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Notes for an Address by
the Honourable
James Kelleher,
Minister for International
Trade, to the United States
Council for International
Business

New York City

December 11, 1985

It is a great pleasure to be here. And I think the timing is pretty good, too. I can only assume that President Reagan had this occasion in mind yesterday when he notified Congress of the Administration's intention to engage in bilateral trade talks with Canada.

I would also like to add my own respects to yours in tonight's tribute to John Young. I do so with some awe, for his report to the President on industrial competitiveness is, in my view, an unrivalled piece of work. He and his Commission have given focus and clarity to the extremely complex problems that we in North America have been procrastinating about for years.

Notice that I said "North America." Canada, being the best neighbour you'll ever have, has selflessly seen to it that the monkey is not on your back alone. We, too, have been procrastinating. And so we face almost exactly the same problems that John Young identified. An erosion in competitiveness. A reluctance to invest in research and development. A decline in our share of world trade. In 1968, for example, Canada ranked fourth among the world's trading nations, just ahead of Japan. We've now dropped to eighth and Japan exports twice as much as we do.

So it is a privilege for me to join you in paying tribute to John Young. All I have to do is look at his commission's report to know that, in this assembly, I am among kindred spirits and friends.

There should be no surprise in that. Canadians and Americans are kindred spirits and friends — so much so that it's sometimes difficult to tell who's who.

The relationship between our two countries is unique in the world. Canada is your closest partner — and

you are ours — in almost everything either of us does.

We work together in NASA's space program, we work together in NATO and NORAD. Our business practices are similar. You have more money invested in Canada than anywhere else in the world. We have more invested in the States than anywhere else. New York's new World Financial Center, for example, is Canadian-owned. On a per capita basis, our investment in the U.S. averages out to about \$1,000 for every Canadian man, woman and child.

Our close relationships obviously include trade. We do far more business with each other than do any other two countries in the world. The volume of our cross-border trade last year was U.S. \$120 billion — or roughly 1/15th of all world trade.

Rumours to the contrary notwithstanding, Canada is your biggest customer in the world. You sell more to 25 million Canadians than you do to the 280 million Europeans in the Common Market. You sell us twice as much as you do Japan. Indeed, the province of Ontario alone takes more American exports than does Japan.

Not only is Canada your largest market, it's also your fastest growing market. Your exports to us climbed 20% last year, and they're growing again this year.

What all of this means is that we, the only two nations between the Rio Grande and the Arctic, are interdependent. This would be a far different continent were we not.

Trade between us is not a zero-sum activity. We both gain by it. It fuels growth in both our countries. And it provides a great many jobs. In point of fact, the jobs of more than two million Canadians — and of more than two million Americans, as

And yet, we insist on impeding it. We continue to maintain barriers of all kinds -- tariff and non-tariff -- to the movement of goods and services between us. We still have a trade wall, and it is a very effective deterrent to achieving the full potential of which the Canadian and American people are capable.

It is true that, through successive multilateral trade negotiations, this wall has been gradually lowered. By the time the final tariff cuts from the Tokyo Round take effect in 1987, up to 70% of our trade will be free of duty. But that figure is somewhat deceptive. It is 70% of the products we actually trade. It doesn't count the ones we would like to trade -- but can't, because the tariffs are too high. You have a 42% duty on men's suits, for example, and tariffs of from 15% to 23% on our petrochemicals.

In the meantime, non-tariff barriers have emerged on both sides of the border to add new problems to trade and investment. And the pressures for more protectionism seem to be growing. There are more than 300 different protectionist bills now before the U.S. Congress.

That is very troubling. It is troubling in general terms for the effect that it might have on global trade. It is troubling in specific terms for the effect it might have on specific industries. Let me take a moment to look at the one that is currently centre-stage, softwood lumber.

There are now three bills before Congress to curb your imports of our lumber. Two of them call for quotas or tariffs, and the other would change American trade laws to permit a countervailing duty. These bills were introduced in spite of not one but two investigations by the U.S. Department of Commerce. These two American studies concluded that Canadian timber is not subsidized. These two American

studies concluded that Canadian timber does not present unfair competition to American producers. What the Commerce Department found was that Canada was competing by the rules of fair trade.

Our lumber helps build your houses and this means jobs not just for the construction industry but for wholesalers, retailers and transportation companies. Most importantly, it means housing at the lowest possible cost to the consumer. Wharton Econometrics of Philadelphia recently concluded an analysis of the effect of tariff-induced increases in U.S. lumber prices. Let me highlight their conclusions:

- A 30% tariff-induced increase in lumber prices would result in a small increase in employment in four states (Alabama, Georgia, Mississippi and Oregon). The principal beneficiary, Oregon, would gain 188 jobs.

- Each of the other 46 states would experience losses in employment. California would lose 3,765 jobs, and eight other states would lose at least 1,000 apiece.

- The net effect of such a measure would be a loss of 15,000 jobs in the United States. Wharton did not go into the havoc it would raise in Canada.

Lumber is obviously not the only irritant in the trade between us. Given the immense volume of business that we do with each other, there are bound to be some disputes, and at present there are 18 formal actions going -- eight on your side, and ten on ours, involving everything from potatoes and raspberries to iron and steel.

These are some of the reasons that we in Canada believe a new bilateral trade agreement would be in the interest of both sides. The initiative got underway two and a half months ago, when Prime Minister Mulroney sent a

letter to President Reagan indicating our interest in exploring the scope and prospects of an agreement, and we in Canada are extremely pleased that the President has now notified Congress that the Administration intends to proceed.

The significance of this initiative, and of the President's action yesterday, cannot be overstated. These bilateral trade negotiations will, I believe, be of historic importance for both the United States and Canada, and I look forward to getting them underway soon.

I might mention that there is plenty of historic precedent for a bilateral trade agreement between us. Five decades ago, the world was in the midst of the Great Depression, and trade wars had broken out to make things worse. Canada and the U.S. were the first to react to the rampant protectionism of the times. In 1935, we signed a bilateral agreement to bring the barriers down, and its principles became the foundation for the multilateral trading system we have today.

I don't believe it would be going too far to say that a new bilateral agreement between us might yield somewhat similar results. A new round of multilateral trade negotiations under the GATT is expected to begin next year, supported wholeheartedly by the United States and Canada. Negotiations for this eighth round will take many years. They will not be easy, for not all the world's trading nations are agreed on what they should cover. If Canada and the United States could lead the way, if we could show the rest of the world that trade liberalization is to everyone's advantage, I believe it likely that the multilateral negotiations would yield better results — that more barriers would come down faster throughout the world.

Some people in both our countries have questioned the need for bilateral negotiations. They say we should rely only on the multilateral process under the GATT. But they are wrong. The GATT is vital to the maintenance of an orderly trading system throughout the world, and it has brought real gains in attacking trade barriers. But it must take the needs and aspirations of a hundred nations into account, and so its progress is necessarily slow. By itself, it is not equipped to address the needs of a bilateral trading relationship as extensive, dynamic and complex as the one between Canada and the United States.

From Canada's perspective, our bilateral trade negotiations should be, as President Reagan pointed out, free of any preconditions. An agreement should aim to achieve three major mutual objectives.

First, we seek assured and stable access to each other's markets so as to create employment in all regions of Canada and the United States and to stimulate balanced economic development in our two countries.

Second, we believe that we should attack the remaining tariff and non-tariff barriers as a basis for ensuring that our producers can compete fairly, both in North America and in the rest of the world.

And third, we need a binding agreement to institute a better framework of rules for dispute settlement. With more certainty and predictability, we will both have a more confident basis for investment, expansion, modernization and specialization.

A new trade agreement would need to come to grips with a wide range of trade barriers if it is to be of benefit to both sides. An agreement should aim at the reduction or elimi-

nation of tariffs over an agreed period of time, with phasing and transitional arrangements tailored to the needs of the sectors involved. But tariffs are only part of the package. It is in the area of non-tariff barriers that the most potential benefits are likely to come. We need to look at local content rules. We need to deal with "Buy America" and "Buy Canada" restrictions to government procurement.

We must focus on ways to reduce the scope for harassing each other's competitive exports. We in Canada are deeply concerned about the increasing level and scope of U.S. trade protection laws — at the extent to which anti-dumping, countervail and emergency safeguard actions are being demanded and considered. Sometimes these measures are aimed directly at Canadian products or services. Often they are aimed at others, but we get sideswiped by them. We believe it essential to seek a more predictable and more competitive trading environment between our two countries.

And here's where that renowned contemporary phrase, "the level playing field," comes in.

In our view, a level playing field means playing by agreed rules, not necessarily your rules and not necessarily ours. Not, in other words, rules that are unilaterally imposed by either side. We see the negotiation of rules agreed to by both sides, rules that are fair and balanced for both countries, as a major benefit of a new agreement.

Put it all together and we both have much to gain from a new bilateral trade agreement.

There is considerable international precedent, by the way, for the success of bilateral trade agreements between neighbours of unequal size. Not long

ago, I was in New Zealand, which has had a bilateral trade agreement with Australia for three years. New Zealanders are so delighted with it that they want to speed it up, to shorten the transition period provided for their industries to adjust. So, for that matter, do the Australians.

We do have some concerns about our cultural identity, however, which not all Americans understand. For all the similarities between our two peoples, there are differences as well, and we have no intention of giving them up.

We are a bilingual country. We will remain so.

We are committed to a wider net of social programs than Americans are, to our health and unemployment insurance, to our pension plans, to the reduction of regional disparities. We will remain committed to them.

We also have special policies to protect and promote our cultural industries — such as publishing, broadcasting, records and films. These are vulnerable in any small country that borders on a large one, and we take — and will continue to take — special pains to preserve them.

These things — our bilingual character, our social programs and our culture — are all part of what we Canadians regard as our unique identity. They are part of what makes us Canadians, and they are not at issue in the negotiations we will hold with you. In an address at the University of Chicago last week, my Prime Minister had a pretty good explanation why they are not negotiable. "Canada and the United States," he said, "are different sovereign democracies. In the United States, you cast the net of national security over more areas than we; in Canada, we cast the net of cultural sovereignty more widely than you."

It is my firm opinion that Americans who understand Canada -- including American trade representatives -- understand and appreciate our concerns about our cultural sovereignty, and I expect their understanding will be reflected at the negotiating table.

So Canada is ready to start talking whenever you are. The Canadian team will be led by our newly appointed Trade Ambassador for the talks, Simon Reisman, a distinguished and experienced trade negotiator, and a former deputy Minister of Finance.

In the weeks to come, while Washington is putting its negotiating team together, we will be consulting extensively with the governments of Canada's ten provinces. The Prime Minister and all the provincial premiers met recently in Halifax and agreed to work very closely together on all aspects of the negotiations.

This agreement flows from the unique and special character of the Canadian federation. It in no way

diminishes the primacy of the federal government in leading the negotiations. It is intended to ensure that our negotiators are kept aware of provincial interests, and that an eventual trade agreement with the United States will bring benefits to all parts of Canada.

We are all well aware that we live in a tough and competitive world. A world growing more competitive by the day, a world in which the fifth generation of computers, the generation of artificial intelligence, is only a few years away.

John Young has prescribed the steps we must take if we are to remain competitive in this rapidly moving world. For both our countries, the challenge is to be creative rather than rigid, and to look outward rather than in. Americans and Canadians have an incredible capacity to create prosperity. Either of us can do it alone if we have to. But we will get much further much faster by working together, in an open and expanding market.