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CANADA'S CHIEF NEGOTIATOR FOR

A NORTH AMERICAN FREE TRADE AGREEMENT

TO THE COUNCIL OF THE AMERICAS AND

THE CANADIAN MANUFACTURERS' ASSOCIATION

TORONTO, Ontario
June 3, 1991

Affaires extérieures et Commerce extérieur Canada

External Affairs and International Trade Canada

Canada

Good evening, ladies and gentlemen. I welcome the opportunity to address this gathering of the Council of the Americas and the Canadian Manufacturers' Association here in Toronto.

Tonight, I would like to discuss the new trade initiative the Canadian government has undertaken in concert with the governments of the United States and Mexico. If successful, it will create the largest unified trading region in the world. On February 5, 1991, Prime Minister Brian Mulroney, U.S. President George Bush and Mexican President Carlos Salinas de Gortari announced the decision to begin negotiations on a North American Free Trade Agreement (NAFTA).

I want to situate this initiative in the context of this government's overall approach to economic and trade policy. I will outline our general objectives in the negotiations and mention some of the major elements of our work. I will also stress the big role that has to be played by the private sector. You in the private sector need to advise the Government during the conduct of the negotiations. But, perhaps even more importantly, you will have to take advantage of what is negotiated and ensure that it brings benefits to Canada and Canadians. The Council of the Americas and the Canadian Manufacturers' Association are particularly well placed to be in the vanguard of this effort.

The ultimate goal of these negotiations is to create a North American market free of tariffs and non-tariff barriers. The agreement would permit the free flow of goods, services and investments among the three countries. It would provide for the protection of intellectual property rights. And it would establish a fair and expeditious dispute settlement mechanism. It would create a market of 360 million people, larger than the 12 countries of the European Community.

The negotiation of such a North American agreement is a continuation and extension of the Canadian government's approach to economic policy -- an approach that sees increased trade linked to increased competitiveness and increased prosperity.

During the past six-and-a-half years, the Government has undertaken sweeping domestic policy reforms. It has introduced tax reform and a program of deficit reduction. It has improved the climate for investment and privatized major Crown companies. It has introduced adjustment programs to help workers adapt to the demands of the modern, outward-looking economy. All these reforms were carried out with one goal in mind -- increasing Canada's competitiveness in an increasingly globalized trading world that is characterized by tough competition.

That drive for competitiveness has been coupled with a firm commitment to the progressive reduction of tariffs and other trade impediments. You see this commitment in Canada's efforts to secure a successful conclusion to the Uruguay Round of the

General Agreement on Tariffs and Trade (GATT). You saw this commitment two years ago when Canada and the United States signed the historic and precedent-setting Free Trade Agreement (FTA).

Both countries have realized a number of benefits from the FTA, from increased investment to increased trade. Indeed, a $4.3-billion foreign direct investment surplus last year was Canada's first such surplus in a decade. We believe a North American Free Trade Agreement will add to the gains of the FTA. For Canada, the effects of a North American agreement will not be as significant as those of the FTA. But, moderate though its impact will be, it will add positively to Canada's economic performance.

The immediate benefits of an open Mexican market for Canadian exporters may be modest. But as Mexico grows, as increased trade translates into increased prosperity for Mexican workers, then I think Canadian exporters will be busy trying to keep pace with what will probably become North America's fastest growing market. Even now there are important business opportunities to be found in telecommunications, transportation, oil drilling and exploration equipment, and pollution control and abatement technology. Canadian exporters will also find opportunities in agricultural, consumer and automotive goods.

Perhaps more importantly, the creation of a trilateral market with a combined Gross Domestic Product of US$6 trillion will allow Canadian companies to strengthen their international competitiveness. This new marketplace will offer the framework for new business partnerships. It will strengthen North American business on the global stage.

Our participation in a successful North American Free Trade Agreement will guarantee that Canada continues to be a prime investment location for investors from around the world. It will demonstrate to investors that investing in this country will guarantee secure access to all three markets. It will serve as a signal to investors that Canada is positioning itself to secure its future prosperity.

In the controversy generated around initiatives such as this one, the main purpose of our efforts sometimes becomes obscure or forgotten. It is, plainly stated, to reduce obstacles to trade. Artificial trade barriers are a drag on economic well-being. The more freely people can exchange goods and services, the more efficient our economies will become.

Mexico's trade barriers have hampered Canadian exporters' efforts to compete for a slice of the Mexican market of 85 million people. In announcing in February our intentions to join the talks, Canada wanted to ensure that Canadian exporters enjoy the same access to the Mexican market as do U.S. exporters. If we had not moved to join the talks, a bilateral U.S.-Mexico trade deal would have created preferential access for the U.S. and stacked the deck against Canadian business and our economy.

While Mexico has already reduced many tariffs as part of its decision to join the GATT in 1986, I remind you that its GATT-bound rate -- the maximum levy it is allowed under the GATT -- is 50 per cent for most products. The average rate of tariff protection is currently much lower than that. But Mexico holds in reserve the ability to resume a high-tariff policy. Today there is no treaty preventing the Mexican government from unilaterally raising its tariff above current rates, as it did in 1990 when the duty on numerous paper products went from 10 to 15 per cent. The ability to take such actions does not contribute to a stable trading environment. The phased elimination of duties through a new treaty will go a long way to creating confidence for Canadian exporters in the Mexican market.

Tariff barriers are not the only obstacle that concerns us in these negotiations; there are non-tariff barriers as well. In the early 1980s, almost all exports to Mexico required an import licence, one of the most common and effective forms of non-tariff barrier. Their discretionary nature makes them particularly damaging to a predictable trade environment. While that situation has changed for the better, with the requirement for licensing declining substantially, the barrier still affects approximately 20 per cent by value of Mexican imports. The licences apply to agricultural and some forest products, motor vehicles, and selected chemicals and petrochemicals. These are all important export goods for Canada. The removal of these barriers would be a major element of a successful agreement.

Mexico's investment climate has undergone significant liberalization over the last few years, particularly since new regulations were approved in May 1989. But much work remains to be done. The investment climate in Mexico is still much less open and free than that found in Canada or the United States. Potential investors must still meet several criteria, even in the many areas now open for majority foreign ownership. A number of important sectors are still reserved exclusively for Mexican control, including 100 per cent state ownership in areas such as oil refining and basic petrochemicals. Investment performance requirements are also in place in several other sectors, including, importantly, the automobile sector, where investors must submit to trade-distorting export and domestic sourcing requirements. For a North American Free Trade Agreement to achieve its potential for stimulating economic growth, Mexico must open its doors wider for foreign investors, creating more opportunities for everyone.

These negotiations may also offer some modest opportunity to build on the gains made under the Canada-U.S. FTA and improve our access to the market of the United States. We will certainly not allow the hard-fought deals made in the FTA to be re-opened. The agreement has been signed, sealed and delivered. We will not accept reductions in benefits that accrue to Canada under this agreement. However, the agreement itself enjoins the parties to seek further improvements in certain areas. The bottom-line test for any improvements will be whether they are in the Canadian interest and whether they are good for Canadian producers and Canadian jobs.

Let me give you two specific examples.

Canada will be seeking improved access to the U.S. government procurement market. We hope to build on the gains made under the FTA to cover even more government agencies and departments. Great strides were made in this regard under the FTA. Canadian firms can now bid on a limited number of contracts in excess of $25,000, down from the previous ceiling of $171,000. But that is not enough. "Buy America" restrictions and numerous so-called "set-aside exemptions" keep many doors closed to Canadian exporters. Canadian companies will have an opportunity to bid on many billions of dollars of government contracts now closed to them, if we can win removal of these discriminatory barriers.

Canada also comes to the negotiating table with an interest in gaining improved access for our financial services sector. Canada's banking community, for example, wants better access to both the Mexican and the U.S. financial industries markets. NAFTA is one way of achieving that goal. For this reason, Canadian bankers are supporting these negotiations. As Helen Sinclair, President of the Canadian Bankers' Association, said last fall, "Canadian banks applaud the federal government's new trade policy on Mexico." We intend, through the negotiations, to press the interests of our financial services industry in the U.S. and Mexican markets. No one can dispute the strength of Canada's banking industry. An enhanced ability to export its services will contribute to the economic well-being of all Canadians.

Some of the criticism of a North American Free Trade Agreement has involved accusations that North America is forming an insular trading bloc. This is not our intention, and it will not be the result. Rather than causing North American businesses to turn inward, a North American Free Trade Agreement will prepare them to set their sights even further afield. We strongly believe an agreement will encourage Canadians to form the strategic alliances in North America that can give our businesses the needed edge to meet and beat tough off-shore competition.

Japanese business success shows how a company should use the best of the resources available to it, whether those resources be domestic or foreign. A North American Free Trade Agreement will permit companies in all three countries to do just that. They will put into action the best of what each country has to offer, whether that be design, production, marketing or after-sales service. This may be done by a single company with multinational operations, or it may involve joint ventures or partnerships among different companies in the three countries.

Working closely with Mexican firms will also help Canadian business to strengthen contacts and alliances with the as yet untapped market of Latin America and South America. Latin America is on the move as never before. Economic reform can be seen in virtually every country, from the Rio Grande to Tierra del Fuego. These countries are looking outward, lowering barriers to trade, working hard for success in the Uruguay Round. The region is poised for growth. It represents a major opportunity and business challenge for the next 20 years.

Our association with Mexican business may pay large dividends in years to come. It was not that long ago that the industrial powerhouses, Japan and Korea, were regarded as little more than producers of low-end goods. Then they exceeded everyone's expectations in upgrading their technology, their expertise and, ultimately, their products. We may well be about to witness the same thing happening in Mexico. And with NAFTA, Canadian companies will be in on the ground floor.

It is evident that Canadian firms can benefit from the lower-cost inputs of the Mexican marketplace. This has sometimes been characterized as exploitation of low-wage Mexican workers or as a threat to Canadian workers. But I would like to draw your attention to a point made more than 10 years ago by Francis Blanchard, then Director General of the International Labour Organization.

"Just as the industrialized countries are now at a comparative advantage by virtue of their abundant capital and technology mastery, so does an abundant labour supply confer a comparative advantage on the developing countries," he said. "Technology and capital are cheaper in the North than in the South: yet it is not considered unfair to develop activities based on this advantage. Nor, therefore, would it make sense to reproach the South for having lower labour costs ... because therein lies its present advantage."

Mr. Blanchard had the foresight then to see what so many experts on development are saying today: The road to development is through trade, not aid. The result of a three-country economic partnership, in which each country relies on its own comparative advantage, will be increased trade and increased prosperity -- and not only for companies, but for their workers as well. In fact, Canadian jobs in many companies may be made more secure by farming out certain labour-intensive activities to Mexico. This is part of a global trend that will happen with or without NAFTA. And it is not a trend that anyone need apologize for.

Any healthy trade agreement will have to contain a structure for dealing with the range of disputes that are bound to arise during the normal course of events. The three key elements of a dispute settlement mechanism should be fairness, transparency and timeliness. We will strive to ensure that NAFTA provides for such a system.

We will also work for a common, effective and practical set of rules of origin for all three countries, similar to those found in the FTA. Rules of origin ensure that the benefits of the agreement will extend only to firms producing goods in one of the three countries. These rules will be strict. The Canadian government does not want companies producing goods outside the borders of the agreement to take advantage of the tariff-free benefits inside. Third parties should not get windfall benefits when they made no concessions in the negotiations. All goods that cross our frontiers will have to meet the regulations laid down by the agreement. And we will establish clear processes that companies must undertake to prove that their goods qualify for free trade benefits.

The Canadian government is very conscious of the need to consult closely with Canadians. This is as true for NAFTA as it is with the Uruguay Round of the GATT. We want to consult all sectors of the Canadian economy. The government is committed to holding extensive consultations throughout the talks. These consultations will be conducted with various levels of government, the business community, organized labour and the academic world, all in an effort to ensure that we arrive at a deal that is good for Canada and Canadians.

Government officials will conduct regular meetings with various groups to listen to their concerns and note their suggestions. Minister for International Trade, the Honourable Michael H. Wilson, will continue to hold regular meetings with representatives from business, labour and the academic world. He will also meet regularly with representatives of the various sectoral interests nation-wide. The federal government has also pledged to consult actively with provincial governments on the status of negotiations. Senior officials from both the federal and provincial levels will be meeting later this week, and Mr. Wilson will meet with his provincial counterparts later this month.

Canada's trade policy encompasses a clear vision of the future. It is a future in which companies around the world are able to compete freely in a global marketplace, a marketplace that increasingly permits the free flow of goods, services, investments and ideas.

NAFTA is one component of the federal government's trade and competitiveness agenda. On the trade side, that agenda includes GATT, the FTA and our efforts to improve trade relations with the Pacific Rim. We have one international trade agenda, even if we are pursuing it in different forums. We will advance our interests wherever we find an opportunity to do so. Within the multifaceted configuration of Canadian trade policy, the NAFTA will have an important role to play in our continuing effort to open markets around the world for Canadian goods and services. But we will succeed only with the help and support of people like you in the private sector.

I am particularly grateful for the opportunity provided by the Council of the Americas and the Canadian Manufacturers' Association to speak here tonight. Thank you.