mr. Vance has examined the implications of the FTA for a number of industries including the automotive, brewing, electronics and telecommunications and professional business services industries. He holds B.A. and M.A. degrees in urban and economic geography from UBC.



RICK SIM is Controller for *Wedge Clamp International Inc.*, a Canadian owned B.C. manufacturer of collision repair equipment. The company is enjoying rapid growth and product acceptance in Canada and overseas. Mr. Sim is responsible for all administrative and financial operations for the company and contributes a 12 year background in small business management.



RAPPORTEUR:

KIM COOK

Prior to joining the law firm of Russell & DuMoulin, Ms. Cook acted as an advisor to the B.C. Government regarding the impact of matters pertaining to international trade, including the FTA, trade actions, U.S. and Canadian trade law and the law of the GATT.



WORKSHOP NO. 10

STRATEGIC PLANNING UNDER FREE TRADE

STUART CULBERTSON, Chairman

The Trade Policy Branch has been the group that have been the most actively engaged, at least in the provincial government, in the Free Trade Agreement both in terms of the negotiation of the Agreement and with consultations with the federal government.

There is much work that lies ahead on the Free Trade Agreement in terms of the negotiations that still have to go on. I think the important message about this agreement is that to make it work, people must take advantage of the opportunities that are in the Agreement or put themselves in a position to develop strategies and accept challenges coming from the Agreement.

Before turning to our speakers I'd like to talk a little bit about what we will be covering and give you a little bit of history about our strategic planning approach to the Free Trade Agreement. Everybody knew from the beginning that the ultimate success of the Agreement was going to be dependent on the responses the individual companies took to the Agreement and that depended on their understanding of what the Agreement meant to their company operations.

I suppose it was last summer when we were reviewing the first FTA materials from the federal government. Some private sector groups were uncertain what the Free Trade Agreement meant. We got the feeling that there was a missing link in the equation and that the material available on the FTA was not getting to a point that would help individual companies understand or find a way of understanding what the Agreement meant to them on an individual company basis. And indeed, as it has been said about the Free Trade Agreement and the free trade debate, the more details that were discussed about the Agreement itself, the lower the level of the debate sank. So, when we headed into the federal election, there was little discussion on the actual impact that the Agreement would have on businesses as I'm sure most of you in this room know who were in Canada during the election.

So, we saw that the challenge for us was to try to develop some kind of tool, a generic tool that could particularly be applied to manufacturers that would take them through the Agreement in terms of asking some critical questions about their competitive position and the kinds of trade and tariff and non-tariff barriers that would be removed under the Free Trade Agreement. A key issue was whether those barriers were impacting either their operation or their competitors' operations.

We set ourselves onto the project of developing a piece, the ultimate aim of which was really to let an individual company know what side of the line they were on - does the Agreement positively impact you or negatively impact you, or not? And then laid on to that, to help firms in using strategic planning material. Once you've understood in fairly broad terms what the Agreement means to you, what do you do, how do you either take advantage of the opportunities and instruct yourself in the best way to do that or how do you adopt an adjustment strategy if you're perceiving to be negatively impacted.

We developed this program into a workshop format and we have been delivering it throughout the province in both its pilot phase and its formal phase since October or November of last year. The workshop has recently been attached to a seminar series on the free trade agreement that some of you may have had the opportunity to participate in. We have been in each of the development regions within the province and done a seminar which is similar to what we're hearing today on the Agreement and then did workshops based on this guide to strategic planning.

What we do is limit the number of companies that can be in the workshop to about twenty. The workshop is a pretty ambitious session and certain information has to be brought in advance to best benefit from it and so far to date we've had 205 firms through this workshop program. And we also have a schedule of workshops that are coming up in the next couple of weeks and certainly after the presentations today, we'd be happy to provide you with some more information about how to get involved in the workshops and perhaps you could give us some ideas about how we might best put

them on. I'll leave it up to my colleague Dennis Grimmer to give some more information about what we actually do in these workshops.

DENNIS GRIMMER, Panelist

Before I talk about the strategic planning guide I'd like also to mention some other specialized papers that we have circulated to all the participants of our workshops. The basic premise of this, as Stuart mentioned, was to develop fairly detailed information that companies could use that would give them some practical pointers on how to perform some of the key steps in assessing the market and in taking advantage of what we see being the export opportunities.

One, we have a case study prepared by Touche Ross on "Knowing the Market, The Key to Successful Exporting to the U.S." It's an excellent case study on doing market research. I'm mentioning these because at the end I'm going to make a pitch for those companies that haven't been through the workshop to sign up and I want you to know what's involved.

There's another interesting paper basically on the same point, Practical Pointers on Selling to the U.S., dealing with how you do market research and how you can do it at low cost. I think as Stuart alluded to, our key focus in this process - obviously there is more to the Agreement than trade in goods - was on manufacturers and primarily small-to-medium sized manufacturers that maybe don't have much staff to provide this kind of analysis on their own.

A third document that we have is Exporting from Canada by the Livingston International Group. This deals with all the documentation involved in exporting.

And finally we also have another paper by Peat Marwick, Alternative Methods of Penetrating the U.S. Market, dealing with the different channels of distribution.

The basic objective of the workshops, which take about three hours, is twofold - one to provide the information at a detailed level, in other words at a company's specific level, on how the agreement's going to impact their operations, and to provide information as well on how trade policy affects a company's operations. The second, and probably even more important, is to attempt to teach a methodology. We do not, in the three-hour session, end up with a strategic plan for all the companies that participated in it. But we do go through a number of exercises in the guide, and the guide is fairly complete in that it takes you from start to finish, such that after a company has been through the workshop, worked through the guide, done the exercises, after they go back to their company, we think they have a very good idea of what kinds of additional information they need to develop. And then by going back through the strategic planning guide, we think at the end of the whole process, which could be a couple of weeks, a month, or several months, they would be in a position to develop a strategic plan to react to free trade. So that's the basic objective.

Now what I'm going to do in the next seven or eight minutes is go through the first four steps of the workshop and then Eric Vance will be going through the last part, the strategic planning process.

The basic methodology starts by looking at the current impact of trade policies on companies' operations. That's basically taking a snapshot of what the impact of the current trade policies are on a company. In the second step, basically, we look at what the Free Trade Agreement does to those trade policies. Tariffs obviously will be completely removed. There are a number of changes in a non-tariff barrier area, so we look at how the Free Trade Agreement will impact on the trade policies that are relevant to your operations. The third step is to look at the overall impact, in other words to pull the information from the earlier sections of the guide into a comprehensive assessment of the overall impact of the agreement on your operations. That sets the stage for what would be the overall impact of the Free Trade Agreement, that is, what would likely happen to your company in the absence of strategic planning. The basic premise is that once you've assessed the probable impacts, you can considerably improve upon your position by using some strategic planning approaches.

So, the first step deals with the most important area, basically tariffs. Tariffs are, in most companies' circumstances, the single most important area where the existing trade measures have an important effect on the protection they enjoy in the Canadian market and it also is a major hindrance to their ability to export to the U.S. because of U.S. tariffs. So, the first step involves classifying all

the relevant tariffs. What do we classify? We classify the tariffs of all their products, at least their principal products. You have to have a U.S. and Canadian tariff classification. And we also look at the inputs. One of the critical developments under free trade is that many companies are sourcing inputs from across the border and that reduces their cost structure. So, it's very important to know what the tariffs are for all your products and all your major inputs.

Once we have that information we look at the staging category. That tells you what the phase-out is going to be for these tariffs, whether it is immediate - went to zero on January 1, 1989, whether it is a five-year phase-out or a ten-year phase-out. And that's really critical because one of the basic points we're making is that you may assume that the current trade policies are not that relevant to your business, whereas in fact you may be protected by quite a high Canadian tariff and maybe next year the tariff will still be quite high but it is coming down to zero and it's important to know this, to be able to forecast exactly at what rates those tariff changes are going to occur, so you can prepare for them.

Step 4 looks at all significant tariffs. Especially with respect to inputs, your cost structure is going to determine which tariffs are most important. So, we focus obviously on the most important ones.

Step 5, involves projecting the tariff reductions, as I just mentioned, showing what the phase-out schedule would be.

And Step 6, categorization of tariffs, is pretty fundamental. Throughout the whole strategic planning process we're always looking at the impact on the margin of a particular barrier. Is it protective of your sales in Canada or is it a hindrance to your exports to the U.S. We classify everything one way or the other. All of the trade policies would have one or the other effects.

The second step that we move into is the whole area of non-tariff measures. Unlike tariffs, non-tariff measures are not quantifiable. In some cases they are quite important. They present considerable risk to certain exporters. We go basically through three questions. Is a non-tariff measure relevant to your business? We have a list of seven of them. If it's not relevant, then you don't need to look at the second and third questions.

The second question, of course, is, again, what is the impact of the measure? Is it a benefit or a hindrance? Throughout the analysis we are always looking at both sides of the equation, not only the export opportunities, the export market, but also what the projected effect is in terms of increased competition in your own market. That, in many cases, is more relevant to smaller companies because they're not currently exporting.

Then, the third thing we look at is what are the changes under the Free Trade Agreement in each non-tariff measure area and what is the effect of those changes. Obviously if there's a particular trade policy that's had a protective effect, it is protecting your sales in Canada. The changes would tend to reduce that protection and increase competition. The areas that we go through in non-tariff barriers are the seven noted there. We have found, in talking to companies, that one of the really useful things of having this interplay in a small group is they can raise questions about problems they've had. For most companies the temporary access issue is the most important in that it has been a hindrance to their selling to the States. So the changes there are going to increase their export potential.

There are other areas noted but when you are talking about secondary manufacturing, you typically don't run into import controls or quotas. The one big questionmark here, of course, is contingency protection. But in the secondary manufacturing, that has not generally been a problem with respect to smaller companies because typically they're not that dominant in terms of the size of the U.S. market that they would have.

The third area that we look at, it's very important, is the rules of origin. This was discussed this morning. To qualify for treatment under the Agreement you have to meet the rules of origin. This analysis is very particular to each company and the individual products they produce, what inputs they use and the circumstances as to where those inputs are sourced. We explain the principles involved in the rules of origin and we have kind of an acid test as to whether a company is likely to

have problems in the rules of origin area based on where they source their inputs. Obviously if they're sourcing exclusively in Canada or the U.S., they are almost certain that they meet the rules of origin, they wouldn't have a problem. And then conversely if there is sourcing offshore, then they need to do a detailed analysis as to whether they would meet the rule of origin.

One of the things we like to emphasize is that one of the major developments in international trade over the last 25 to 30 years is increased trade in intermediate goods, basically inputs, components. And so we try and tell our participants that they should use the rules of origin in a creative way and that means if they are currently sourcing all their inputs in North America, they should think, if they know the rules of origin for their particular products, whether they would be able to source some of the inputs from offshore, lower their cost structure and become that much more competitive. So, the question is not simply, can I meet the rule in my current situation but how can I use it in a dynamic creative way.

So the first three sections that we go through basically accumulate a lot of information, with respect to tariffs, hard data and data which you classify either as protective of your sales in Canada or a hindrance to your exports in the U.S. We've also captured in the non-tariff measure areas some data that's not hard but it's useful and it's also been classified as protective of your sales or a hindrance to your export sales.

Part 4 pulls all this raw information together that's either protective or a hindrance and attempts to look at, given the accumulative data you have, what are the competitive implications of this data on your competition. There are a number of question sets and exercises we use that get companies thinking about what the competitive implications will be over time.

One of the items I haven't mentioned today, is Step 3, Secondary Effects. Typically when people look at changes over time in the trade area, they tend to look at what we call first round effects. What's the impact of tariff reductions on your competition. There are a lot of related effects that occur in your region and internationally. For example, one of your major suppliers could be a company which will undergo severe pressure in terms of its competition, so it may no longer be available to you as a major supplier. So, the question set that we have on secondary effects looks at these related effects of free trade and assesses what their impact will be on your operations.

And the final thing, Step 4, is the point I mentioned earlier. It's asking you to assess, if you did nothing, given the new information you have, about the impact of trade policy generally on your company and also the impact of the Free Trade Agreement, what would be the competitive situation for your firm over time, as a result of the Free Trade Agreement.

That's basically the first four steps. This takes us, I guess, about two hours into the process.

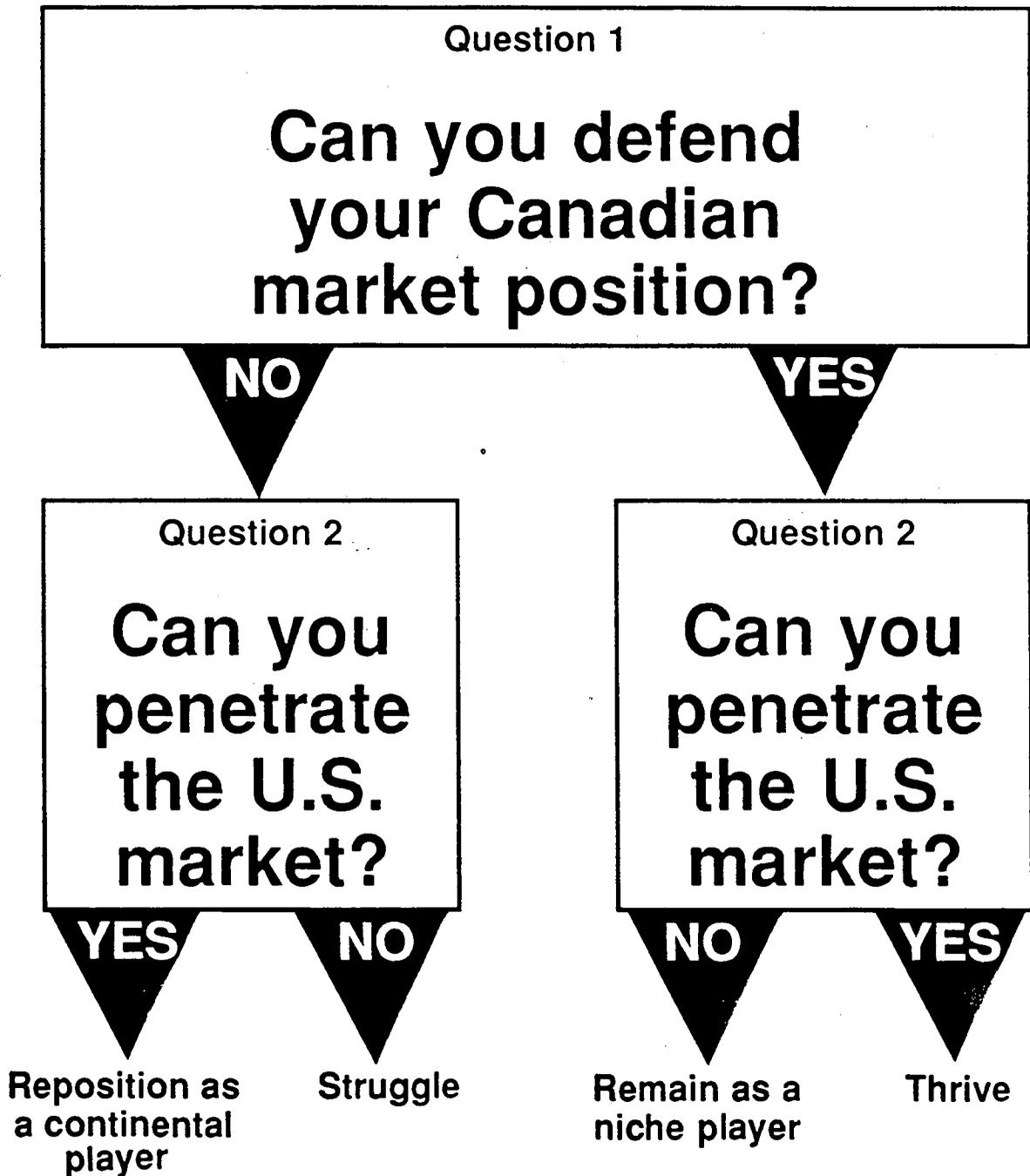
ERIC VANCE, Panelist

Well, really what Dennis has been talking about is how you assess the impacts of free trade on your business. Some of you here today may have already done that, some of you may be in the middle of doing it and some of you may be planning on doing it. But I guess what it comes down to is this: after you've determined what the impact is going to be on your business, what do you do about it? And that's when it's critical to get into some kind of business planning or strategic planning. The pitch I'm going to make here this afternoon is that whether or not you feel that free trade is ultimately going to have any effect directly or indirectly on your business, any company should have a strategic plan or a business plan (I'll use those words interchangeably because they really can be) and it's important for a number of reasons which I'll get into.

Really, with respect to the potential impact of free trade on your business, you've got to ask yourself two basic questions, as shown in Exhibit 1 on the opposite page.

One of the things we have noted lately is that a lot of people are looking at the opportunities in the United States as a result of the Free Trade Agreement. I'm also finding more and more that companies are starting to look over to Europe, particularly as a result of the Europe 1992 opportunity. So, it may be that even if people feel they may be damaged in some way by the free trade agreement, there may be opportunities in other foreign markets for them.

Answer Two Critical Questions



Anyway, if you have a strategic plan, you probably already know how you're going to respond to free trade. If you don't have a plan, you're likely not going to be able to benefit from free trade or not benefit as much as you could. You'll hear a lot of talk about the opportunities that free trade may create for your company or for your industry sector. And that's really all it is, an opportunity, but it's up to you to make it happen. And that may sound simplistic but there's a lot of work involved there.

What most companies seem to be finding, and Rick can expand upon this point in his talk, is that it's taking at least six months to a year for most companies to start moving into the U.S. market. You've got to go through a whole process of market research and there's a lot more to it, or should be a lot more to it, than most people typically put into it - making some contacts down there, finding out a little bit more about what's going on, what markets you want to get into, what customers you want to pursue, establishing distribution channels, which is really a challenge in a lot of cases, and then making some sales. And again, if you have determined that free trade is not where you want to go and you're not interested in the U.S. market, there's still a need for strategic planning.

What is it we're talking about when we talk about strategic planning? If any of you have ever been to business school or ever picked up a strategic planning text book, the classic definition is: "developing your resources in the most effective and efficient way possible to maximize profitability over the long term". What does that mean? Well, I think a simpler definition is, "how do you get the biggest bang for your buck" or "how to make the most of what you've got." And that's really what it comes down to, Given your human resources, your financial resources, your products, your markets, whatever you've got going for you - how can you get the most out of it. And that's where strategic planning can help.

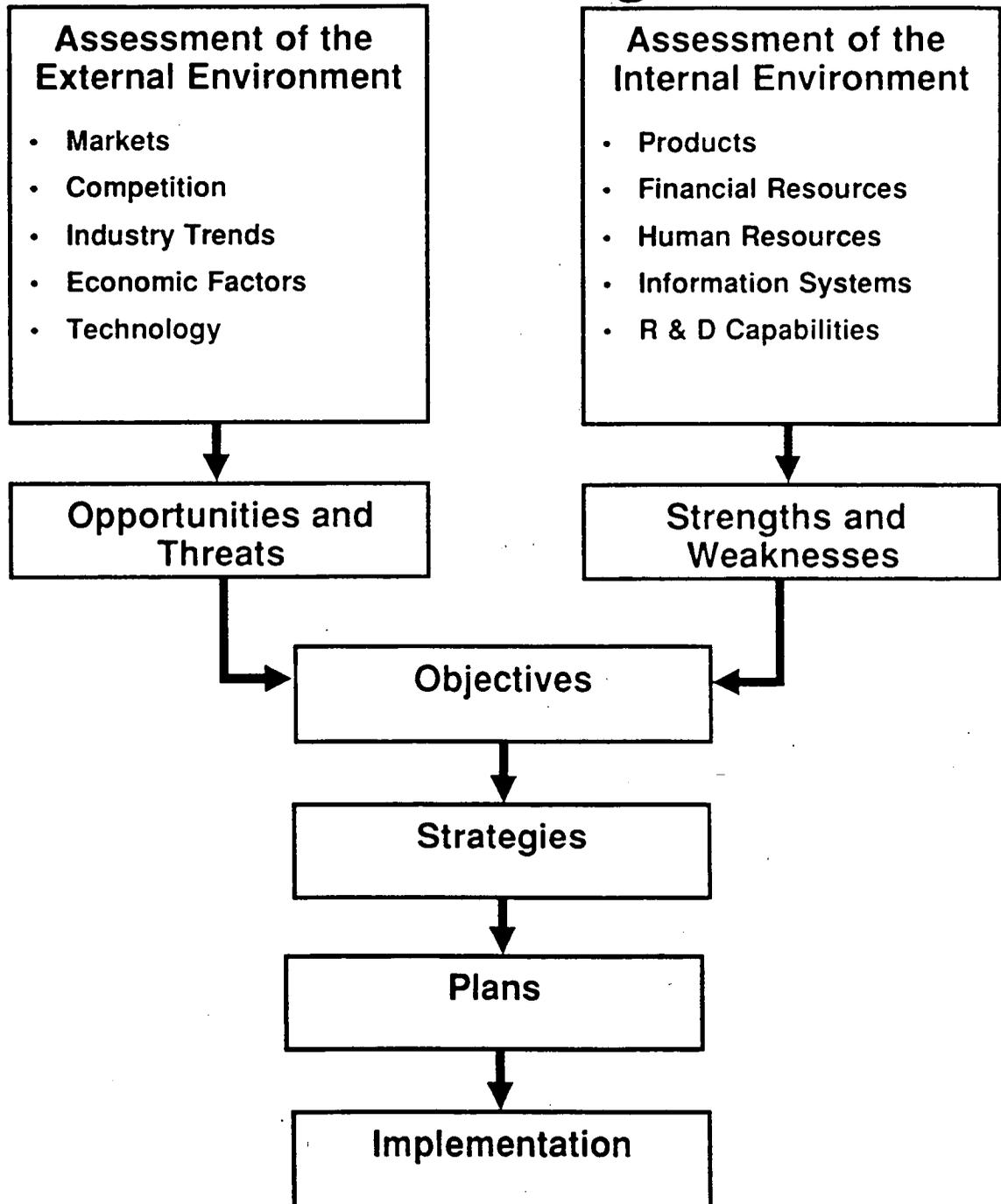
It's important for a number of reasons. First of all, it gives your business a sense of direction and focus. Secondly, it gives you some assistance in telling how you're going to get there. It helps you better understand the strengths and weaknesses of your business, if you're objective about it. It helps you better understand the external environment in which your business is operating. And, most importantly, I think what it does is help you become pro-active rather than reactive to change.

Some things that strategic planning or a strategic plan is not. It's not a thick report sitting on a shelf somewhere. It's not a means of predicting future events because no one can do that, even if they want to tell you they can. And it's not meant to be some complicated exercise that's only suited to large corporations. I think it's equally, if not more important, for a small corporation to practice strategic planning than it is for a large corporation because typically a large corporation, because of the resources it has, can afford to make mistakes from time to time. For example, they may try getting into the U.S. and decide well it wasn't for them but it may not damage their business that badly. For a small company, with scarce resources, every decision it makes is a critical decision and if that small company decides to go into the U.S. market and puts all its resources in that direction and it doesn't work out, it's got real difficulties. So, again, that's where strategic planning can help.

I think it's also fair to say that in most cases where I've seen companies in difficulty, or their bank has called us in to have a look at their problems or they've come to us directly and said, "we've got some problems," none of them have had business plans, and again not a thick document, but just some basic sense of where they are and where they're trying to get and how they're going to get there, or else they have plans but they're not following them.

Now, there are a number of steps in strategic planning, and a number of different models that can be used. This is just one model (Exhibit 2, opposite) which will expand on some of the points. Really the first step in strategic planning is determining what the opportunities and threats to your business are and also what the strengths and weaknesses of your business are. Looking, first of all, at assessment of the so-called internal environment, that's your business itself and that's usually the area that we know the most about. You understand your products, what is it you make, what's good about it, what are your financial resources, what are your human resources, information systems, and I'm not just talking about do you have computers or whatever, but do you have a good base of information on the competition, on the markets, on other products, that sort of thing, what are your research and development capabilities. These are the sort of things we look at when we talk about the internal environment. And, as I said, to most of us that's the side that we understand the best.

Key Steps in Strategic Planning



The critical thing in terms of looking at your business and determining its strengths and weaknesses is being objective and it's often difficult for any of us to step back from the day-to-day business that we're in and look at the bigger picture and really honestly say, "this is what I've got going for me and here's some things that I don't have going for me". An example, just briefly, is last year I was working on a business plan for a company located here in British Columbia. It's been in business for a long time and produces a good product. We asked them what they thought of themselves in terms of their strengths and weaknesses and they told us. We then went out and we talked to a number of their dealers and asked them what they thought of the company and in every case the dealer said, "fantastic product". In eleven of the twelve cases where we talked to dealers, they said, "fantastic product but terrible service and support from the company". And that was a real surprise to the company because when we went back and told them this, they said, "we can't believe that, we've always thought one of our strengths was good service to our dealers". So, in fact, the reality is sometimes different than the perception.

Now, assessment of the external environment. The opportunities and threats side is usually the biggest challenge for a company. That's looking at the markets, the competition, industry trends, economic factors, technology, etc. Something that any of you are going to have to put a lot of time into if you look at the U.S. markets down there. You probably heard it said before, that it is not a U.S. market, it is a bunch of regional markets with their own idiosyncracies and ways of operating. And it's really important to understand that and focus in on the geographical areas within the United States that you want to pursue. And what I'm hearing from a lot of companies, and this is something Rick again can expand on, is that at least initially a lot of smaller businesses are looking at opportunities in the Pacific Northwest region in Washington, Oregon, northern California. It's close geographically to us, it's in the same time zone and it seems to be something we feel most comfortable with and I think that's where you'll find a lot of companies initially starting out. Competition is critical. Not just the ability to name who your competitors are or may be but really to understand more about how they think and how they operate.

The government regulatory environment in the United States is an interesting one. I was at a seminar put on by a major law firm in Vancouver a couple of weeks ago where they talked about the tax and legal implications of operating in the United States and it just blew me away. I knew that there are differences obviously in the legal system and tax system down there but it is a lot more complicated than perhaps some businesses understand or realize and I think the key message here is: whatever your strategies or decisions are with respect to the U.S. market, take the time to look at what the legal implications are because they can be very substantial in some cases.

Suppliers and customers are two other aspects of the external environment that have to be looked at and Dennis alluded to earlier. Even if you feel that your business may not be directly affected by the free trade agreement, it's critical that you look at your suppliers, for example, and determine whether or not some of them may be affected by the Agreement. Also your customers.

Anyway, having gone through that sort of an exercise, what you come up with is the threats and opportunities and the strengths and weaknesses, and then you get into establishing the objectives for your business over both the short term and long term. And when we talk about objectives, we're really talking about goals. In theory, you've decided that your objective is to increase your business at 10 percent per year over the next five years and the strategy that comes out is that you want to pursue opportunities in the U.S.

Strategies are discussed in the free trade guide. There are two generic strategies looked at. The first is the so-called defensive strategy. You determine that free trade might have a negative impact on your business and you're facing increased competition from, let's say, the United States, then for the defensive strategy you'd be looking at ways to improve your production, getting better efficiencies of scale or what have you, making more use of what you've got. If, on the other hand, you determine that your company will be positively affected by free trade and there is an opportunity, let's say, in the U.S. market, what you want to do is adopt an offensive approach and an aggressive marketing stance in getting into the U.S. The guide goes into those in some detail.

Obviously, there's more to it than that. Probably what most businesses are going to conclude, whether or not there's an opportunity under free trade, is that there is some blend of an offensive and defensive strategy you want to adopt. I also mentioned earlier you may want to decide you don't

want anything to do with free trade even though it is going to affect you and what you'll do is look at other offshore market opportunities, be it in Europe or in Asian markets, or what have you.

Where companies typically start to fall apart when they're developing or where they have a business plan or strategic plan is in the next two steps, which are the detailed planning and the implementation. I think what people typically tend to do when they have plans is say okay, this is what we're going to do and this how we're going to do it. But they don't take it down to a fine enough level of planning. They don't talk about who's going to do it and when they're going to do it, how they're going to do it, all the little milestones, some of which may be on a weekly basis, a monthly basis, or whatever, because it tends to get tough at that point. We've really got to think about it, we've really got to follow up on it, so it's where companies start to back off. And as soon as you start to back off on that level of planning, then the whole thing goes offside.

Then the implementation step. There are really some critical factors that have to be looked at in successfully implementing a strategic plan (Exhibit 3, overleaf). The first is what we call commitment from the key stakeholders. Those stakeholders, depending on what your company is, could be the shareholders, could be the directors, could be the management, and certainly the employees. What you're not looking for from your employees, for example, is permission to do what you want to do or what have you but it's important that the people that are involved in your business understand what it is you're trying to do. If they don't understand, it's unlikely they're going to be able to support you and that gets obviously into effective communication.

Allocation of sufficient resources is also important. Again, what we often find is having developed business plans, in some cases some very good business plans, people get a little tired of the whole process and they put it to one side and they don't have anyone who is charged with the responsibility of seeing the plan through the monitoring process. It takes time and it's going to take some money. One of the things that you are invariably going to find, if you want to get into the U.S. market, is that you're going to have to do some market research and no matter what route you take in terms of doing that market research, it's going to cost you some money, either to hire someone from outside the firm to do that market research or else to give one of your people internally the direction and time and whatever else is required to do the research.

Strong management of the planning process is important. Someone within the organization must be seen as the leader in the whole process and often it's the president or chief operating officer of a company. It doesn't need to be that way but it's got to be someone who's seen as leading the charge.

And then continual monitoring of the external-internal environments. What that comes down to is this: having developed a plan for your business, it's important that you update it from time to time, that you watch what's happening, both internally in your company and in the external environment because the one thing we know is that change is going to occur and what you think is going to happen today may not be what's going to happen a year from now.

That's really an overview of the strategic planning process. It may seem a little simplistic. It's not meant to be. Rather it's meant to give you an overview of what it's all about. There are a lot of different models and guides and information available on how to prepare a business plan.

RICK SIM, Panelist

As Stuart mentioned, I participated in a government seminar in the free trade workshops this past February. I'd like to mention that I'm not here as an expert on the Free Trade Agreement or on strategic planning but I'm here as part of a continuing learning process for our company. We want to learn more about the impact of free trade and the trade policy. In particular, how it affects our company in light of our planned market entry into the States. We've been quite successful in exporting to overseas' markets and would like to take this opportunity to relate some of our company's export experiences and discuss some of the benefits of how we applied the workshop materials into formulating some of our strategic plans.

A little about Wedge Clamp. You probably want to know what a wedge clamp is. Wedge Clamp markets a patented line of collision repair equipment specifically designed for today's unibodied vehicles. The system was conceived and developed in Vancouver at Dean Brothers

Critical Factors in Successfully Implementing a Strategic Plan

- **Commitment From The Key Stakeholders**
- **Effective Communication**
- **Allocation of Sufficient Resources**
- **Strong Management of The Process**
- **Continual Monitoring of The External and Internal Environments**

Collision. For those of you who are local, you probably know where Dean Brothers is. It was designed by one of the key body repair technicians who was working there at the time and is now one of the major partners of Wedge Clamp International.

The owner, Rollie Dean, of Dean Brothers was 70 years young when he saw the merit of the concept when it was first presented to him. He financed the start in one of the repair bays behind Dean Brother's shop. That started in the early 1980s. The company was incorporated late 1985 and started marketing in the middle of 1986. So you can see that the Free Trade Agreement has been an influence on our strategic planning from very early on.

Our product has enjoyed rapid acceptance across Canada. We've achieved that through national distribution using the Aklands automotive network of 170 some odd branches across this country. In addition, we have developed a strong emphasis to export markets. This is evidenced as currently exports represent more than 50 percent of our total sales. We are now exporting to nine overseas countries, including Australia, Great Britain and Japan.

It's interesting to note how we were introduced to these new markets and some of the peculiarities that we encountered in each new marketplace. For example, our Japanese distributor learned of our product through a local trade show here in Vancouver with Aklands. Through the demonstrations at the show he recognized the simplicity and the space-saving features of our equipment. Real estate's a premium in Japan and bodyshops there have to work in an extremely limited amount of space. To make gains on our entry into the Japanese marketplace we have had to re-design some of our products. In particular, we had to develop a vertical anchoring system for one of our hydraulic pulling towers. In other cases, we developed totally new pieces of equipment that would work in a limited space environment.

Our introduction into Great Britain was through a manufacturer's agent based in the U.K. He also saw a demonstration of our equipment and performed some matchmaking with one of his accounts. In Great Britain the old age of some of their facilities created some special needs as some of the buildings there are almost 200 years old and some even had wooden floors. We had to design a special adapter to mount our equipment to the existing bench and rack-type of equipment and develop a special anchoring platform with the unique flush-to-the-floor scissor lift to adapt to these special market needs.

In Europe we have participated in various trade shows utilizing the government PEMD program to help fund some of the costs. At the "Automechanika" show in Germany, we learned that there is a long-standing tradition devoted to a specific methodology of repairing collision damage. We have adopted a commitment to training in modern unibody repair techniques and have developed special technical and service manuals to transfer this repair technology, that we call Wedge Clamp 'Informatics,' to European bodyshop personnel.

During the February free trade workshop, Touche Ross made a presentation called, Knowing Your Market, which focused on the adoption of market and product niche development. Precisely what we are trying to achieve at Wedge Clamp. Further developments toward a higher level of flexible management and production styles, commitment to R&D and product development will continue to help us focus on the specific needs on each of these new marketplaces. So, given that we've had some good success marketing internationally and across Canada, we haven't really focused too much on the American marketplace. Part of the FreeTrade Agreement workshop questioned, "Can we defend our position in Canada?" and the answer to that was "yes". And, "Can we penetrate the U.S. market?" We feel the answer to that was also "yes".

We perceive the U.S. marketplace to be the largest and most complex and the most difficult marketplace in the world. But it's also our largest trading partner. It has over 62,000 bodyshops in our industry and that represents a tremendous challenge for our company. The U.S.A. is also home to our major competitors. These are for the most part large, well-established industry giants and market entry for us, as a smaller player, must be very careful and well financed. For that reason we have to do a considerable amount of strategic planning and look at the various aspects that are brought up as far as what our competitors might do and what our defence strategies might be.

Right now we're doing a number of test-marketing activities to understand and learn the most

effective approach to entering this market. In Canada we have, as I mentioned, a large distributor with a branch network across the country but for our industry in the United States we found the market to be quite segmented and diverse and not well represented by any national distributor network. Margaret Evans, a speaker in one of today's other workshops, also was a speaker at this February free trade workshop, where she distributed a package of materials that Dennis showed you earlier. Her recommendations included that exporters do selective testing on the various channels of distribution; direct selling, manufacturers' agents, dealerships, licencing, etc. It's a very difficult, but a very necessary task and you really must test the water and get some credible results to build a winning strategy. This can save thousands of dollars.

Some of the handout material that was presented to us in the workshop provided a useful assessment tool to analyze the U.S. market. Our principal objective was to select a channel of distribution. During our test marketing experience we really started to focus on some of the key advantages and disadvantages. Dealing with a distributor in the U.S.A. we found the main advantage of this route would be to access their large customer base. Yet, in doing so, you create a middle man and lose some marketing control. This is very important when you're entering into a new marketplace and as a new player. Most of the distributorships also require extensive training and ongoing support and sometimes very healthy discounts even, in some cases, carrying competitive lines of equipment. So, for these reasons we didn't feel dealerships were the best route for us.

We looked at direct selling. This provides the most amount of marketing control and commitment but also created numerous government regulatory compliances. Some of these were mentioned in one of the talks earlier this morning. For example, to collect and report remittances from the employee tax withholdings to state and federal authorities. It gets very complex and quite difficult to manage from Canada.

The next avenue we looked at was independent agents. We found this to be the most successful distribution channel for us. We are investing quite heavily in training and selection, just as we would for a direct employee, in the selection of an individual for an agent. This will allow for concentrated market awareness programs that we can implement, leading to controlled growth as well as control over the marketing aspects that we would lose with a dealership, without undue tax implications.

Further, we see the communications with the customers as being a key to achieving marketing success in the States. To that end, we've implemented a factory support program with FAX communications and 800 lines with plans to follow up with seminars, clinics and routine visits.

Controlled growth is very important and the independent agents will allow us to achieve that. The market size in California alone could create a sales demand that would cause production and scheduling difficulties, increased inventory requirements, accounts receivable, and considerable working capital requirements. So, strategic planning is important. Small companies, as Eric mentioned, just can't afford to make large or costly mistakes.

In summary, we feel free trade will be beneficial for Wedge Clamp and Canada. The workshops provided some valuable insights to focus our strategy for the U.S.A. This workshop would be an excellent exercise for any company to raise its level of competitiveness.

Question:

In your workshops what has been the overall expected impact of the FTA?

Answer:

We graded the answers from 1 to 5, with one being very negative, two somewhat negative, three being minimal, four somewhat positive and five very positive. I would say probably half or maybe a bit more than half were in four, four was clearly the most frequent answer that we got. In other words, the overall impact would be somewhat positive. There were probably 10 or 15 percent that were in the minimal impact and that typically dealt with companies that either had very bulky products where the transportation costs were quite considerable, such that they really were developing a regional market and so it would be difficult for the Americans to penetrate the Canadian market and conversely difficult for them to penetrate the U.S. market unless they were very close to the border.

The other circumstance where people classified the impact as minimal was that in some cases a large part of their work was custom work or the after-sale servicing was really a very critical element of the sale, being very close to the customer, and if you didn't have a presence in that particular area, you couldn't meet the expectations of the customer. Obviously, though, we think that impact, whatever it is, can be considerably improved by doing a business plan or strategic planning.

The other thing I would note is that one of the big values that we saw through the workshop process was to tell people about our free trade advisory service. We have a 1-800 number right in the Trade Policy Branch. As they go back to their company and collect the additional data required to do strategic planning, it may be that they are going to run into questions about the free trade agreement, and they could at that point in time call us directly using the 1-800 number and get answers to their questions. So, we felt that was an important follow on service, that people weren't just left alone to try and resolve these problems. The issue of rules of origin is very technical and that is the type of problem that often companies need assistance on.

This process has not come to a halt today. We are continuing with the workshops. I have a list in front of me where I have about ten of them scheduled over the next month and a half and we're going to be continuing on into the summer. The focus of the workshops is changing a bit. Right up until now, it's largely been done on a geographic basis where we would go to a particular city, working in conjunction with the Chamber of Commerce typically and would put a workshop on for 15 or 18 companies or whatever. We have been all over the province or done workshops in all the development regions and, in many cases, twice in a particular development region.

We are going to be doing more of them in the Lower Mainland area where there are a large number of manufacturers. However, in the Lower Mainland we anticipate, in many cases, that we can put on a workshop focusing on a particular industry or sector and working with an industry association as our co-sponsor. We think this is going to have an additional valuable feature to it in that we can talk about the average tariff levels right in that sector, we can do some market research specific to that sector and we think that the three and a half hour presentation would be even more valuable. So, if anyone here is interested in attending a workshop, particularly if you represent an organization or a member of an organization, I'll give you the 1-800 number or you can just leave your business card with me. Our administrative assistant will get in touch with you. Our number is 1-800-663-7107. In fact, if you have questions on the free trade agreement of a technical nature you can use the number for that purpose as well.

Question:

What's the duration of the workshop and what is the cost?

Answer:

Three hours and because we always organize the workshops with a private sector co-sponsor, as I say a Chamber of Commerce or whatever, there's some latitude on their part given what they perceive their costs to be to price it. Typically they're anywhere from \$15 to \$25 but in some cases they have to rent a room or something like that so the costs are a bit higher and so they charge a bit more. It's very reasonable, though, I think.

Question:

I'd like to question the term "economic geography", not the term, what's being done about economic geography because the economics of areas and even cities change, the cycles are never the same and I'm wondering how you're addressing this in the United States with 50 states as to where the biggest demands are, where the most profit is to be made, what the best timing is.

Answer: Eric Vance

Geographically where the markets are is going to very much depend on what industry sector you're in and what type of markets you are pursuing. There's no one right answer in terms where the best markets are. An example of that is California. Everybody always talks about California as being the most attractive market and quite often you talk to companies that are looking at opportunities in the U.S. The first thing they do is blurt out that they're interested in looking at California but the reality is that for certain products or for certain industry sectors California is not the most attractive market at all and it may be somewhere much different across the country. There's no one right answer to that question. It depends on very much what it is you're selling and who you want to sell

it to.

Question:

Is that part of the strategic planning process?

Answer: Eric Vance

Absolutely. That's part of knowing your market. Again, there's no one right answer for everybody and that's where people sometimes trip up. They assume because an area has a large population or a lot of some sort of industry in it that that's the most attractive market for them to get into. In fact, that's not necessarily the case.

Answer:

I would like to add something to that. The U.S. market is so large that a lot of smaller companies can do very well. In fact, they would be overwhelmed and they could never handle penetrating more than a small part of the U.S. market. So, a big part of the analysis involves assessing your U.S. competition, finding out where they are located, where in many cases you may have transportation cost advantages. If an important market is in the mid-west where a lot of the suppliers are on the east coast of the U.S. or maybe the west coast, you may, in some cases, be closer to a U.S. regional market than your principal suppliers in the U.S. Those are the critical questions that need to be answered through the market research.

Chairman: Stuart Culbertson:

In conclusion, again I would reiterate what Dennis has said, particularly on sectoral associations. We would like to hear from you as to whether or not we can help and participate and organize one of our workshops. We would be more than happy to do that over the next couple of months. So, if you can let Dennis or myself know or just phone into that toll-free line, we would be more than happy to hear from you.

WORKSHOP NUMBER 11

BUSINESS ACCESS TO THE UNITED STATES

Chapter 15 of the Free Trade Agreement introduces several liberalizing measures to the non-immigrant category of immigration procedures as it applies to business travel in the United States. These changes are mirrored in Canadian law as a result of the FTA. Despite the easing of restrictions, Canadian business travelers will still face the varying interpretations of U.S. immigration officers and consular officials to the changed regulatory framework. This is due to the unchanged need to protect the sovereignty of each country from activities such as smuggling, terrorism and illegal immigration. Indeed, as a testimony to that continued activity, employment levels in the U.S. immigration service have risen rather than dropped.

Several categories of business entry have either emerged or been enhanced as a result of the FTA. Individuals may qualify for entry in more than one category.

The business visitor (B-1) category has been expanded to permit qualified Canadian citizens to work in several new sub-categories in addition to those already available for a period of up to one year, renewable indefinitely. Third country applicants also may qualify in specified circumstances.

A new category (TC-1), dealing with the entry of professionals, has been created for Canadian citizens. In most cases, those with a Bachelor's degree and meeting any other licensing requirements for the particular profession identified in a schedule who also possess a written job offer may currently work in the United States for an indefinite period of time upon periodic application.

Intra-company transferees may be granted entry for a period of up to 5 years (non-renewable) under the L-1 category if they meet other entry criteria required in the normal course. These business travelers must be working at the executive or managerial level and be transferring to branch offices or subsidiaries. Non-Canadians may also qualify in certain circumstances.

Application is made, with respect to Canadian citizens entering pursuant to these three categories (B-1, TC-1, and L-1) at the U.S. port-of-entry rather than the Consulate office.

The H-1, 2, and 3 categories dealing with temporary workers such as trainees, skilled or unskilled labour and those having obtained a level of distinguished merit in the arts and sciences are unchanged by the FTA.

The trader status (E-1) has been expanded to permit Canadian citizens to enter the United States upon application at the U.S. Consulate office. These applicants must be engaged in "substantial" (undefined) international trade of which 50% must be with the United States. These applicants must also be executives, supervisors, or in possession of essential skills.

Investors may qualify under the E-2 status if they invest "substantial" (undefined) at-risk capital and be in a control position of that investment and actively involved in the business. Both E-1 and E-2 status applicants may be permitted 5-year renewable entry to the United States upon application at the U.S. Consulate office.

FRANCOIS TOUGAS, Rapporteur

WORKSHOP NUMBER 11

Chairperson and Panelists



CHAIRMAN: **SAM FROMOWITZ**
Consul General of the U.S.A.
Vancouver, B.C.

Mr. Fromowitz has had an impressive career with the U.S. foreign service, both in the United States and overseas. He has served for nearly three years as the Consul General in the U.S. Consulate in Vancouver. Prior to his Vancouver appointment, Mr. Fromowitz was Deputy Director, Office of Canadian Affairs, Department of State for two years. Before that he served in various embassy postings in Paris, Moscow, Belgrade and Athens. Mr. Fromowitz is a graduate of Columbia University.



DAVID BOCSKOR was posted to Vancouver in September 1985 as the U.S. Consul for Consular Affairs. He joined the *U.S. State Department's* Foreign Service in 1974 and has held postings in Korea, Jamaica, South Africa and China.



ROD CARNEY is Port Director for the *U.S. Immigration and Naturalization Service (INS)* in Vancouver. He was transferred to Vancouver in 1983 following several years in Examinations with the Immigration Service servicing Agana, Guam and Miami, Florida. Mr. Carney has supervisory responsibility for Vancouver and Victoria as well as Point Roberts and Port Angeles, Washington.



RAPPORTEUR: **FRANCOIS TOUGAS**
Francois Tougas is an Associate with the law firm Lawrence & Shaw. He studied political science and international economic relations at Brigham Young University in Utah, and law at UBC. He specializes in international trade law.

WORKSHOP NUMBER II

BUSINESS ACCESS TO THE UNITED STATES

SAM FROMOWITZ, Chairman

I am Sam Fromowitz, the U.S. Consul General here in Vancouver. In just a moment I will introduce the other panel members and the Rapporteur. But first I would like to make sure that people are in the right room. It is labeled Business Access to the U.S. What we will be talking about is business travel to the United States, but by business access we do not mean to cover the financial, tax, or strategic planning for opening an office in the United States. Not access in that sense, but rather business travel to the United States.

I also want to make it clear that although I have been listed as the Chairman of this panel, the expertise surrounds me on my right and left. And I will, after making some opening comments about the general issue of business travel to the U.S., allow David Bocskor to really explain what has changed and what has not changed as a result of the FTA.

Many of you may remember that during the federal election campaign here there was a very striking TV ad which showed a hypothetical negotiating session between the U.S. and Canada on the FTA. At one point the actor who was playing the U.S. FTA negotiator said, "I would like to change just one line of the draft agreement." At that point, he took an eraser and erased the 49th parallel. The political ad certainly had a very clear impact. The message was intended to suggest that the FTA was not only going to eliminate the border, but also to homogenize the way Canada and the United States do business.

Perhaps this was what led to a very interesting item in the newspapers last year. There was a report that the Union of Canadian Customs Officials was concerned that the FTA might lead to the withering away of the customs service and a loss of jobs amongst Canadian Customs officers.

I think I can reassure you that the FTA will not mean an abolition of Canadian Customs, nor will it mean an abolition of American Customs, or U.S. and Canadian Immigration officers. In fact, I suspect that as with lawyers who always seem to gain in these agreements, Customs and Immigration officials will not be hurt too badly either.

The purpose of Chapter 15 in the FTA, however, was precisely to make it easier for businessmen in each country to do business in the other country. The complaints and the problems which led to this change have in fact been brewing for many years and there have been discussions that have gone on between the U.S. and Canadian federal governments to see whether we could do something to change the immigration procedures on both sides.

I use the words immigration procedures, and I think this might be a good point to stress what has changed with the FTA and what has not. I should start by explaining that under U.S. Immigration Law, everybody is either an intending immigrant or a non-immigrant. Those are the two basic categories. The FTA has no bearing whatsoever on U.S. Immigration Law as it affects intending immigrants to the United States.

Chapter 15 of the FTA deals only with temporary business travel to the United States, not what people commonly call obtaining a green card, or alien resident status, or what is referred to up here in Canada as landed status. I also want to stress that it is a reciprocal agreement, so that the changes that take place with regard to U.S. Immigration Law are mirrored in changes in the Canadian Immigration Law and Regulations.

Another caveat that I should set out before David and Rod explain the increased advantages under the FTA is that this is a system administered by people who interpret the laws and regulations. Thus, even with the positive changes that will be described, there still will be an Immigration Officer at the border or at the airport, or a Consular Official at the Consulate, who is going to have to interpret the changes, and at times there may be some differing interpretations of a particular set of facts and of a particular regulation.

I should also point out that in this modern world there are problems of smuggling, terrorism, and illegal immigration which the FTA does not deal with in any way, but which Immigration officials have to deal with very carefully every day. And so, while the purpose of the changes in Chapter 15 of the FTA is somehow to facilitate the ability of businessmen to travel, at the same time both countries have to insure that we have the necessary checks on travel across the border in both directions. Perhaps it is also fitting in light of the debate on the FTA that I also remind you that we are two sovereign nations, we each have our regulations on customs and travel and immigration. Those regulations remain in place, but we hope that they can be implemented and interpreted in the most positive way in light of Chapter 15 and the FTA.

I am going to ask David Bocskor now to explain those changes that bear on the Consulate's role in this. I should mention that historically Canadians have never had to apply for a non-immigrant visa. Unlike all other nationalities, where a consulate would be approached by the national of that country for a non-immigrant visa, whether it be a business non-immigrant visa or some other visa, Canadians have always been able to go right to the port of entry and deal with the immigration service.

Under the FTA, there is a change which will require that, for one new non-immigrant category, the Canadian businessman would have in fact to apply for a visa to the Consulate. And with that, David, why don't you begin and explain your portion of the changes of Chapter 15.

DAVID BOCSKOR, Panelist

Thank you. First of all, I would like to introduce myself. I am the supervisor of three offices in the Consular Section at the Consulate. I supervise the American Services Unit that deals with issuing passports to the U.S. citizens, registering the birth of U.S. citizens, visiting U.S. citizens in jail, etc. The second office is the immigrant visa office, which I guess is fairly self-explanatory. We interview approximately 3,500 to 4,000 intending immigrants annually heading down to the U.S. The third office is the non-immigrant office where we interview approximately 25,000 applicants a year. All the Free Trade business entry categories are non-immigrant temporary categories of entry.

I basically want to talk about the non-immigrant visa categories or the temporary categories that Chapter 15 of the FTA has created. I do invite your attention to the handout. The first pamphlet is from the U.S. Immigration Service and it notes in quite some detail the new business entry categories. The second handout is something that the State Department has put together, it covers some of the same ground as the INS pamphlet. I have also included the Schedule 1 and Schedule 2 charts. I will explain the significance of the schedules later. Also attached to the information package is the E-1 and E-2 Treaty Trader-Treaty Investor Visa Applications that we are currently using at the Consulate.

I put together a chart, to my left, that notes all of the new business entry categories. All the categories I refer to on the chart are listed in the various brochures in the package I handed out to all of you.

I should note that all of these business entry categories under the Free Trade Agreement allow Canadian citizens only temporary entry into the U.S., as Mr. Fromowitz has noted, and that everything that I am going to talk about is in fact reciprocal. In other words, the benefits are equally valid for U.S. citizens coming north as well as Canadian citizens going south. Of course, Chapter 15 grants these travel benefits to Canadian citizens, not third-country nationals or landed immigrants in Canada.

Let me start by talking about the B-1 Business Visitor category. The B-1 entry category builds and expands on the old B-1 status by adding occupational areas under Schedule 1 of the FTA.

I would ask that you turn to Schedule 1 in your handout if you would like to follow this a little more closely. On Schedule 1, over here on a smaller chart, we have expanded business entry opportunities in seven business development categories such as re-search and design, manufacturing and production, marketing, sales, distribution, after-sales service, and general service. So, in addition to those Canadian citizen business professionals who have been able to enter the U.S. before the FTA, we have now added, under the FTA, those individuals who work in these seven business development categories or sectors.

In the past, just as an example, Canadian citizens in the after-sales service area have sometimes had a problem getting into the U.S. In fact a couple of years ago a case came to my attention where a Canadian company sold a computer system to the New York Police Department and the individuals involved in the installation and after-sales service could not get into the U.S. to actually install the system. However, now under Free Trade there is a specific category for after-sales service that will allow certain individuals to enter the U.S. pursuant to the warranty, during the life of the warranty or service agreement. That is just one example of a Chapter 15 benefit.

The B-1 Business Category is for Canadian citizens who work for a Canadian company. I want to emphasize that. So, under the B-1 Category the Canadian citizen must be working for a Canadian company and desirous of entering the U.S. on business for that Canadian company. When this individual goes down to the border, they have to demonstrate to the satisfaction of the U.S. Immigration Service that they are working for a Canadian company, that their residence is in Canada, and that they intend to return to their primary residence in Canada. A big change under Free Trade is that you can now be granted entry into the U.S. for up to one year in this category. Before Free Trade it was six months. That summarizes the basic benefits under the B-1 Business category.

Let me go on and describe a new category that has been created under the FTA. That is the TC Category for Professionals. The TC Category has its own Schedule and I refer to the Chart to my right that outlines Schedule 2 where we have a list of specific occupations. To qualify for this particular type of status, you must be a Canadian citizen, you must have at least a Bachelor's Degree, and you must have a written job offer from a firm in the United States. This entry category will allow you to work in the United States provided you have a written job offer from a U.S. company. It will allow you to work in the U.S. for up to one year at a time and currently that one year period can be rolled over indefinitely.

The next category is the L-1 Category or the Intra-Company Transferee Category. Under the FTA what has changed is that this particular category is now processed by the Immigration Service at the border, at the port-of-entry. Before the FTA this particular type of immigration status was processed by the Immigration Service in the United States and it took four to six months to process the application. Now it is processed right at the port-of-entry which is obviously a major time saving advantage. The Intra-Company Transferee status is for those Canadian citizens who are working for Canadian companies where the Canadian company is transferring this individual to a branch office in the United States. Wardair Canada, for example, would be transferring an executive from a Vancouver office to a Wardair branch office in Los Angeles.

There is a limit of five years on the L, so the individual can only work in the United States for a total of five years. As I have noted, the big change under the FTA is that the L is processed at the port-of-entry as you are boarding the airplane, or driving into the U.S., although the Immigration Service does encourage pre-processing. Contact the Immigration Service at the port-of-entry a day or two before you intend to actually cross the border in this status. To qualify for the Intra-Company Transferee status you have to be an executive or manager and must have worked in a manager or supervisory role for at least one year with the parent company.

The next general entry categories, the H-1, H-2, and H-3 Temporary Worker Categories, really haven't changed. The requirements and qualifications remain the same. The H-1 is a temporary worker category for those who are of distinguished merit and ability in the professions and in the arts and sciences. The H-2 category is for those individuals who are performing skilled or unskilled work. It covers the gamut of individuals, anyone from secretary to nurse can qualify, provided the U.S. company can prove that no American citizen is ready, willing, and able to do the work. The H-3 category is a trainee category. All of the H Categories require labor certifications and these particular applications are processed by the Immigration Service in the U.S. There is really no change in this category under the FTA.

Let me now explain the Treaty Trader and Treaty Investor Categories because those are visa applications that must be processed at the Consulate. We at the Consulate process numerous Treaty Trader and Treaty Investor applications for other eligible nationalities and we always have. It is just that under Free Trade now, for the first time, Canadian citizens are eligible. You might want to refer to the E-visa application material in your information package as I am explaining this category.

So, to reiterate what Mr. Fromowitz has said, we are now for the very first time interviewing Canadian citizens at the Consulate for visas. The E-1 Treaty Trader Category connotes the exchange of goods, monies, or services in the flow of international commerce. The purpose of the E is to increase both trade and foreign investment. For Chapter 15 purposes trade is defined not only to include commercial activities but such service activities as insurance, transportation, communication, international banking. Curiously enough, it does not include advertising or the facilitation of trade.

To qualify for the E-1 Treaty Trader status an applicant must demonstrate that the international trade is substantial in the sense that there is a sizable volume of trade, and that more than fifty percent of the trade must be between Canada and the U.S. In addition, that applicant must be employed in a supervisory or executive capacity or have the skills which make their services essential to the firm. An example of the type of applicant who would be qualified under the essential skills portion of this category would be a Japanese sushi chef, who might be working in the U.S. for a large hotel chain.

This particular type of category is not meant for minor management positions, although the applicant can be self-employed.

The Investor or E-2 Category: The intent of this category is to permit the entry of Canadian citizens who have substantial at-risk capital to invest in bonafide enterprises in the United States.

The individual must be in a position to develop and direct the operation of an enterprise in which he has invested a substantial amount of at-risk capital. This category is not meant for an individual who has a small amount of capital in a marginal business solely for the purpose of making a living. To qualify for this type of status the investor must have a controlling interest in the business, more than fifty percent ownership, and normally must be actively involved in developing the business. The E-1 and E-2 visas are valid for five years and there is a \$40 processing fee. The visas can be renewed.

The word "substantial" in both categories, Treaty Trader and Treaty Investor, is not really defined as such. It is meant to be rather flexible. It depends on the nature of the business, not necessarily the size or amount of the investment. Since January we have issued about a dozen Treaty Trader and Investor Visas.

To give you a few examples: we had some Canadian investors who opened a factory in Texas to bottle carbonated water and distribute it all over the U.S. We have had an individual who is involved in the construction of homes for the aged in the Bellingham-Blaine area, an investment of some \$10 million. We have had warehouse distribution activities in propane and natural gas equipment, Chinese and general service restaurants, various land development projects, re-manufacturing and secondary manufacturing of lumber activities and sheet metal businesses.

To recap, the business entry categories are: the B-1 Business category, where an individual must be working for a Canadian company, the E-1 Trader, the E-2 Investor, the TC Professional category, and the L-1 Intra-Company Transferee. As I noted, the H Temporary Worker Categories really haven't changed.

It is quite possible, as you may or may not have noted, that an individual can qualify under several of these categories at the same time. It is quite possible that an individual could qualify as both a TC Professional and as an L-1. I suspect that as we move along in the Free Trade experience, we will have Canadian citizens applying for that category which offers them the best advantage or the longest stay in the U.S. As I mentioned, the L Category has a five-year duration of stay limit in the U.S.. The H's normally have a five year limit, the TC's are valid for a one year initial entry and can be renewed every year currently for an indefinite period of time. The Treaty Trader-Investor Categories are five year visas and, of course, the B-1 can be valid for a one-year entry.

Another important factor to bear in mind here is that all of these categories (the L-1, TC and L) with the exception of the Trader-Investor are processed by the U.S. Immigration Service at the port-of-entry. And the only categories that you as a Canadian citizen would come to the Consulate to apply for are the Treaty Investor and Treaty Trader Visas. The U.S. Immigration Service will still process the H categories in their offices in the U.S.

I think I have quickly summed up all the available FTA business entry categories, all of the changes and some of the advantages. Mr. Rod Carney, the Port Director from the Immigration Service at Vancouver Airport is here to answer any questions, and I can certainly answer questions concerning the Treaty Trader and Treaty Investor Categories. So now I will throw it open for questions.

Question:

Do these FTA business entry categories benefit landed immigrants in Canada?

Answer:

The FTA entry requirements, I repeat, are only for Canadian citizens with the exception of foreign spouses (who would be eligible to follow the primary applicant into the U.S.) Rod, do you have a comment on that?

Comment: Rod Carney

The Treaty Trader-Treaty Investor and the TC are specifically restricted to Canadian citizens. The FTA, Chapter 15, Schedule 1, is just a reinterpretation of the B-1, but the interpretation for the general B-1 Category is available to all nationals, not just Canadians.

Comment:

That is correct. We do issue B-1 visas at the Consulate to non-Canadian citizens. For example, German nationals who are landed immigrants in Canada, who may want to go to the U.S. for business purposes, representing their Canadian employer must, of course, come to see us to apply for a B-1 visa.

Question:

And likewise for the intra-company transferers?

Answer:

Yes.

Question:

How do American citizens apply for these FTA business entry categories?

Answer:

If the U.S. citizen wants to come to Canada under any one of these particular categories, B-1, TC, L, he goes to the Canadian port-of-entry. Take your pick: Blaine, Sumas, Lynden, etc., or the Vancouver Airport. If he wants to come to Canada under the Treaty Trader-Investor Categories he goes to the Canadian Consulate in downtown Seattle.

Question:

Can you give an example of how an individual could qualify under the specialized knowledge portion of the E-1 visa category?

Answer:

I go back again to my Japanese sushi chef example. That would be someone who has specialized knowledge. We also see a lot of executive chefs of Swiss and German nationality. These also would be examples of persons who have essential knowledge or skills and could possibly qualify for E-1 status.

Question:

Are the five-year temporary entries for the L and H categories renewable?

Answer:

No. When we talk about the L-1 and the H's being five years, they are in fact five years, and they are not renewable. As a matter of fact, I think the Immigration Service issues them initially for one year or possibly three and then you must apply for extensions up to the five-year limit. We run into this five-year limit problem quite frequently with Canadian executives who are stationed in the U.S. on L's. They run up to the five-year limit and then they are faced with transferring back to Canada or on to somewhere else.

Comment:

Remember that we are only talking about temporary entry when we talk about the H and L categories. There is always the possibility that an individual may qualify for an employment-related third or sixth-preference immigrant visa to remain indefinitely in the United States with immigrant or landed status.

Question:

Could you take your work crew to assemble log cabins and these people work for the Canadian parent company?

Answer:

It would depend on the type of worker that you are taking down there. If the contract calls for the installation and the set-up of the cabin you would be allowed to take certain personnel with you, but if there was, for instance, carpenters or semi-skilled workers that were not really necessary for the completion of the project, you probably would have to hire them locally. Certain personnel could be taken down. If it is necessary to take the personnel to assure the quality of the product you have sold, it is kind of hard to say. It would depend on the project, how many personnel, and how important they were to the quality assurance of the product.

Question:

How about tools?

Answer:

That is a great customs question!

Comment:

It is an immigration problem also, because when you are going down with tools of the trade one wonders whether you are going down there to do work U.S. residents could otherwise do.

Question:

What documentation is required for TC status?

Answer:

The TC application requires that the letter of employment or job offer be submitted. The job offers that we have been seeing are usually not complete. Unfortunately, people come to the airport and they want to catch a flight one hour later. Then we tell them that the documentation is not complete and to bring it back. I would suggest that for anyone who is going to enter under Schedule 2, or distinguished workers under the H program that they submit those applications at least two days in advance. Then our office can have a look at them to see if the documentation is complete.

As Mr. Fromowitz said, you are not going to see any less Customs or Immigration officers as a result of Free Trade. As a matter of fact, my office manpower has increased due to Free Trade. I have an adjudicator that works in my office now processing FTA applications. Blaine's port-of-entry has an additional two and Sumas has one to try to facilitate the movement of people under the FTA.

If you have a problem with the documentation, call the office or the port-of-entry or at least submit that documentation one or two days ahead of time so they can look at it and be sure it is complete.

We are not going to accept an application and a fee and submit it for denial. If it is incomplete or doesn't look like it is approvable we will return it and tell you what is lacking.

Question:

How long does it generally take to get a B-1?

Answer:

We do a million passengers a year in Vancouver and we are estimating that 25% of our traffic is B-1 Canadians that travel through us on a daily basis. It is a one-hour check-in before departures. The B-1 creates some gray areas but it is something we have been dealing with for years. It is not a big problem as we attempt to determine an individual's qualification for the B-1 as they board.

Obviously, you as the traveller, should allow sufficient time at the the airport to process your B-1 entry.

Question:

If somebody is going down on a B-1 from a Canadian company to a U.S. company and is going to train and hire U.S. employees, is that O.K under a B-1?

Answer:

You always come up with these gray-area scenarios. There is not a problem with personnel going down to hire a general manager. Training periods or familiarization, that is not a big problem. When you talk about training, we have to look at the time span you will spend down there. Can the training be done here? Is it necessary for that officer to be down there for three months? Ordinarily speaking it is not a problem as long as there is no remuneration from the U.S. source.

Question:

Does a subsidiary qualify as a branch office in the U.S. for L-visa qualification purposes?

Answer:

Yes. A subsidiary has always qualified as a branch office.

Comment:

Let me mention a particular phone number which might be useful to jot down. You will notice that it is in the packet too. If you have questions regarding U.S. Immigration or the interpretation of any of the new busines entry categories at the airport or port-of-entry, you might want to save this number: 278-3360. That is here in Vancouver.

Comment:

And for those who want to apply for the Treaty Trader or Investor Visas, the Consulate phone number is 685-4311. Punch in Extension 237 or 238 from your touch tone and talk to Monica or Enza. They are the E-1/E-2 organizational people and they will schedule interviews and/or review your documents.

Comment:

Maybe you ought to explain what they hear when they call the Consulate switchboard number.

Comment:

You will be answered by our new computerized telephone-system recordings. So, unless you know the extension that you need, you will go through an almost endless series of recordings. The initial computerized voice will ask you for an extension, therefore the importance of punching in the correct extension (237 or 238).

Comment: Rod Carney

I may also mention to the gentleman who wanted to know if he could call in a couple days ahead of time, that if you have any problems and wonder whether any of your clients will fit into any of these categories, I suggest when you call any of those numbers that you ask to speak to the Immigrant Examiner. That is their specific job, to handle Free Trade applications. In their absence, ask for the Supervisor or the Port Director. We have inspectors on the lines who are dealing with inquiries, but the Examiner is more familiar with the FTA applications.

SAM FROMOWITZ, Chairman

Any other questions? Thank you very much. Back to you, Francois.

FRANCOIS TOUGAS, Rapporteur

I would like to thank our panelists today for the information they have given us and the handout which looks to be very useful. If you could join with me then by thanking our guests.

WORKSHOP NO. 12 U.S. GOVERNMENT PROCUREMENT AND RELATIONS

Our session had panelists from the Canadian Commercial Club of Ottawa and from the Ministry of Science and Technology based in Vancouver. I think the thrust of our panel was that there is tremendous opportunity for Canadian firms wanting to do business with the U.S. government.

First of all, the Free Trade Agreement did not break any new ground in the military procurement area. Our panelist David Tye from Ottawa referred to the "old free trade agreement". That was the one in the early 1950s, the Defence Sharing Agreement, and there's been free trade in military procurement between the United States and Canada since then.

However, in the non-military areas there are significant opportunities available to Canadian firms. It's a very large market, in fact perhaps the largest single market entity in the world to deal with. The Free Trade Agreement in the non-military area actually did two things. One, it lowered the threshold so that Canadian firms can bid on contracts down to \$25,000 U.S. That threshold was lowered from some \$156,000. That's a special status that only Canadian firms have. Secondly, it removed the penalty that was placed on foreign firms bidding on U.S. contracts. The amount was a 6 to 12 percent penalty that would have been added to your bid before January 1 of this year. Now that has been done away with, again only for Canadian firms.

To conclude, our panel said that there's tremendous opportunities available for Canadian firms, but dealing with the U.S. government in breaking into this market is not entirely easy. It's time-consuming and perhaps expensive and you should expect to make many visits and not get your first contract within the first week or month. In fact, it might take a year or two before you win a contract, but after you have done this, the process gets easier.

DON ETCHISON, Rapporteur

WORKSHOP NUMBER 12

Chairperson and Panelists

CHAIRMAN: Dr. DON ETCHISON
Vice President
Business Council of B.C.



Dr. Etchison specializes in business and government affairs involving the United States and Canada. He is president of the *U.S./Canada Consulting Service* and Vice President of the *Business Council of B.C.* Before coming to Canada in 1988, Dr. Etchison was in the Cabinet of Illinois Governor James Thompson where he was responsible for environment, energy and natural resource matters. He is the author of a book and numerous articles on international affairs. His Ph.D. is in international affairs from the University of Miami, Coral Gables, Florida.



DAVID TYE is currently Head of the Airforce/NASA Group of the *Canadian Commercial Corporation (CCC)*. He is a mechanical engineer who started his career as a procurement officer purchasing aircraft parts and services. He joined *DSS Export Supply Branch* in 1983 and with the reorganization of the *CCC* in 1986, became a Special Projects Officer in the United States Group.



BARRY H. OAKLEY Presently Director of Industrial Development with the Vancouver office of *Industry, Science and Technology Canada*, Mr. Oakley has been employed by the Federal Government since 1969, first with the *Department of Industry Trade and Commerce*, and then the *Department of Regional Industrial Expansion*. With these departments, he has primarily been involved in industry development and trade promotion, including over two years with *DRIE's Aerospace Branch*. Prior to joining the government, Mr. Oakley gained considerable experience with a number of firms in a variety of engineering and management positions. He is a mechanical engineering graduate from *Carlton University* in Ottawa.

RAPPORTEUR: Dr. DON ETCHISON
Business Council of B.C.

WORKSHOP NUMBER 12

U.S. GOVERNMENT PROCUREMENT AND RELATIONS

BARRY OAKLEY, Panelist

Firstly, ladies and gentlemen, let me advise that I am a generalist in the area of U.S. government procurement practices and policies, but fortunately I have a good knowledge of the system to provide advice in what the procurement comprises and most importantly, where one can turn to for expert advice on this subject. Relative to this, it's unfortunate that one of my colleagues from the Defence Programs Branch of the Department of External Affairs could not speak to you today, as a significant amount of defence marketing expertise resides within that organization.

I am with Industry Science & Technology Canada, the soon to be legislated federal government department that has evolved over the past 12 months or so when the Department of Regional Industrial Expansion was dissolved. I am located here in Vancouver where our organization includes an International Trade Centre, a group of experienced trade people, most of whom have had foreign postings in their careers. Thus, we are well equipped to fulfill our mandate of promoting international competitiveness and business excellence within B.C.

My presentation this afternoon will provide an overview of the U.S. government procurement process and then I will concentrate on the military market. David Tye will go into this in more detail and describe the actual mechanics following my presentation.

What size of market are we talking about? As Chart I (below) indicates, the U.S. government procured about 181 billion dollars (U.S.) in 1987 of products and services, the majority of this being by the Department of Defence. In any event, the numbers are staggering and any small penetration of this market can be large in real dollar terms.

U.S. GOVERNMENT PROCUREMENT 1987

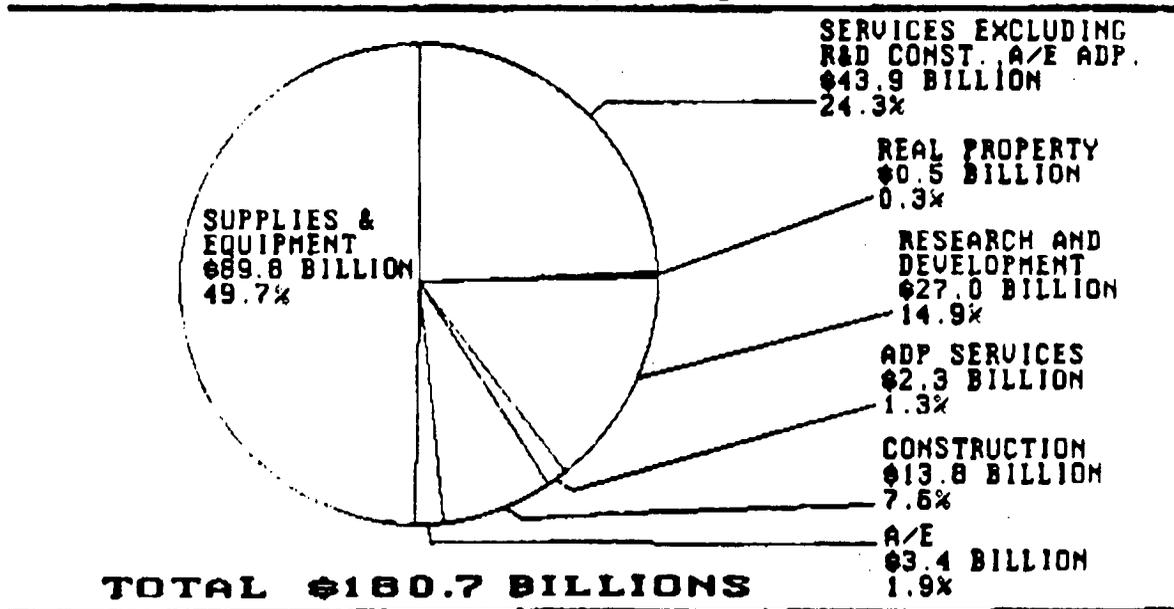


Chart II (below) further clarifies this and indicates that a good portion of the market is on the U.S. West Coast; in fact, 36 billion dollars (U.S.) of the total is purchased from West Coast industry, much of which requires sub-contract work being done, which obviously provides a window of opportunity to B.C. firms. Relative to this, the California supply base is largely high-tech oriented including a concentration of aerospace "primes".

FEDERAL PROCUREMENT BY STATE 1987

| | DOLLAR RANK | PERCENT OF TOTAL DOLLARS (180 BILLION) |
|-------------------------------------|----------------|--|
| CALIFORNIA | 1 | 16.0 |
| WASHINGTON | 10 | 3.0 |
| IDAHO | 35 | 0.4 |
| ALASKA | 37 | 0.3 |
| OREGON | 42 | 0.2 |
| TOTAL | | <u>20.</u> |
| TOTAL DOLLARS = \$36 BILLION | | |

What then is the "system"? First of all, there are two broad categories of government purchasing patterns: one being general-use items such as janitorial services and office supplies, and the other being mission-oriented specials wherein a government agency, such as the Forestry Department, would purchase something like pesticides, that is, something of a special nature for its unique requirements.

In the former category, procurement for the whole government (including the Department of Defence) is handled by the General Services Administration (GSA). This supplies general-use items to all government agencies through four major sub-divisions including Information Resources Management Services (for example - software, ADP); Public Building Services (for example - building design, surveying); Federal Property Resources Service; and the Federal Supply Service. The latter supplies thousands of stock items such as paint and tools and also publishes Federal Supply Schedules under which other government agencies can purchase directly from qualified suppliers for items ranging from duplicating machines to furniture and appliances.

Of particular importance to you is that the GSA also maintains twelve regional Business Service Centres (BSC), the closest being in Auburn, Washington. These centres are staffed by qualified counsellors who can provide prospective suppliers with step-by-step advice on contracting procedures and the "how to" of government procurement; they maintain reference material such as bid documentation; and, in particular, are tasked to identify new businesses which can supply competitively to the U.S. government. However, you, ladies and gentlemen, have to show the initiative to contact these people and make sure you are included on bidders' lists, etc.

Turning now to military procurement, let me re-emphasize that this represents a 100 billion dollar (U.S.)-market for goods and services, which, to place in perspective, compares to a figure in the order of 4 billion dollars for the Canadian Department of National Defence.

Just a bit of background on this. In the late 50s, Canada and the U.S. recognized that our defence interests lay in mutual cooperation and the fact that we should combine resources in order to maximize efficiencies and economies. The Defence Development Sharing Arrangement and Defence Production Sharing Arrangements were concluded, which basically allows equal access (with some limitations) for each country's industries into the other's market. In the U.S., this arrangement is

embodied in the Federal Acquisition Regulations (FAR) which is the primary regulation governing U.S. government procurement. This arrangement has worked extremely well and in fact, since 1959, two-way trade has exceeded 30 billion dollars.

The Department of Defence has two main approaches to procurement. Firstly, each individual department - that is, Navy, Air Force, Army - has its own procurement organization, such as the Air Force Systems Command, which is responsible for the procurement of major items for its particular needs. Secondly, the Defence Logistics Agency (DLA) procures a range of standard or general-use items for DOD which are used by the individual commands. In this regard there is obviously some overlap with the General Services Administration which, as I described earlier, also procures general-use items, but the intent is that the DLA procure items that, while of a general nature, would be more suited for a military environment. For example, military footwear as opposed to footwear the guy would use in the Forestry Department, that kind of idea.

I mentioned the mission-oriented organizations and would like to reiterate that it's not just national defence. There's the Department of Education, the Department of Agriculture, the Departments of Forestry, Fish & Wild Life, and the Federal Prison System, so there's a variety of them. All of these have their own special requirements and all have their own procurement agencies. This is what Don Etchison referred to previously, where it's not a simple matter to access the U.S. government market. These departments buy to their own account and, consequently, it's up to you to get to know who they are but having done this once, it becomes relatively easy.

The key thing is knowledge, and Don produced the Commerce Business Daily, which for the serious vendor is a must. You must subscribe to that if you're really serious. For example, it publishes all of the forthcoming requirements of a value over ten thousand dollars. There are some exceptions inasmuch as they wouldn't publicize anything sensitive, military security-wise but anything else that's over ten thousand dollars. Similarly, it publishes those contracts that have been awarded over twenty-five thousand dollars, so it gives you an idea who your competition is. So, you know you're not always operating in isolation. U.S. government agencies will also publicize widely by putting ads in the newspapers, and mailing to known suppliers, so again it's up to you to get yourself registered. You get yourself registered through a process on a form which is called The Solicitation Mailing List Application and you should get yourself registered on that. Again, you go back through the general services agencies.

The system basically consists of three types of solicitations and, again, Dave will go into this in some detail. Invitations to Bid - this comprises about 80 percent, by number, of the purchasers. Again, this is for standard items usually procured on a highly competitive basis, largely on price and to defined specs and standard qualities. So, again, it's up to you to get registered in order to be able to bid on those items. Requests for Quotations, on the other hand, are solicitations on price and availability and consequently the response to an RFQ is not irrevocably binding.

Request for Proposals is the biggie in terms of dollar values because that comprises 80 percent of the dollar value of the requirements. What will happen there is that the U.S. Military will go to companies that they know have the capabilities, so that, for instance if they're after aircraft, they will go to the Northrup and the General Dynamics, etc. This is where the orders and contracts are gained by the U.S. primes. Your chance there is mainly through acting as a sub-contractor to those primes. Therefore, you've got to get on top of that, which you can do by following the Commerce Business Daily. By the way, there's another periodical that you should also subscribe to, called Business America, which is put out by the Department of Commerce. That gives more of a broad overview focussing on the policies that they will adopt in procurement and the type of programs that they have. It's a bi-weekly publication and definitely you should subscribe to that one.

Before I go on, then, let me summarize what I've just said so far. There are two types of procurements. There is the standard type of components which you sell through the General Services Administration or the Defence Logistics Agency. Secondly, the specialized type of procurement is the procurement of the mission-oriented agencies, the Departments of Defence, Departments of Fisheries, etc., and you sell directly to them.

Free trade, what has that done for us in terms of government procurement? In terms of defence it hasn't affected anything, or marginally affected things. Basically, as I mentioned before, we

already have these two agreements in place, the Defence Production, Defence Sharing Arrangements. Therefore, things haven't changed significantly in that area. However, what has happened is that the procurement threshold has been lowered from 177,000 to 25,000 dollars U.S. Basically, that means that it's opened up procurements through the General Services Administration and other non-military buyers in the order of an estimated three to four billion dollars for Canadian firms. Now, three to four billion dollars in terms of a total U.S. government procurement doesn't sound a lot but to put it in perspective, the Canadian Department of National Defence buys about four billion dollars in total annually. So, I mean that will give you an idea of what the comparison is.

Chapter 13 of the FTA defines what is covered. It's a very short chapter, eight to nine pages, which lists the type of products that are covered, the type of agencies and governments that are involved.

For you, then, as Canadian companies and people that are interested in penetrating that U.S. government market, what is important?

First thing, knowledge. That is your key. It's not an easy process but you've just got to get knowledgeable. One of the main things you should bear in mind, however, is that there's a lot of material and a lot of advice that's available free. Tap it, use it. Federally, that's in the Canadian federal government, I mentioned before the Defence Programs Branch and the Department of External Affairs, their task in life is to help companies to get into the U.S. military market. They have an excellent publication entitled, "Canadian Industry & the U.S. Defence Market," which we can provide. The Trade Commissioner Service is also an arm of the Department of External Affairs. They have twenty offices in the United States. They're employed by you as taxpayers to help you. So, use them. ISTC, which is my department, have an international trade centre and we are here locally. We can provide advice to a degree. We're generalists but we can help you in many areas. I haven't mentioned, of course, National Defence or CCC because I know Dave is getting into those.

U.S. Government. They provide a lot of advice and services. They have a number of publications that you should definitely get hold of and they're not expensive. Here's a perfect example, a damn good little book, "Doing Business with the Federal Government," a really good little publication that you should avail yourselves of. There are a number of others that I would recommend, "Selling to the Military," "Guide to Defence Acquisition Regulations," and these are available from the U.S. government printing offices. Let's face it, here in Vancouver we're so geographically accessible to Seattle you can pick all of these things up with no problem.

The next major consideration for you people obviously is funding. The Defence Industry Productivity Program is the major federal government support program to assist companies to penetrate the U.S. military market. We have an annual budget of about 250 million dollars to provide assistance in four main areas, capital assistance, source establishment, research and development, and marketing. What we will do is provide in most of those areas up to about 50 percent of costs. Frequently we will go on a repayable basis; therefore, we share the front-end risk. If you're interested in that, come and see me. I'm just located here in Vancouver.

Standards is another major area, especially when you're selling to the U.S. Military. The Department of National Defence will provide a lot of guidance in that area. In fact, they will inspect on behalf of the U.S. Military when you are selling to them, both in terms of quality and in terms of the qualifying of products.

You should also be aware of constraints you may face and I'd like to mention, in particular, the Small Business Set Asides which we will never overcome. That rules us out of a lot of business. The thing to bear in mind, though, is that in the U.S. small business is defined as a company with less than 500 employees. Now, a 500-employee company is a big company by B.C. standards. We've got very few companies locally that exceed 500 employees in the manufacturing area, once you get away from the resource side of things. They, in turn, need sub-contractors, so there is opportunity to tap that kind of a market as well.

Dave will go into some of the other constraints that we have to face, the Berry Amendment on prohibiting food and textiles being bought outside of the States. But, the Defence Programs Branch did a bit of a study and they felt that despite all of these constraints, the eligible market the Canadian

companies go after annually could be in the order of about 80 billion dollars. Now, I have no sort of reason to argue about that figure but 80 billion dollars is not small potatoes.

Finally, perseverance is the key thing but, unfortunately, the main criticism, and you hear it in any type of marketing program that you go into, we're the invisible Canadians. Everyone likes us but no one ever sees us. You know, we're great as tourists but we don't follow up adequately. It requires regular visits, it requires regular follow-up. We had the Raytheon people out here (and those of you in the electronics industry know that Raytheon is one of the major sub-contractors to the U.S. Military) and their representative said, look we've got buyers just like every U.S. prime but what we need to do is see you people about every six to eight weeks, we need to get a follow-up from you every two to three weeks. He said, if you're not doing that, your competitors are doing it, so you've got to keep knocking on doors because there are a lot of companies out there willing to do that. I think Don raised a very good point earlier, going after the U.S. market is not cheap, it's not easy, it's costly, and it will take a long time before you get business. So, consequently, you've got to make a long-term commitment. The awards, however, can be very great.

The final slide, Chart III, Who to turn to? Again, this is free advice. It doesn't cost you a cent. The International Trade Centre, we're in the Scotia Bank Building, just on West Georgia. The Canadian Embassy in Washington, and Judy Bradt. Judy is very competent, mainly working on the general supplies side of things as opposed to the military. But contact Judy directly. Next, the Defence Programs Branch. You should definitely get in touch with those people if you're going after military buys. They're in Ottawa. Finally, the General Services Administration and you've got to get to know Mrs. Billie Brown. Mrs. Billie Brown, I've been assured, is one of the most helpful that you'll meet in the U.S. government. She's in Auburn, Washington.

- INTERNATIONAL TRADE CENTRE

INDUSTRY SCIENCE & TECHNOLOGY CANADA, VANCOUVER
TELEPHONE: 604-666-1444

- CANADIAN EMBASSY, WASHINGTON, D.C.

JUDY BRADT, COMMERCIAL OFFICER
TELEPHONE: 202-483-5505

- DEFENSE PROGRAMS BRANCH

DEPARTMENT OF EXTERNAL AFFAIRS, OTTAWA
TELEPHONE: 613-996-1816

- BUSINESS SERVICE CENTRE (GENERAL SERVICES ADMINISTRATION)

AUBURN, WASHINGTON
MRS. BILLIE BROWN
TELEPHONE: 206-931-7956

DAVID TYE, Panelist

I would like to spend the short time I have with you concentrating on the U.S. Military/NASA market. I will, therefore, go through some of these slides very quickly because I have some brochures at the back that cover the other groups of CCC. I'm with the U.S. operations of CCC and we deal exclusively with the U.S. Military and NASA. The corporation is a crown corporation established by the Government of Canada back in 1946. We report to Parliament, through the Minister of State for International Trade, the Honourable John Crosby. We are constituted like a normal corporation with a Board of Directors predominantly from the business community. We were established to assist in trade between nations.

Back in '46 just after the war a lot of companies in Canada were finding it difficult to export because, although they had a good product and foreign lands were interested in their product, they were uncomfortable dealing with a strange country, a not well known company. So, it was felt that on a government basis things would be a little bit easier. And to that end we were established and we

deal only with government-to-government contracting. In doing so, we take on the role as a prime contractor. When a Canadian company wins an order and it has been decided by the company and by the foreign government that they would rather do it on a government-to-government basis, CCC will take on the role of the prime contractor and sub-contract one hundred percent to the successful company.

I would like to state right now that there are three organizations in our corporation and we operate under three different sets of circumstances. The overseas and the UN groups only get involved if the foreign country and the Canadian company wish our involvement. With the United States Military we are part of the regulations and must be involved. The corporation is involved in both defence and commercial sales. In the United States group, it is 98 percent defence. The other two groups are predominantly non-military sales.

We're one of Ottawa's better-kept secrets, we spend a fair bit of time trying to let people know that we exist and we're there to help. Our contracting people are very familiar with the different idiosyncrasies of dealing with other countries. Our U.S. group is very familiar with the federal acquisition regulations and supplement to those acquisition regulations. We maintain complete up-to-date copies, so if you ever need one, please give us a call as we can make a copy of it as long as it's not too bulky. We can also advise of this applicability in Canada. There are a lot of things that will die at the border.

During our early years we followed right along on the coattails of expanded Defence Department purchasing. With Reagan's years finishing and Bush coming along our business volume has dropped and is being compensated by increased activity in overseas areas. So, where we were heavily U.S. Military, the balance is coming back to a more traditional mix. We've had some good success overseas, a coal mine project in India, a vessel-tracking system in the Hong Kong Harbour and a few others. We are also involved in China and we have experts in our area that can assist you if you want to do Pacific Rim work.

I want now to spend the rest of my time talking about the U.S. Military. That's the biggest customer in the world and your biggest opportunity. It's the one customer you have that you have a right-of-access to, thanks to the agreements that we have signed. And basically what I'm talking about is the old free trade. Today and this morning you've been hearing about the new free trade agreement just signed last year. Our agreements were signed back in 1956 and 1963. In our organization the primary point of entry into the U.S. system is the bidders' mailing list. This is how you get your company registered with the U.S. procurement agencies for your products.

Our group is divided into four groups looking after individual U.S. agencies. I'm head of the Airforce and NASA Group and I also have the Defence Logistics Agencies under my wing at the moment. We have an Army, a Navy and a Communications Group.

Now Barry has already mentioned the Defence Production Sharing Agreement and the Defence Development Sharing Agreement. There are, in fact, something like 150 agreements between the two governments covering defence trade. They stretch over a vast period of time covering things like reciprocal inspections, cost accounting standards, transportation of goods. The one that we always call the Defence Production Sharing Agreement is, in fact, the one that states CCC's role in the process. Basically the concept is that there is a level playing field in defence trade. You can compete on an equal basis with a U.S. company and you should receive equal treatment. In doing so, two things are waived - the Buy America Act and Duty. So you're one up on the rest of the Canadian industry when you're dealing with U.S. Military as far as free trade goes. There is no duty.

The Production Sharing Agreement says that when a contract is let to the Canadian firm by the corporation, the contract will be let in accordance with Canadian government rules and regulations. That means, basically, you are dealing with the Canadian government and dealing through us you're not going to see any major change in how the contract is let or monitored as far as the U.S. marketing goes. Should you deal direct with the U.S. Military, then you will have to be a little more careful about U.S. regulations.

In 1960 NASA was seeking other suppliers and recognized that Canada had a great deal of expertise in many fields of advanced technology. They were aware of the Defence Production Sharing Agreement and through an exchange of letters in 1960 they agreed that Canadian companies

could have an opportunity to compete against U.S. companies for their purchases and should NASA wish, it will come through CCC and when so doing we'd use the U.S. Military policies. So again, if NASA decides to come through CCC, it will be a Canadian government contract. NASA, however, makes its own determination on each case, whether it wishes to come through us.

There are some constraints to Canada's access to the U.S. Military. The Berry Amendment has been mentioned. The Appropriations Bill for DOD has what is called the Berry Amendment tacked on to it. It essentially says that food and clothing will only be bought from U.S. companies for the military. It goes back to the days of the continental army when it was decided that the continental army would clothe and feed itself. It changes from year to year, they keep adding things and taking things away, currently things like flatwear (forks and spoons) and hand tools.

Another major constraint is the Small Business Set Aside Program. The Small Business Set Aside Program is a separate act passed by Congress and, therefore, it takes precedence over our Defence Production Sharing Agreements. Our Defence Production Sharing Agreements are memoranda of understanding, so they do not have the force of a treaty and, therefore, are overridden by public law. The Small Business Administration was set up to encourage U.S. small businesses to contract with the U.S. Federal Government and it applies across the board, all federal departments.

Another one here is legislation which requires that major parts of warships must be built in the U.S.

The Jones Act does not affect Canadian suppliers as a rule. Most of our shipments go down to the States by truck or rail. The Jones Act was not changed by free trade, so if you're going to ship something to the U.S. Government, it must be on a U.S. flag vessel.

Ship refits is a new one. Our British Columbia yards are getting rather good at refittings from American cargo vessels. A lobby group encouraged Congress to pass a law restricting ship refits to U.S. yards.

One of the biggest problems we will always have is trying to counteract special interest groups in the U.S. system. Now, I said that Canadian access to the U.S. Military marketplace is embodied in the Federal Acquisition Regulations, specifically the DOD supplement. It says basically that they will contract through CCC and to put us into the loop, we have to endorse the Canadian company's bid. This endorsement is done by us issuing a letter of support and stating in that letter of support that we will accept the contract on behalf of the Canadian company. If we will not issue that letter of support, the chances of the Canadian company getting an order is quite remote. The regulations say that you shall normally go through CCC and most U.S. buyers treat that as a must.

Here are four exceptions to this rule. 1. Research and development, fully funded by the U.S. Military, may be contracted directly by the U.S. Military. If it's a Defence Development Sharing project, however, it must then come through CCC. 2. If it's an emergency purchase, there's no time for bureaucracy and the U.S. can go direct. 3. Small purchases - in our case it's under 25,000 dollars U.S. The U.S. Military is encouraged to come direct to a Canadian company. If the U.S. wished to, we will still get involved but we try to encourage them not to. 4. If it's a defence activity located in Canada, like The Torpedo Test Range on Vancouver Island, they may do their own contracts.

We are always promoting our services and highlighting Canadian companies' expertise to American buyers. We remind them that Canada is part of the North American defence base and have a great deal of expertise to offer them. So, by having companies register in the U.S. we are increasing their competition base and we're increasing the defence production capability of the U.S. in time of war. We remind U.S. buyers that there are a large number of agreements in place that makes their life easy. They do not have to deal with full-blown price analyses on a Canadian bid; the Canadian Government will do that on their behalf. The Canadian Government will guarantee performance of a Canadian supplier. We also ensure that Canadian suppliers do not make an abnormal level of profit. So we do try to make life as easy as we can for the U.S. In Canada we will perform the contract management functions, we will do audits as necessary and prepare pricing analyses.

I want to spend a bit of time now on the bid process. The first and most important thing, as I mentioned twice and I'm going to mention it three times, and anytime you're talking to anybody about U.S. Government procurement, you will hear it: the Commerce Business Daily is the single, most important document for sourcing opportunities that's put out. A subscription currently costs \$261 a year U.S. with first-class mail. It's useful for a number of things - for Canadian companies, apart from the opportunities of direct contracts, if a major contract is awarded, it will give you an indication of sub-contract opportunities. It will identify contracts awarded and the price. It happens that because the U.S. Military is the biggest portion of the U.S. budget, well over 50 percent of the opportunities will be military-related, although all U.S. agencies do publish their opportunities in there. It publishes research and development opportunities.

It also has a few interesting things on the back, such as special notices. When they have a single source for something, they get very nervous. They like competition. So, they will publish occasionally a "hit" list or a "competition advocates' shopping" list. This is an item that's only one supplier and they're anxious for somebody else to supply it, so when you see it published in the CBD, you can write away for information for any parts on there that are in the area you are interested in. The U.S. will help you get qualified to make that product and then you'll be able to sell it in the U.S. system. Occasionally there are also announcements of five-year forecasts available, so you'll be able to get that and review your particular commodities to see if there is a useful market and make it worthwhile having a visit down to that agency.

Now then, the U.S. purchase is based on competition. There are three main systems: the invitation for bid (the lowest nicker wins), the request for proposal, and the request for quotes. The price is not the sole determining factor on these last two items. You can put alternates into the specification. You can put a different product in as long as it does the job. On an IFB you are not allowed to dot an i or cross a t. It's a very rigid, competitive procurement. The route to the U.S. system is the Canadian Commercial Corporation. Through us you are put on the U.S. bidders' mailing list and once you are on a U.S. bidders' mailing list, you will get your opportunities mailed direct.

Please do not be concerned if you get a half-inch document for quoting. A good 80 percent of that document does not apply or is essentially standard terms and conditions that are no need to worry about. Also, there is usually a page-and-a-half of clause numbers and a title with no description as to what it is. Again, most of those don't apply but please give us a call. We can go through it with you and we can tell you whether you need to worry about it, whether you should read it and whether we can give you a copy of it. We do maintain a library.

There are four volumes of the FAR and there are four volumes of the Department of Defence supplement to the FAR. So, it's quite a weighty book. The corporation, when you're put on the bidders' mailing list, also puts itself on the bidders' mailing list and, therefore, we in theory get all bids sent us that Canadian companies have been registered for. Their system is a long way from perfect. If you get a bid set and you're going to put a bid in and we've not talked to you or sent you a copy of it, give us a call, please, so that we're ready to help when you put your bid in.

I spend 40 percent of my time sourcing. We also get the Commerce Business Daily and we get it on line. It is available as a computer hookup. We source using our sourcing system, we use the Department of Supply and Services, we use trade indexes and we will use the local office of Industry, Science and Technology. Normally Canadian companies will get a bid set if it's on a bidders' mailing list. Also, CCC has the right to ask for any bid set as long as it's not a restricted purchase. So, if you see in the Commerce Business Daily anything you'd like and the buyer in the States says you can't have it, please give us a call and we'll ask for it on your behalf. The Commerce Business Daily always gives a contact name and phone number. If it's a DLA agency, the chances are it's an answering machine but in most other agencies, the contact is a person. We will solicit Canadian firms that are identified. We normally will try to solicit at least two or three. In Canada we're lucky if we can find one, one of the facts of life, and we will endorse all bids that are acceptable to us.

The regulations say that a completed Canadian bid consists of the U.S. documentation properly completed and certification by the Canadian Commercial Corporation. If either of those is not down in the U.S. by closing time, your bid will be thrown out as non-responsive. The endorsement of

CCC is very important because if you win, we're going to be the prime contractor. We are not in a risk-taking position. We're here to assist Canadian industry but not to assume risks because if there's a problem that comes out of the Government of Canada, it comes out of the taxpayer's pocket.

The route of your proposal to get you into the system is to have the U.S. bid document completed and into the U.S. by closing, and a copy of the complete document into us five days before closing so that the Department of Supply and Services may review it on our behalf and, therefore, tell us that this is a sound proposal and that the company is capable of doing the job. Normally the regulation says that the bid comes to us, the letter goes on top and the package goes down to the States, and if time does not permit, electronic means may be used. Ninety-eight percent of the time we'll use telexes and faxes to get our endorsement down to the agency.

U.S. bid sets are on the street for thirty days. You're going to lose two days to a week and a half in the mails. It also takes time to get your bids down there. You'll end up couriering your bids most times to the U.S. system. If it comes from us, we lose an extra three or four days because of the mail system, a couple of days through us, you'll be lucky if you have a week to a week and a half to put that bid together. So, time is always going to be your enemy and it's important to get on the bid list so you get your own bids direct. It cuts out one set of mailings for a Request for Proposal or Request for Quote. We have to certify to the U.S. that the price is considered fair and reasonable. DSS will do that based normally on DSS 1031 or by issuing a previous price or a catalogue pricing if a company happens to put out a catalogue.

As I mentioned before, the contract that you get will have Canadian terms and conditions. That's normally DSS 1026 A and B. It is, however, as transparent as it can be so the typical CCC contract is a cover of three or four pages consisting of the general terms and conditions and specific terms from the U.S. contract we have to pass through. The normal thing is delivery, the commodity, things like terminations and disputes. Those are a little bit different than the Canadian Government systems. We have to add those into the cover contract. After that follows the normal DSS assorted general terms and conditions and finally the U.S. contract. So as the terms and conditions flow through the paper, many of the U.S. terms die. All their affirmative action, all their cost accounting standards, clean air, clean water, that type of thing.

There are a number of departments involved in our contracts. I've talked so far about the Canadian Commercial Corporation and the DSS. CCC is involved essentially up to the contract award stage, after which we turn the file over to Supply and Services, who are the Canadian Government contracting people. They're responsible for the monitoring, the administration, close-out, problem-solving, and arranging audits if needed.

The Department of Defence you've heard a little bit about. They are the inspectors. There is a reciprocal agreement which says that the NATO standards, AQAP 1, 4 and 9, can be used in Canada versus the American standards. So, that means that if you have done military work in Canada, you don't have any new quality-standard problems to worry about. DND also has the right to accept U.S. Military purchases on behalf of the U.S. Military. That's useful if you speak of payment. The magic document that initiates payment in the U.S. systems is the 00250 form, which is an Inspection and Acceptance Report. Basically, until that has been signed, the clock does not start running for payment. Normally CCC pay net thirty days. So, if accepted at the plant, the clock will start running then. If it's acceptance at destination, you will have to wait until you've shipped it down there. Follow up if there's any lengthy period before it gets accepted. Make sure that it gets accepted down there and then get that document into the system for payment.

The National Defence also gets involved in loaned equipment. They will do the same anywhere in the world but if you've got the product that you're selling to the DND and the Americans are quite interested in it, there is a defence sales support group at DND that will assist you in demonstrating your product or doing a promotional film in order to increase your chances of expanding into the U.S. Military system.

The final one I want to mention of the Ottawa players is DCASMA, Defence Contract Administrative Services Management Area, which is why we call it DCASMA. That is the U.S. Government contract management organization. They're responsible for all military contract management. In the U.S. it is a large organization, over 200 people, doing all things - inspections,

contract management, problem-solving. In Canada it's a very small group as most of their functions are delegated to a Canadian government department. We work closely with them on management of contracts, especially delinquencies. They also look after government bills of lading for shipment purposes. The DCASMA office is a Defence Logistics Agency (DLA). Their function is common to all U.S. Military agencies. A DLA will buy goods common to two or more military agencies.

Now that basically covers our role in direct U.S. Military contracts. We do have a couple of other functions, though. When you act as a sub-contractor to a U.S. prime contractor on a military contract, the U.S. prime may want to see your books to see that he's got a good price out of you. There is a government to government mechanism where you don't have to let the U.S. prime into your shop. It's called an assist audit. All you need to do is ask the U.S. prime to have the DCASMA that administers his contracts to arrange the audit of your proposal on a government-to-government basis. That DCASMA will ask DLA to perform the audit. We, in turn, will arrange for Supply and Services to do that and advise the U.S. of the result. This absolves the U.S. prime of responsibility on pricing. That makes your life easier. Now, unfortunately, that is not a written regulation and you will find the odd company that says, "I'm not going to accept the third party review". In cases like that, you're sunk. You have to make a business decision to let them in or lose the business opportunity. In summary, there is a government-to-government mechanism on military contracts to allow you to solve a pricing verification problem with U.S. prime.

The U.S. Military buys items for other militaries around the world under a foreign military sales system. Basically, you're allowed to tap into that as well. We get many contracts where the delivery point of the contract is, in fact, with some other country. There are two things to point out there. There is no border between Canada and the U.S. in defence trade. You do not need an export permit to sell to U.S. defence for their use. If it is an FMS case, however, you will have to have an export permit and once in awhile you may get hung up because Canada will not generally allow export to certain countries - Taiwan, Israel, where the U.S. will. In that situation we have to be very careful to insure that Canadian export permits can be granted. Otherwise, we can't put a bid in.

The pricing policy for an FMS procurement is slightly different. If it's part of a package with DOD procurement, everything as I said before is the same. If the procurement is 100 percent for military sale, we treat that as a commercial sale and all we ask for is a best-customer certification from you. We don't ask for DSS 1031 prices.

One final item - DND is not allowed to sell their stocks to the U.S. So, whenever the U.S. Military wishes to buy something from the DND, DND has to get an order in council or transfer the ownership to CCC and then we can turn around and sell it to the U.S. Military.

Now, I'd like to say we sell everything from soup to nuts. Unfortunately the Berry Amendment stops me saying that. So, I can say this, we sell everything including the kitchen sink to the U.S. Military. We deal with all sectors of the industry. We sell a great many aerospace-related items, landing-gear components, sell a lot of electronics, radios, we sell helicopter hauldown equipment to the Navy, hospital beds, vehicles, crash trucks. So, we sell virtually anything that's made in Canada.

Finally in conclusion, just a few recaps. There are a large number of international agreements between the governments that allow your participation in the U.S. system. The Free Trade Agreement was signed last year and expands that greatly. There are wrinkles in there that will take time to solve and hopefully over a period of time most of these things will go smoothly. Arrangements are in place and operating to allow you to get into the U.S. system. There are a lot of government agencies to help you.

We're here for the U.S. Military. Trade commissioners are around the U.S. for all U.S. departments including the Military and Industry. Science and Technology is here to assist in financing and market-awareness opportunities. But most important is this, you've got to find out about what those opportunities are and be persistent. It's going to take commitment, it is going to take money, it's going to take time. They'd like to see your face. The typical American company is into a U.S. base seven or eight times a year. They hire agents to visit more often. Too many Canadian companies will tend to visit once or just send literature and that's the end of it. They'll come back and sit and wait for bid sets to come. You will get a few opportunities that way on a

normal BML process, but you've got to go down and visit and do it repeatedly. You should not encounter any formal opposition to your visits down there.

Question:

I have a question for David. Does the CCC deal with Canadian universities on military contracts or is that done directly?

Answer:

We do marginally. Most contracts are done directly on university type R&D. Because the university is not a profit organization, the U.S. Military buyers have an easier time dealing with you. But we do deal with universities on occasion.

Question:

The other question falls in line with this. At UBC we find that we're sole sourced on a lot of contracts from the Department's Supply and Services and this is primarily due to a relationship between a researcher and someone in a Federal department. Do you find a similar situation happening between, say, researchers, Canadian universities and U.S. federal department individuals.

Answer:

Basically yes. The scientific community is a fairly small community and people seem to know what is going on around the universities and that. Typically we find a university or a U.S. agency coming to us and saying, we'd like to contract with so-and-so at such- and- such an institution. So, it is very much that type of thing as well.

Comment: Questioner

So that if I was to encourage the faculty to go down and press the flesh and let them know that there are no bars or no restrictions to setting up a contract with the U.S. Government and that they should pursue that the same way they pursued in Canada, that would probably get the best results.

Answer:

Yes, there will be scientific symposiums and getting to know in their field who in the U.S. is in that field at one of the labs in the military bases and what-not. Most things like this start out from the technical side of it from personal knowledge of individuals and it works its way through the system and ends up as a sole source. And whether it comes through us or comes direct, I would say the majority of them would go direct from the U.S. buyer into the Canadian university.

DON ETCHISON, Chairman

I would like to point out two things in concluding this session that I don't believe either Dave or Barry mentioned. On the Free Trade Agreement, Barry referred to the "Defence Sharing Agreement", and I liked his terminology in calling it the "old free trade agreement". There has been free trade with the military since the 1950s. What the free trade does with the other non-military departments on the U.S. side is lower the threshold for Canadians to 25,000 dollars U.S. where previously it was 156,000 dollars. But that higher threshold still remains for other countries so this is a preferential treatment for Canadian firms to bid on those contracts on a non-discriminatory basis in strict competition with U.S. firms.

The second part is that until January of this year a Canadian company bidding on a U.S. contract under the "Buy America Act", would get penalized. Either a 6-percent or a 12-percent penalty was tacked on your bid to give preferential treatment to a U.S. company. Under the FTA that penalty was removed and now Canadian firms can bid on non-defence contracts on an even basis. So, Canadian businesses received two fundamental breaks out of the Free Trade Agreement that are very significant as far as doing non-military procurement activities with the U.S. Government. This really does give Canadian firms an edge in gaining contracts with the U.S. Government. However, from the presentations this is a complicated business. Yet it can be lucrative and worth pursuing.

Thank you for your attention.

WORKSHOP NUMBER 13 JOINT VENTURING IN THE PACIFIC RIM

The opportunity for Pacific Rim joint ventures is growing by virtue of the Free Trade Agreement, particularly as more Asian nations look at accessing the U.S. through Canada. We are the only industrial nation of any size that has free access to the U.S. market.

But even in and of itself, the Pacific market is expected to become the world's major market by the turn of the century. However, before we can become successful in any other part of the world, we have to expand and enhance our economic relationship with the United States.

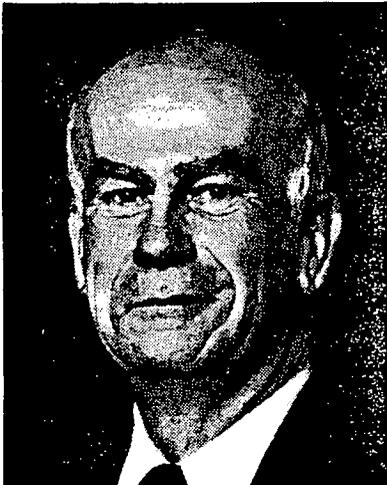
The FTA has opened the way for Canada to become an active part of the global economy, and joint venture arrangements have to be considered in this global context. Canada has now become a major foreign investor, as well as a positive place for investment. The fact of the FTA coupled with our non-threatening reputation suggests a growth and expansion in our economic relationship with the U.S., but not at the exclusion of others.

Any joint venture opportunity, whether it is simply for a foreign company to gain access to the U.S., or for both companies to springboard into other markets, begins with decisions about the legal form of the joint ventureship, and includes considerations of the tax implications, sharing of expenses and profits, and the division of power in the project. A company could be well advised to retain the services of an experienced advisor prior to getting into a joint venture.

MARTIN CRILLY, Rapporteur

WORKSHOP NUMBER 13

Chairperson and Panelists



CHAIRMAN: **PHIL BARTER**
Senior Partner
Pacific Rim and Trade Specialist
Price Waterhouse

Mr. Barter's areas of specialization include accounting and financial advisory services to multinational corporations and international trade economics. He has had extensive experience assisting foreign companies in virtually all sectors of the economy in identifying business opportunities in B.C. and Canada. He is on the board of numerous Pacific Rim trade and investment committees as well as on the boards of several Canadian corporations.



JACK McKEOWN a Director of the *Gleneagles Group*, has spent more than 25 years in senior management positions involving international trade, investment, industrial development and business-government relations. He has travelled extensively in North America, the Pacific Rim and Western Europe, and has played a key role in the development of Canada's trade and investment relations with Japan, China, Korea, and the ASEAN group. Prior to his return to private business in 1987, Mr. McKeown was Deputy Minister of International Trade in B.C.



ALEX SZIBBO is a partner with the law firm of *Russell & DuMoulin* in Vancouver, British Columbia. Mr. Szibbo, who established the firm's Technology Law Group practices in the areas of technology transfer, licensing, franchising, joint ventures and computer law. He is also currently adjunct professor at the Faculty of Law at the University of British Columbia in Vancouver. He has participated as chairman and speaker at numerous conferences dealing with legal issues arising in new technologies. Mr. Szibbo is a member of the Bars of British Columbia, California and Ontario, as well as of various organizations having a technology focus.



RAPPORTEUR: **MARTIN CRILLY**
Prior to joining Johnston Terminals as Vice-President of Research and Development, Martin served as President of the Western Transportation Advisory Council. He has a Masters degree in Physics from the University of Cambridge and an MBA from UBC.

WORKSHOP NUMBER 13

JOINT VENTURING IN THE PACIFIC RIM

PHIL BARTER, Chairman

It is my pleasure to be chairing the session on the opportunities and challenges of joint venturing in the Pacific Rim. I believe that Minister Clark's speech at the luncheon today certainly took the FTA right into our topic by emphasizing that you cannot look upon the FTA in isolation from other areas of possibility, particularly the Pacific. These are available to Canada if Canada either has the knowhow or is prepared to develop the knowhow, and also take the time and make the effort to develop these markets properly.

To relate what Mr. Clark discussed on a national basis a little more directly to B.C., it is useful to know that last year 46 percent of B.C.'s exports went to the United States, 26 percent to Japan, 11-1/2 percent to other parts of Asia, leaving 16.5 percent to the rest of the world including Europe, Africa and South America. Asia contains the fastest growing markets and the most quickly developing economies in the world.

We know that at this time there are other discussions on trade issues that are taking place. We are aware of the Mansfield talks which are the discussions between the U.S. and Japan on closer economic ties. We are aware of the U.S.-Mexico Agreement, which was referred to earlier this morning, which means that right now you are able to set up manufacturing facilities in Mexico and deal into the United States without any duty problems. We know that the New Zealand/Australia Closer Economic Relationship Agreement is now operating very fully and completely. We also know from Sir Francis Holmes' study, entitled "Pacific Partners", that Australia and New Zealand are now looking at the feasibility of forming closer economic ties with Canada and the Pacific islands. At the same time under the Hawke initiative, Australia is attempting to start talks with Japan. We have stated through Mr. Crosby that if such talks are going to take place, Canada would also like to sit in on them. A number of us were already invited to sit in as observers in the Mansfield talks that occurred in Seattle last year.

Since 1985 Canada has traded more across the Pacific than across the Atlantic. It was the first year that we did that and we have been doing it ever since. It is also not any coincidence that the United States also commenced trading more across the Pacific in 1985 than across the Atlantic and continues to do so. Those very fast growing economies, particularly Japan and the four dragons, and the developing fifth dragon of Thailand, have a tremendous interest in what has happened under the FTA.

Those of us who attended the Canada-Taiwan meetings in Edmonton last week know that the principal question being asked by the Taiwanese was what do you see as the future role of Canada and Taiwan trade (which is an exceptionally favourable trade balance for Taiwan) - where do you see the opportunities for us through working with Canada to participate in the FTA. All four dragons have problems with the United States at the present time because they have such favourable trade balances. They are certainly looking at ways in which to alleviate those difficulties to some degree.

A possibility which addresses the issue may be investing in Canada and dealing with the U.S. from Canada. There are many reasons why they like Canada and particularly B.C. First of all, we operate under the same British commercial law they have been using for most of their commercial lives. Secondly, Canada does not threaten each of them the same way that a relationship with either Japan or the United States does directly. They know that if we get mad at them and send our navy, there will be a couple of rowboats coming down the channel, not a whole fleet. Thirdly, there is not the cultural shock for them coming here because a lot of them have been doing business here for many years.

We also know that by the year 2000, the Pacific region will hold around 64 to 70 percent of the world's population. It is also forecast that 50 percent of the world's consumption of goods will take place in the Pacific by then. We are also told that by the year 2000 Japan will have a GDP per capita exceeding that of the United States by over 10,000 American dollars and that all of the four

dragons will have a GDP per capita exceeding the norm for Europe. What they are looking for, of course, are joint venture partners to whom they can bring their technology or knowledge in other areas and their marketing skills. They also want to joint venture with us in value-added goods in those other parts of Asia where, as you know today, the Japanese have established the pattern - you put value-added where the market is, not where the resources are.

The biggest opportunity for us is that we are the only industrial nation of any size that has free access to the United States market. We know there are certainly a lot of things still to evolve out of the FTA but at least we are not back at square one with everyone else where we would be without the FTA, caught under the Omnibus Trade Bill of the United States. We hope today to give you some feel for both the nature of these opportunities and how they might be carried out, recognizing that Canada's economy is driven by small-to-medium sized companies, not by the multi-nationals, and it's those companies with whom the Taiwanese particularly Hong Kong and to a lesser degree Japan, are looking to form associations.

JACK McKEOWN, Panelist

I would like to spend some time looking at the Free Trade Agreement in terms of the trend toward the global economy and the impact this will have on joint venture opportunities in the Pacific Rim. My view is that these opportunities will be numerous but let's talk about that a little more later.

Let me digress for a moment and attempt to place the Canada-U.S. free trade debate in an international context. Recently Megatrends' author John Naisbitt made the following comments about the emerging global economy: We can't understand the global economy if we think about it as merely more and more trade among 160 countries. We are really re-grouping at a higher level. We are moving from trade among countries to a single unitary global economy. One economy, one marketplace. It is the next natural level in the economic history of civilization.

We started with those tiny economically self-sufficient villages that did not trade with one another. We had a couple of thousand years of city states, economically self-sufficient with only a little exotic trade around the edges. For several hundred years now we've had macro-economic nation states, almost all of them relatively economically self-contained. During those hundreds of years within the nation states we divided up the economic task and now for the last dozen years we have begun the process of dividing up economic tasks among nations and moving toward the economic inter-dependence that that implies.

That is why it was so critical that we supported free trade during the last election. It wasn't really a political issue in terms of party-versus-party, it was really should Canada join the real world. If we're going to be successful in any other part of the world, the first thing we must recognize is that the only way we can assure our future economic well-being and international competitiveness lies in our ability to expand and enhance our economic relationship with the United States. If we can do that effectively, then we we'll be in a position to better address the opportunities that will open up in the Pacific Rim, western Europe and beyond.

Phil Barter and I were at a meeting about a year ago with some prominent people across Canada and among them was Senator McEachern who was very surprised that B.C. people were presenting the view that if we hope to be successful doing business in the Pacific, first and foremost we have to be successful in North America with the United States. To us in British Columbia it seems obvious but even to someone as enlightened and knowledgeable as Senator McEachern, this seemed to be an interesting and new approach.

Recently British Columbia made a major presentation at Davos and one of the things that came out of the Davos meeting for the people of British Columbia was a certain level of surprise that the rest of the world applauded the fact that we had made this Free Trade Agreement with the United States. Here we were having this domestic battle about should we, would we, could we and yet the rest of the world was looking on with envy.

I think the Canada-US Free Trade Agreement was only a step toward a global economy. It's this global context that we are dealing with when we are talking about joint venture arrangements. As you all know, joint ventures come in many forms but usually investment, technology transfer, and marketing are at the base and within those three, investment is usually in the lead.

In today's world one of the ways that one country can endorse the economic profoundments and business climate of another is through direct investment. For direct investment, either as a single owner or as a joint venture partner, the correct investment climate has to be there. The level and rate of growth of direct investment in a country is viewed as a measure of the international business community's confidence in that country. Record levels of direct foreign investment in Canada in recent years indicate that international investors have confidence in Canada. Most observers anticipate that the FTA will accelerate this trend and, indeed, that is already evident.

At the same time, Canadian business is showing confidence in itself as a significant international player through record levels of direct investment abroad. Gross inflows of direct foreign investment into Canada from all sources reached something like ten billion dollars in 1987. At the same time Canadian direct investment abroad amounted to something almost approaching nine billion. This has caused policymakers, bureaucrats and businessmen to take a different view in terms of foreign investment because Canada is now a significant investor abroad. There was a time when we invested abroad 20 cents to every 100 cents invested in Canada. At the moment we're someplace between 60 and 65 cents invested abroad for every 100 cents that are invested in Canada. All of this, regardless of the level, whether we are talking about small, medium or large, helps us move forward in terms of joint ventures.

About a year ago I had the opportunity to spend some time in Japan doing some research on Canada's investment climate and trying to assess at that time, a year before free trade came into being, how important the Japanese considered the FTA. In talking to them, and I did a survey with something like 45 major Japanese companies, we determined that the Japanese side thought our investment climate was terrible, vis-a-vis the U.S. through 1984. Between 1984 and 1987, they thought our investment climate was on a par with the United States. But, and it comes as a surprise sometimes to Canadians, to most foreign investors, and certainly to most of our friends in the Pacific, they view North America as one market.

When I was in Japan in the fall of '87, they were saying, yes now your investment climate is on a par but we're still worried about the border. That is why, from the investor's side in Japan, they were hoping to see movement in terms of the Canada-US Free Trade Agreement, because while the investment climate was on a par, there was still need to neutralize the border. I think the Free Trade Agreement neutralizes the border, at least in commercial terms. With the FTA, our Japanese friends, and I use them because they are the lead nation in the Pacific, look on Canada as a positive place for investment.

When we consider what has happened over the last while in terms of joint venture investment, we're seeing it coming from Japan, we see it in the forest industry, we see it in the automotive industry, we see it in high technology, we see it in real estate, we see it in hotels. I don't know if you noticed on the Hong Kong Bank building sale that the Japanese bought 100 percent of the building, but they have only 75 percent of the site. A Vancouver family still own 25 percent of the site that the Hong Kong Bank building's built on. The next speaker can explain if that qualifies as a true joint venture.

The chairman was just talking about Taiwan. Right now we know that Taiwan is working on a joint-venture proposal with Westcoast Energy in terms of a major, almost a billion dollars, petrochemical plant at Taylor. We know they're talking about a steel mill, but whether that will be a joint venture is still to emerge. We know that the Australians and the New Zealanders are already heavily involved in joint ventures. Most of this activity is joint venturing with Canadians in North America. Maybe we should look at it in terms of it being Stage 1. Pacific Rim business people are looking for access into the North American market. All of the things that Phil Barter has said about Canadian business makes it attractive.

However, as the relationships mature, we will see some of those joint ventures start selling into other markets, into western Europe, back into other parts of the Pacific. But again, with the strength of the Canadian economy and a more stable and a more mature Canadian business community, we will see more and more joint ventures being created in the Pacific.

There are a number of small-to-medium-sized food processing companies in joint ventures in Thailand selling products not back into North America but into places like Hong Kong and Japan.

There are a number of opportunities in China. As you know, China has already established a number of joint-venture arrangements in Canada, particularly in British Columbia. The best example is the pulp mill at Castlegar where they're in a joint venture with Consolidated Bathurst. There is Chinese involvement in the potash situation in Saskatchewan.

All of this is emerging, it seems to me, in terms of a global economy. The fact that Canada and the U.S. have now come together in the Free Trade Agreement, the fact that Canada has a non-threatening reputation in many of the countries of the Pacific leads us to see a growth and expansion in our economic relationship with the United States but not at the exclusion of others. As Mr. Clark was saying, the FTA is not an exclusive mechanism, it's a bringing-together opportunity.

With the strengthening of that relationship, with the international competitiveness that is occurring in our Canadian companies, we will see more joint-venture relationships with Pacific partners to serve the North American market and then as that matures and grows we will see more joint ventures being created in the Pacific. It's a challenging time for Canada. That would not have been the case had Canadians said "no" last November to free trade.

ALEC SZIBBO, Panelist

I'd like to make an assumption that we're looking at a situation where we have a Canadian company that has been approached by a Pacific Rim company to set up a joint venture to capitalize on the FTA and go after the North American market. The question that has been posed recently, and I think it's a good question, is how does the Canadian company in such a situation leverage the FTA joint venture into a Pacific Rim opportunity? That means having the scope of the joint venture not only address the North American market but also the Pacific market. To do that requires a bit of familiarity with the basics of joint ventures and what constitutes a joint venture and a joint-venture agreement and I'd like to take some time to do that. So, a number of my slides will deal with that and then we can try to answer how you end up with this type of a result.

Joint ventures basically have been known to commerce for quite a number of years and have been utilized by companies regardless of the fact that legally they were slow to grow as a legal concept. Now very simply a joint venture is an association of either persons or companies. They get together, they enter into a contract and they form a common undertaking. The common undertaking usually has a single objective and it's accomplished by the parties to the joint venture combining their resources and having some kind of joint control over the direction of the joint venture and then ending up participating in the profits.

Now the contribution of the parties to the joint venture can be one or more of a variety of forms. You can put in capital, you can put in knowledge - you put in knowledge that requires a licencing agreement or a technology transfer agreement. There are efforts, that means services provided by one or more of the joint venturers, for example management services, a variety of assets contributed and you get this mix of contribution to the joint venture. There is a profit expectation, of course, by all the parties to a joint venture, and finally an element of risk because that's what the nature of a joint venture is supposed to be. The venture standing is a short form for adventure.

So, that basically, is a simple definition of what a joint venture is but it encompasses virtually every joint venture structure that has been utilized in the past.

The result of putting together a joint venture is that each member of the joint venture puts in its own contribution which it feels is its strength in terms of whether it's assets, technology, or financial contribution, and you end up with a joint venture that has, hopefully, a political acceptability, which can be very important in a lot of countries, and legal acceptability, in the sense that it will be a recognized entity able to operate. If it is not a recognized entity, then certainly it should at least be able to operate legally in the local environment in which it's operating, and you end up with both the sharing of the risks and the sharing of the returns.

The actual structure of the joint venture can fall into three categories. You can form a corporation, you can have a partnership or you can have what is called a pure joint venture, which is not a corporation, nor a partnership, and is the most difficult type of joint venture to deal with because there are virtually no laws governing that type of a joint venture. Therefore, everything with respect to a pure joint venture is governed by the agreement and that's why it's so important if you

are dealing with a pure joint venture to have a very comprehensive agreement. If you're into the partnership type of venture or corporate joint venture, there are laws that govern those types of entities and you can have some confidence that some of the issues that will be raised by the operations of the joint venture will be covered by statutory provisions but not in the pure joint venture situation.

I'd like to just go over a couple of the differences between these types of joint ventures so that you can understand how important deciding which category you fall into can be.

If we look first at the distinction between partnership and corporation, it's very straightforward. In a partnership you have joint liability of all the partners. In a corporation your liability is limited to whatever capital you put into the corporation. In a partnership you can have one partner and unilaterally terminate the partnership. In a corporation it requires usually a joint action of the shareholders to terminate that corporation or wind it up. Winding up in a partnership is a relatively simpler process than in a corporate environment.

Your exposure is somewhat higher in a partnership. Why exposure to risk? Because there's joint liability. Your exposure in a corporation is lower in that sense, and limited, as I said before, to your capital. Also, the procedures for running a partnership are much simpler whereas a corporation can be fairly complex because of the corporation act procedures.

In a partnership you can't have a conflict of interest. So everybody that's a member to a joint venture can't have a conflict of interest whereas if you form a corporation, a shareholder of a corporation can end up having a conflict of interest to that corporation.

Now, membership in a partnership is somewhat difficult to obtain because every time you add a new member, you have to dissolve the old partnership and form a new one. A corporation is relatively easy - you issue new shares. Become a shareholder, you're a member of a corporation, therefore joining the joint venture that way.

Is there any recourse? Well, against a partnership can a member of a partnership have recourse against that partnership? No, because the partnership is not a legal entity so you can't go ahead and sue the partnership as such. You've got to go after the other members directly. In a corporation, being a legal entity, the members can go after the corporation.

Capital returns are relatively easier to obtain from a partnership than in a corporation.

Finally, in this comparison, partnership formation is relatively easier than a corporation formation. Why, because there are all kinds of requirements imposed when you're forming a corporation, such as the citizenship of directors of a corporation - those types of requirements which are not imposed upon a partnership.

Taxation. You have an additional level of taxation to deal with when you're dealing with corporations as opposed to partnerships and finally the relationship in a partnership is flexible to a greater extent and is more fixed or rigid in a corporation.

I'll just have a quick look at the more interesting and I think more relevant joint venture which is the pure joint venture and compare it to a partnership, which is its close cousin. Now the scope of a partnership that's a pure joint venture is usually very narrow. You do a deal in a joint venture with a particularly narrow focus. You carry out a particular transaction whereas under a partnership, the traditional thing to do is to have a partnership that carries out a wide variety of activity in a particular area.

Capital in a partnership is pooled. If all the joint venturers put capital into a partnership, it goes into a common pot. In a pure joint venture each joint venturer can put in its capital but it keeps it in its own account and controls those monies.

When you put assets into a partnership, they become common property of the partnership. They lose their identity as being the property of the individual member whereas under a pure joint venture, each of the members retains ownership of each of its own assets all the way through the operation of the joint venture.

Usually the joint venture partnership has authority in the sense that there's a partnership committee as opposed to a pure joint venture in which the members usually have direct say and so there is no centralized authority in the pure joint venture, although that can change depending upon the agreement which established it.

There are a number of other distinctions. Activities under a partnership are limited and under a pure joint venture they can be multiple. Distribution of revenues under a partnership is usually net and when I say that I mean the revenues come into a partnership, you put the aggregate expenses against the revenues and you distribute the net proceeds. In a pure joint venture what happens is, according to the joint venture agreement, each joint venturer gets a certain proportion of the gross revenues and then applies its expenses against that.

So what happens with the expenses? Well, in the partnership model, they are shared whereas in a pure joint venture they are allocated in the sense that each joint venture member undertakes to pay its own share of the expenses and whatever expenses it incurs and then it deducts those expenses against its allocated gross revenues. So, what does that result in? That results in losses which in a partnership model are shared by the partner whereas in a pure joint venture losses are not necessarily shared. So, you could have the situation where in a pure joint venture you end up with one member having losses and the other coming out ahead because its expenses were much less than the other.

Salaries are shared in a partnership whereas in a pure joint venture they are allocated in accordance with the members who have contributed those personnel. So, if one joint venturer contributes 30 people, that joint venturer pays the salaries of those 30 people directly - it doesn't come out of a common pot.

The assets of a partnership are lost in the sense that they become common property of the partnership. In a pure joint venture, after the joint venture is over, the identity of each asset is still retained as being owned by a particular member and, therefore, they're returned to that particular member.

Liability in a partnership is joint in the sense that one partner is liable for the acts of all the other partners. In the pure joint venture situation, that's not necessarily the case. Each party is liable for its own acts.

And finally on this type of a comparison, disclosure of insider information or anything that's of interest to the partnership is compulsory in a partnership situation. So, each party must have complete disclosure. It's a fiduciary type of relationship. Whereas in a pure joint venture, there doesn't have to be a disclosure. So, if one joint venture member finds out something significant about the operations in a pure joint venture, it doesn't have to disclose that information.

As I mentioned before, in a partnership a partner is prohibited from having a conflict of interest whereas in a pure joint venture, there's nothing to prevent one of the joint venture members from having a conflict of interest and not disclosing it.

And finally power. In a partnership one partner can bind the other partners of the partnership to liabilities and obligations whereas in a pure joint venture that can be limited. You can end up with an agreement that says you can't bind your other joint venturers to any of your acts.

Well, what is the result of that? You have an unincorporated non-partnership joint venture at the top, which is the so-called pure joint venture, on a scale you move down to a partnership joint venture and then at the very bottom to a corporate joint venture. The potential for the greatest risk, but also for the greatest return, appears to be in the pure joint venture model. The least risks and the least returns are at the corporate joint venture. Now, this is very much a generalization but that is the analysis that you can draw from looking at all these factors. And at the same time you'll see that the pure joint venture has the least structured and most flexible operations possible whereas the corporate joint venture is the most structured and rigid in its operation.

Now, if you have a joint venture and you want to deal with the North American market and you want to leverage it so that it also encompasses the Pacific Rim, what are you really doing? Well, you're going from a single undertaking, which is the requirement of a joint venture, a single

undertaking which in this case would be capturing the North American market and you're going to a multiple undertaking which is the capturing in addition the Japanese market or the Chinese market or a variety of other markets. And so you're moving from a single to a multiple undertaking.

Now the question becomes, do you want to end up linking your North American activities to your Pacific Rim activities because if you expand your joint venture agreement to do that, you get that linkage in that agreement and that forces you to decide whether you want one joint venture agreement to cover the Pacific Rim as well as North America with that concurrent linkage or whether you need two because you may have a very profitable joint venture operating in North America and yet the joint venture activities in the Pacific Rim are doing very badly - it's a disaster. You can't sever them because it's part of the same joint venture and you're linked up to the North American market. So, you have to decide in advance whether you're going to run the risk of having that linkage work against you in the future.

The other thing that you have to do if you want to expand your North American joint venture is ask your Pacific Rim joint venturer for some additional assistance in terms of contribution and you ask for a contribution in a variety of areas. For example, your Pacific Rim joint venturer may have great access to the markets in China. So, as part of the original North American joint venture, one of the things that you didn't address was distribution facilities in China. Now you have to get your joint venturer to agree to support you in its home market and does it provide you with home market access, distribution assistance, whatever. That's one of the things and does it provide you with additional funds there, does it provide its knowledge there, does it provide you with any effort, with any assets.

Similarly, standards and what I mean by that, it's very important to have product standards. Things such as units of measurement may be different overseas. You have to provide for those. Labeling requirements are different, as are language, design, and safety requirements, and as well as environmental standards. All those change. Do you then get your co-venturer to support you by money, by providing knowledge, by efforts or providing assets in that area?

Similarly, content. By content I mean local content. In a lot of countries you have to have local content in your product in order to get favourable government support or allowance for distribution of your product.

Fourthly, protection. Your product may have copyright, trademark and patent protection in North America but may not have that type of protection in the foreign Pacific Rim country. You have to think about that. Do you get your co-venturer to provide you with funds to get that protection overseas or provide you with the knowledge of how to get that protection or do that for you through its efforts or whatever?

And, finally, laws. There are various laws overseas that are different, of course, than laws in North America - competition laws. In some countries there are very stringent government-approval laws that require vetting of your joint venture agreement and particularly the licencing and technology transfer provisions and also registration of those agreements. Does the joint venture help you out in that area and to what extent?

So, to conclude, what I tried to do was to show you that there are a variety of items that have to be addressed. Whenever you're setting up a joint venture, you have to decide first of all what kind of basic structure you are going to go into and then what kind of contributions one party is going to give as compared to the other and then when you try and leverage that North American joint venture to incorporate the Pacific Rim, you've got to start thinking in far broader terms and then it becomes a very complex agreement indeed if you try to handle both sides of the Pacific Rim in one agreement.

Question:

Could you please explain more fully what you meant by Asian investors prefer Canadian commercial law based on the British commercial law over U.S. commercial law?

Answer: Phil Barter

Well, Hong Kong is the major trading country in the far east that, of course, has the British system. The British have incorporated a number of their provisions in Singapore, of course, under British laws. In Korea there's a real hodgepodge because of the American influence and that, of

course, is the British legal system. So, you have some familiarity there and it's not too bad dealing with Korea. But the other countries I think you have to deal with their local laws and that's why I pointed out the laws can be a real issue in some areas and it depends upon your market.

The basic commercial law in Taiwan is based on British law. Japan is on basic British law, they still drive on the other side of the street. This is also true a lot in the PRC because of the early influence of the Brits in trade, and so on, but I threw that out only because they have had some horrendous experiences in the United States, such as unitized tax systems, the matter of the States versus the federal government, etc. They know that when Canada was created, we defined the responsibilities of the provinces and everything else was the federal government whereas the U.S. is the reverse. So, they know that when they're going from one state to another, there are problems.

For instance, I'll give you an example of it - a client of mine out of Singapore got caught on the matter of a sale into a certain state in the United States and the people did not pay. When they went to sue them, they found out they could not sue them in the courts of that state unless they had sold it through a subsidiary set up in the state. This type of thing. So, they have a comfort here knowing that it's a little more along the line they have been used to. There are an awful lot of other things. We don't have the cabotage laws which is another thing they like. Yes, there are a number of reasons why they are interested.

Question:

Alec mentioned that the capital return is easier in a partnership type of joint venture rather than corporation. Could you explain this?

Answer:

Well, because in a corporation you have procedures set out in the corporations act which require you to wind up, sell off all your assets, distribute those earnings in proportion to your equity position in the company whereas in a partnership situation, you don't have statutory provisions dealing with how you do all that. So, you have greater flexibility in handling it. You don't have to follow formalized procedures and comply with a variety of steps that are set out for the corporations.

Question:

If the joint venture was what you might say a one time project, I could understand that, but you seem to have been talking in terms this afternoon as if maybe a lot of these joint ventures have progressed from that stage to being rather a continuing partnership or venture.

Answer:

Well, as I said earlier on, there's no uniformity of terminology out there in the world of business. So, you've got some people saying, we're doing a joint venture deal and they've got a partnership, a true partnership. And some people are saying, we're doing a joint venture and it's a pure joint venture and some people saying, we just entered into a joint venture and you look at it and what they did was they incorporated a company and they put money in.

So, the sky's the limit in terms of the structure that you end up with but the common elements that I showed at the beginning seem to apply to all but I don't think there's anything wrong with calling something a joint venture that ends up as a corporation. A joint venture or a partnership for that matter all have the similar common elements but then when you start looking at them in detail, there are a lot of differences. In the world of business everybody's calling their own deal a joint venture and I'm not one of the people that tries to force the way that business is done into legal categories and say, you're wrong in calling it that way. I mean if that's the way that people are calling their deal, then fine, that's what's accepted for general business purposes.

Second Answer:

Why a lot of them have chosen that route in Canada is that, of course, the earnings or losses come right through to them for tax purposes so they might have other things to offset them against where in a corporation they could lose them. Secondly, I guess it's part of the flexibility of the partnership versus a corporation which is a more structured one that allows the chemistry to develop a little better and possibly you might go on to a corporation at a later date as one of the reasons. A lot of them quite enjoy the partnership arrangement to begin with.

Question: Gail McBride, B.C. Government

Jack, you mentioned that there was increasing potential for North American companies to joint venture with Asian Pacific Rim companies to do work in foreign markets outside of North America. How would you see Canadian consulting engineering services playing a role in this?

Answer: Jack McKeown

My sense of that is that probably the bigger opportunities are joint venturing with, let's say, someone from Japan and doing a project in a third country. Probably with a joint venture partner in the third country as well. We're beginning to see some of that right now. As you know, the proposed petrochemical project, if it proceeds, will end up being a joint venture in the end in terms of the equity; but also at the design, build and construct stage it would be a joint venture operation involving two or more Japanese partners and two or more Canadian partners. I think that in the first instance we will see more action in Canada. And as the relationships grow, if you are Simons or Swan Wooster or SNC or Lavelin, and start working with Japanese construction firms, then I think there's every likelihood that we will see them involved in jobs in third countries.

Third Comment: Jack McKeown

I think that points up one of our weaknesses. Over the years the way we have developed in Canada companies only did the engineering whereas in the United Kingdom, West Germany and other places there was more of a turnkey or a consortium approach. I think probably we're now moving toward that, particularly in terms of Japanese partners, where the engineering would come from Canada as part of a total package.

Question:

The traditional route for joint venturing in North America is that we'd start off with a memorandum of understanding and as you get a bit more comfortable you might go into a joint venture and so on. How would you define something that would satisfy your criteria as a pure joint venture? That is the first question. The second question is in the progression from exploratory meetings for a memorandum of understanding through to possibly a joint venture, possibly to a more complex arrangement. How would that be changed if you are dealing with a Pacific Rim country as opposed to another nation.

Answer:

Well, defining the pure joint venture, what you try and do is you base it on a purely contractual basis so you have an agreement. A memorandum of understanding, unless it ends up being an agreement, is just like a letter of intent. It means nothing, it doesn't bind anybody and is great for political purposes or whatever or as an initial step, as you said, but it doesn't get you anywhere.

So, you have to have an agreement and I don't care what you call it. You can call it a memorandum of understanding but as long as all the provisions are in there, it is in essence an agreement. Now, a pure joint venture, first of all, is an unincorporated association which you are going to set up and the key thing that you try and do is make sure that it's not characterized as a partnership because if it's characterized as a partnership you get all these laws relating to partnership being imposed upon you. So, you try to characterize it as not being a partnership by having provisions in your agreement that, for example, any funds that are contributed are not pooled, they are kept separate and distinct, in the accounts of each of the contributors. Any assets that are contributed are not pooled, they are retained and they will be given back to the contributors. You make it quite clear that one party cannot bind the other party in terms into agreements with other parties. There are a number of items and if you had the opportunity of picking up this little overview that I left on the side table that they're listed as to what is the distinction and it sort of expands upon what I went through and what you're trying to do is set out in the agreement provisions that reflect that.

Now, to expand it into a joint venture that has within its mandate or scope activities in a foreign country, you have to then make it a much more complex agreement because it has to deal with all these other issues, such as foreign markets, standards, things that you may not put into the joint venture agreement if it just relates to North America because one of the parties already has addressed those when it developed its product for North America or the laws. You wouldn't deal with things like laws. So, there are a variety of items that you have to then start addressing because it falls into sort of the foreign or international type of agreement at that stage.

Second Answer: Phil Barter

I can tell you that being a partner of a Canadian national firm and also an international firm paying taxes in several jurisdictions gets to be a pain in the neck.

BRITISH COLUMBIA INSTITUTE OF TECHNOLOGY DELPHI SURVEY RESULTS

BCIT students, under the direction of BCIT instructor Russ Curtis, prepared and administered a "Delphi Survey" to the attendees at the Conference. The purpose of the survey was to get an indication of the attitudes of attendees towards the impact of the Free Trade Agreement on various aspects of the business environment in a selection of industry sectors.

The following pages detail and discuss the results of the survey, and include a copy of the survey as it was administered for Round 1 of three rounds. The survey for Rounds 2 and 3 was identical, with the exception of the introduction to the survey questions. For these rounds, the introduction explained how a respondent was to use the summary sheet from the preceding round to evaluate his/her response for the round at hand.

BCIT will have confidential access to a list of the Conference attendees in order to conduct annual follow-up surveys for the next three to five years, in an effort to assess how perceptions of the impact of the FTA are changing.

We wish to thank the BCIT students and their instructor for their interest in the Conference, and hope that all the Conference attendees will continue to assist these students in their project should they pursue it in future years.

DISCUSSION OF BCIT SURVEY RESULTS

1989 marks the beginning of a long-term process that will see the end of trade barriers between Canada and the USA. The provisions of this bi-lateral agreement are set out in a document entitled the Canada-US Free Trade Agreement (FTA). In the debate carried out during the negotiation of this agreement, there was much rhetoric, both for and against Canada's participation with the US in a free trade pact. As this is written, the Agreement is signed into law, and British Columbia firms are now beginning a process of adaptation to an altered trading environment.

Aim of Research Project

Graduating students of BCIT's Financial Management programmes undertook to research BC business leaders' outlooks for the future under free trade. The aim was to establish a baseline for what will be an annual survey of the impact of the FTA on BC business.

Scope

The students carried out a Delphi forecast during a Free Trade conference sponsored by the Business Council of B.C. A Delphi forecast is a consensus gathering process where decision makers are asked a series of questions in several rounds, with the results of each round fed back to respondents before the next round is completed. In this way, respondents can modify their answers in light of what they perceive as an emerging consensus.

For purposes of analysis, respondents were asked to indicate which industry their firm was in from the following list:

Consumer Products
High-Tech
Energy & Minerals

Agri-Foods
Forestry Products
Service Sector

A questionnaire was administered three times during the Conference, with the results of the first and second round fed back to respondents. The results of the work are summarized below. The questionnaire was based on a simple Input-Output model, set out in four sections:

Supply
Costs

Demand
Profits

Section I: Supply

This section deals with the supply of raw materials, skilled labour, financing and technology.

For the industries that we surveyed, the expected general effect of the FTA was positive, ranging from a positive 5% to 15%.

Section II: Demand

Demand consists of four components; market potential, competition, pricing strategy, and revenues.

Generally the respondents do not expect a large increase in demand for their products as a result of the FTA. The responses showed almost no change with only slight feelings of optimism. This is a surprising result when the main aim of the FTA is considered, i.e., opening up the U.S. market to Canadian firms.

Section III: Costs

This section deals with the impact of the FTA on the cost of material, labour, manufacturing overhead costs and non-manufacturing overhead costs.

The general indication of the survey showed that 4 of the 6 industries surveyed thought that costs would decline slightly. For the Agri-food industry, it is expected that material costs will drop greatly (10%), whereas the Forestry industry expects costs to remain the same or increase slightly.

Section IV: Profits

This final section deals with the effect of the FTA on the industries' profits.

Generally the responses seemed to be optimistic, with most industries showing a slight increase in profits. However, the Forest industry is predicting a dramatic decline in profits of approximately 10% overall. (Other forecasts predict a 25% decline during 1989 in all forest sectors except paper and related products.)

Some Reservations

Economic research in general is plagued with cause and effect problems that make economic analysis difficult. While the FTA is a new element in the business equation, the other elements of the equation will not remain constant with the introduction of free trade. Isolating the effect of the FTA is, at best, complex given the number of other elements in the business equation. What the survey sought was the opinion of BC business leaders at the outset of free trade. In coming years, the research will be repeated and trends in opinion will be compiled as real experience replaces conjecture.

The taxonomy used for industry classification was somewhat general. Predictions are that the FTA will have a "washboard" impact on several industrial sectors within given industry classification. For example, fish harvesting is expected to prosper under free trade, while fish processing is expected to decline. Likewise, in the Forest industry, little effect is expected for Pulp and Paper while problems persist with the cross-border marketing of softwoods. The industry classification scheme will be refined as the research progresses.

Finally, on the conference day, attendance (and thus participation in the research) declined as the day wore on. The third round of the survey was not summarized for lack of respondents. In a similar vein, the students had no way of being assured that the same people were responding in each round. Future research will likely be conducted through the mail which will allow closer control over participation.

For these reasons, as "pure" research, this survey does not meet even minimal criteria. Still, the results will be of interest to the participants and will serve as a qualified point of departure for the future research planned. Thanks are due to those members of the conference who collaborated with the Financial Management students in this project.

BCIT Participants

The following BCIT students participated in the planning and execution of the survey under the direction of Instructor Russ Curtis:

| | | |
|---------------|---------------------|-----------------|
| Andy Adolph | Franca Bonni | Carole Broger |
| Allan Cheung | Winnie Chu | Ramon Dizon |
| Olga Ferreira | Lloyd Germaine | Malwinder Gill |
| Matthew Kenna | Ada Lau | Mona Lee |
| Norma Lee | Lisa Lim | David Louie |
| Keith Lownie | Jerry Lui | Marisa Marrocco |
| Bruno Mattia | Rex Millard | Connie Molinaro |
| Myles Nield | Giovanna Pellizzari | Norah Quan |
| Gregory Ross | John Shold | Dean Skinner |
| Lily Soong | Russ Walker | Pearl Wong |
| Wayne Wong | Janet Wu | Emily Yu |
| Marion Yung | | |

The above students have all graduated from Financial Management programs from BCIT, and have been awarded their diplomas.

SECTION TWO: DEMAND (MARKETS)

5. The FTA will affect your market potential:

NEGATIVE POSITIVE
| Worse | -15% | -10% | -5% | No Change | +5% | +10% | +15% | Better |

6. The FTA will affect competition in your market(s):

NEGATIVE POSITIVE
| Worse | -15% | -10% | -5% | No Change | +5% | +10% | +15% | Better |

7. The FTA will affect your pricing strategy:

NEGATIVE POSITIVE
| Worse | -15% | -10% | -5% | No Change | +5% | +10% | +15% | Better |

8. The FTA will affect revenues:

NEGATIVE POSITIVE
| Worse | -15% | -10% | -5% | No Change | +5% | +10% | +15% | Better |

SECTION THREE: COSTS

9. The FTA will affect material costs:

NEGATIVE POSITIVE
| Worse | -15% | -10% | -5% | No Change | +5% | +10% | +15% | Better |

10. The FTA will affect labour costs:

NEGATIVE POSITIVE
| Worse | -15% | -10% | -5% | No Change | +5% | +10% | +15% | Better |

11. The FTA will affect manufacturing overhead costs:

NEGATIVE POSITIVE
| Worse | -15% | -10% | -5% | No Change | +5% | +10% | +15% | Better |

12. The FTA will affect non-manufacturing overhead costs:

NEGATIVE POSITIVE
| Worse | -15% | -10% | -5% | No Change | +5% | +10% | +15% | Better |

SECTION FOUR: PROFITS

13. The FTA will affect *operating* income:

NEGATIVE POSITIVE
| Worse | -15% | -10% | -5% | No Change | +5% | +10% | +15% | Better |

14. The FTA will affect *net* income:

NEGATIVE POSITIVE
| Worse | -15% | -10% | -5% | No Change | +5% | +10% | +15% | Better |

SURVEY SUMMARY

| | <u>Consumer Products</u> | | <u>Hi-Tech.</u> | | <u>Energy & Minerals</u> | | <u>Agri-Food</u> | | <u>Forestry</u> | | <u>Service Sector</u> | |
|----------------------------|--------------------------|----|-----------------|----|------------------------------|----|------------------|----|-----------------|----|-----------------------|----|
| | <u>Round</u> | | <u>Round</u> | | <u>Round</u> | | <u>Round</u> | | <u>Round</u> | | <u>Round</u> | |
| | 1 | 2 | 1 | 2 | 1 | 2 | 1 | 2 | 1 | 2 | 1 | 2 |
| SECTION 1: SUPPLY | | | | | | | | | | | | |
| Access to raw materials | 10 | 5 | . | . | 15 | 5 | . | 5 | 5 | 5 | . | 5 |
| Access to skilled labour | 10 | 10 | . | 5 | . | 5 | . | 10 | . | . | . | 5 |
| Supply of Financing | -5 | 5 | 5 | 5 | 5 | 10 | 5 | 5 | 5 | . | . | 5 |
| Access to supply of Tech. | 15 | 10 | 15 | 10 | 5 | 10 | 5 | 15 | . | 10 | 10 | 15 |
| SECTION 2 - DEMAND | | | | | | | | | | | | |
| Market Potential | 15 | 10 | 10 | . | 10 | 5 | 5 | 5 | 5 | . | 10 | 10 |
| Competition | . | 5 | -5 | . | 5 | 5 | . | . | . | . | . | -5 |
| Pricing Strategy | . | 5 | . | . | . | . | . | . | . | . | . | . |
| Revenues | 15 | 15 | 5 | 10 | 5 | 5 | 5 | 5 | . | . | 5 | 5 |
| SECTION 3 - COSTS | | | | | | | | | | | | |
| Material costs | . | 10 | 5 | 10 | 5 | 5 | 10 | 10 | . | 5 | . | 5 |
| Labour costs | . | 5 | . | . | . | . | . | . | . | 5 | . | . |
| Manufacturing overhead | . | . | . | . | 5 | . | . | . | . | 5 | . | . |
| Non-manufacturing o/h | 5 | 5 | . | 5 | . | . | . | . | . | . | . | . |
| SECTION 4 - PROFITS | | | | | | | | | | | | |
| Operating Income | 5 | 5 | 5 | 10 | 10 | 10 | 5 | 5 | 5 | . | 5 | . |
| Net Income | 10 | 5 | 5 | 10 | 10 | 5 | 5 | 5 | 5 | -5 | 5 | . |

Notes:

1. All figures are in percent and indicate the expected change up or down (-) as a result of the FTA. If no change was expected, this was indicated by "."
2. Please note that a positive effect on supply, demand or profits indicates a rise in those areas, whereas a positive effect on costs indicates an expected decline in that area.
3. All results are based on the modal responses. The "mode" represents the most frequent response.

Other measures of central tendency include the median, which is the middle response in a rank ordering, and the arithmetic mean, which is an average of all responses. Neither of the last two is considered in opinion research to be dependable measures of respondent attitudes.

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