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Clinton and Chrétien Announce Air Pact

Canapress Photo/Tom Hanson

Air travel between Canada and the United States will be more convenient and competitive following the signing of the "Open Skies" agreement during President Clinton's first state visit to Canada February 23-24.

Prime Minister Jean Chrétien and President Clinton also announced a border management accord that will make it easier for travellers and cargo to clear customs and immigration.

The two agreements flow from the Canada-U.S. Free Trade Agreement (FTA) and its successor, the North American Free Trade Agreement (NAFTA). They are expected to create thousands of jobs and generate billions of dollars in economic activity on both sides of the border.

The aviation pact will significantly expand the number of flights between the two countries and bring nonstop service to many major cities for the first time. More than 13 million passengers now fly across the border annually, producing some $2.3 billion in revenue, and these numbers are expected to increase dramatically under the liberalized agreement.

President Clinton said the agreement "will strengthen our partnership....It's consistent with...the larger vision that Prime Minister Chrétien and I have shared and worked for with NAFTA, with the GATT agreement, with the agreement with the Asian Pacific nations, with the agreement at the Summit of the Americas to open those markets."

The Open Skies accord replaces a highly restrictive arrangement that had been in place for three decades. Under the new agreement, Canadian airlines will have immediate access to all U.S. cities, subject to availability of landing slots. U.S. airlines may offer flights immediately to all but the three largest Canadian cities, where full service will be phased in, over two years in Montreal and Vancouver, and over three years in Toronto.

Airlines in both countries moved quickly to take advantage of the accord. Air Canada has announced plans to offer 20 new routes into the U.S. over the next 18 months. Canadian Airlines International will begin offering services between Toronto and New York, Toronto and Chicago, and Vancouver and Chicago in June. U.S. airlines have announced more than 35 new routes to Canadian cities.

The border management accord will harmonize and streamline customs and immigration procedures. A joint steering committee will develop an action plan to meet four broad objectives: promoting trade, facilitating the movement of people, strengthening enforcement against smuggling and illegal immigration, and reducing costs for governments, shippers and travellers. The committee will consider such innovations as automated entry devices at selected ports of entry, express lanes for frequent travellers and shippers, electronic clearance of commercial goods, and the sharing of equipment and personnel between the two countries.

During the President's visit, he and Prime Minister Chrétien held wide-ranging talks on a number of other trade, environment and defence issues. The discussions resulted in pledges to address trade remedy issues within NAFTA, to conclude negotiations on the renewal of the NORAD agreement, to make completion of the Pacific Salmon Treaty a priority, and to establish an Arctic Council to promote regional cooperation and sustainable development.

In a speech to a joint session of the Canadian Parliament, President Clinton said he had come to Ottawa "to reaffirm the ties that bind the United States and Canada...the most successful partnership between any two countries."

He paid tribute in the speech to Canada's long history of accommodation: "In a world darkened by ethnic conflicts that tear nations apart, Canada stands as a model to the entire world of how people of different cultures can live and work together in peace, prosperity and mutual respect."

At a joint news conference, Prime Minister Chrétien emphasized the importance of the United States' leadership role in world affairs. He said that his recent travels had shown him that other leaders "want the United States of America to remain the champion of democracy and human rights and economic and social progress."

Canada Opposes Border Fee

Canada opposes a U.S. budget proposal that would encourage states to impose a fee on travellers crossing the border at U.S. land ports.

Such a fee would disrupt commercial and tourist traffic and run counter to efforts by both Canada and the U.S. to facilitate the movement of people and goods across the border.

After widespread protests, the Clinton Administration dropped its original plan to impose a fee of US$3.00 per vehicle and $1.50 per pedestrian on all travellers crossing land border ports. It replaced the mandatory fee with a "local option" initiative that would allow border states to choose whether or not to impose a fee. States that reject the fee would not be guaranteed federal funds for infrastructure improvements at border stations.

Budget Cuts Spending by $25 Billion Over Three Years

The Canadian government introduced a budget in February that makes deep cuts in government program spending, the federal civil service, and business and agricultural subsidies. It is "the largest set of cuts in any budget since demobilization after World War II," Finance Minister Paul Martin told the House of Commons.

"This budget sets this country on a sure course of fiscal responsibility and government renewal," Mr. Martin said. "We are bringing government's size and structure into line with what we can afford."

Despite rising interest rates, the budget meets the government's interim deficit targets established last year. The deficit for 1994-95 is expected to be $35.3 billion, $4.4 billion lower than forecast. It will drop to $32.7 billion in 1995-96 and $24.3 billion the following year. This last figure fulfills Prime Minister Chrétien's pledge to reduce the deficit to 3 per cent of gross domestic product by 1996-97. The budget includes substantial contingency reserves ($2.5 billion or more) against higher interest rates for each of the three years.

The ultimate goal is to eliminate the deficit, Mr. Martin said. "We will continue to set firm short-term deficit goals—rolling two-year targets—until the deficit is erased."

He said that budget balance can only be achieved "if we redesign the very role and structure of government itself."

The budget's spending cuts of $25.3 billion over three years will reduce the scope of federal government operations significantly. Programs will be merged, consolidated and privatized, and 45,000 civil service jobs, 14 per cent of the total, will be eliminated. Spending by government departments will fall by almost 19 per cent over three years, with some departments—natural resources, regional development and transport—seeing their budgets reduced almost by half.

Business subsidies will be cut by 60 per cent. Agricultural subsidies will also be substantially reduced: direct support to dairy producers will drop by 30 per cent, the century-old grain transportation subsidy will be eliminated and overall agricultural safety net funding will go down by 30 per cent.

The government will also turn some operations over to the private sector by selling off its stakes in the oil company, Petro-Canada, and the Canadian National Railways, and privatizing the air navigation system.

The system of federal transfers to the provinces and territories for social programs is being reformed, Mr. Martin said, to make it "more in line with the actual responsibilities of the two levels of government." Beginning in 1996-97, transfers for health, post-secondary education and social assistance will be replaced by a block grant. The provinces will receive slightly less money in block grants than they would have received under the old cost-sharing system—4.4 per cent less in 1996-97 than in 1994-95—but they will be subject to fewer rules and have more flexibility in designing their own programs.

However, Mr. Martin said, "Flexibility does not mean a free-for-all," and certain national goals and principles will still apply. He reiterated the government's commitment to the fundamental principles of Canada's health care system: universality, comprehensiveness, accessibility, portability and public administration.

Although the budget did not include any changes to benefits for the elderly, Mr. Martin said that later this year the government will outline "the changes required in the public pension system to ensure its affordability." It also plans to have unemployment insurance reforms in place by July 1996 that will focus on improving the employability of recipients while saving $700 million in 1996-97.

The budget contains $7 in expenditure cuts for every $1 in revenue increases. New revenue will flow from a $975-fee on adult immigrants; higher taxes on airline tickets, gasoline, large corporations and banks; and elimination of some tax reductions. Personal income taxes were not raised.

Financial markets responded favourably to the spending cuts. Immediately after the budget was made public, the Canadian dollar rose to its highest level of the year. Bond prices also rose and major banks lowered their prime lending rates one quarter of a point to 9.25 per cent. The Toronto Stock Exchange 300 composite index jumped more than 30 points.

The Canadian public also gave the budget a warm reception. An Angus Reid poll taken on the night the budget was presented showed 69 per cent of those polled believe the government "is on the right track" with the budget.

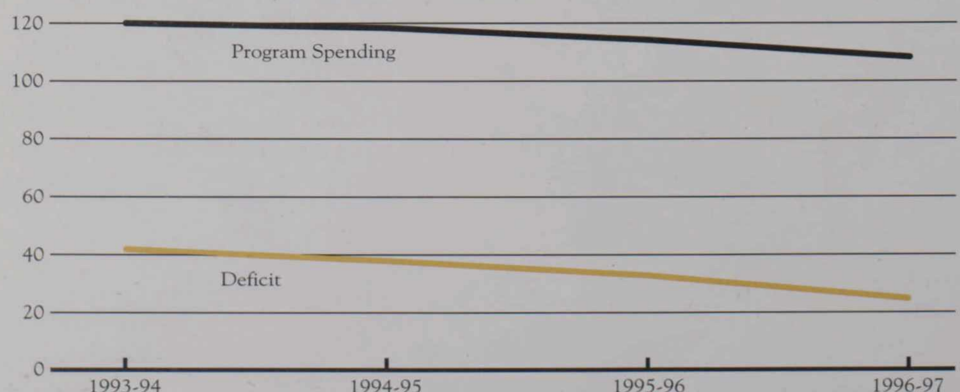
1994 Economic Update

	1994	1993
Unemployment Rate*	10.3%	11.2%
Real GDP growth	4.5%	2.2%
CPI inflation rate	0.2%	1.8%
Canada-U.S. merch. trade	$321.8b	$268.9b

**467,000 new full-time jobs were created in 1994.*

Source: Statistics Canada

Federal Program Spending and the Deficit
1993-94 to 1996-97, In Billions of Canadian Dollars



Source: Department of Finance

All figures are in Canadian dollars. The official noon exchange rate on March 24 was US$1 = C$1.4014.

Canada's Trade Policy for the 21st Century "The Walls of Jericho Fall Down"

It is impossible to have watched the course of events over the last year without recognizing that something fundamental is happening to the international trading system.

Twelve months have witnessed the birth of NAFTA and the WTO. APEC has agreed to reach free trade among its developed economies by the year 2010 and among its developing economies by the year 2020. Not to be outdone, the countries of the Western Hemisphere have set 2005 as their target for free trade in the region, while the three NAFTA partners launched immediate discussions for the accession of Chile. At the same time, the European Union has proceeded with its own plans for expansion both northward and eastward.

As Canada's Minister for International Trade put it in a January speech to the University of Toronto, the regional trade agreements that proliferated in 1994 may be "the birth pangs of a new international economic order—a messy, haphazard scramble towards a system of global free trade. Like the sudden collapse of the Berlin Wall in 1989, trade and investment barriers the world over seem to be crumbling under the weight of their own contradictions."

Trade liberalization, Mr. MacLaren said, is following as much as leading underlying economic trends. A world economy is being fashioned "from the bottom up," driven by technological innovation that has made possible the instantaneous transfer of information. This emerging knowledge-based global economy is diminishing the influence of national governments and changing the nature of relations among them: "Once trade policy was about regulating commercial relations between national economies, largely through the negotiation of tariffs; now it is about establishing the ground rules of a transnational economy in areas that were once quintessentially domestic: standards and regulations, investment, competition policy...."

The irresistible pressures to keep pace with trade liberalization have led to the formation of other free trade areas, resulting in a "global chess match" as countries seek to increase their own competitive edge.

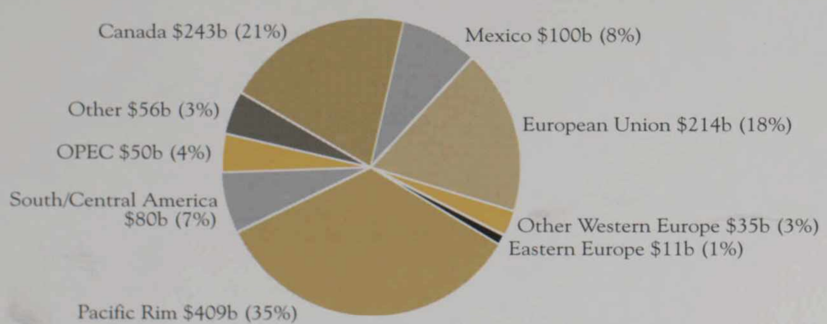
Much of this competitive momentum, Mr. MacLaren said, has been generated by the Canada-U.S. Free Trade Agreement (FTA) and its expansion to Mexico through NAFTA. The FTA broke new ground in the areas of dispute settlement, investment, trade in services and procurement, and, in Mr. MacLaren's words, "sent a clear signal to our other trading partners that North America was committed to a more open, more structured international economic order, and that we were prepared to leave behind those countries unwilling to move in this direction." The FTA and NAFTA influenced the final GATT agreement and "spread ripples into Asia and beyond," leading to the historic agreement by the Asia-Pacific Economic Cooperation (APEC) forum to establish free trade among Pacific nations by the year 2020.

But where are all these agreements leading? Mr. MacLaren suggests they create the potential for "a new trade arrangement that bridges all the blocs—a kind of WTO-plus" made up of nations willing to commit to more comprehensive rules for trade and investment. The main virtue of such an approach, Mr. MacLaren said, is that it would "mitigate the 'them-versus-us' mentality associated with regional blocs," which can turn trade competition into trade conflict.

Another potential danger posed by regionalism, he said, is what Canadian economist Sylvia Ostry has called "system friction," whereby legitimate differences in legal systems, financial regulations and government structures among nations may be branded as unfair trade practices. While harmonization of

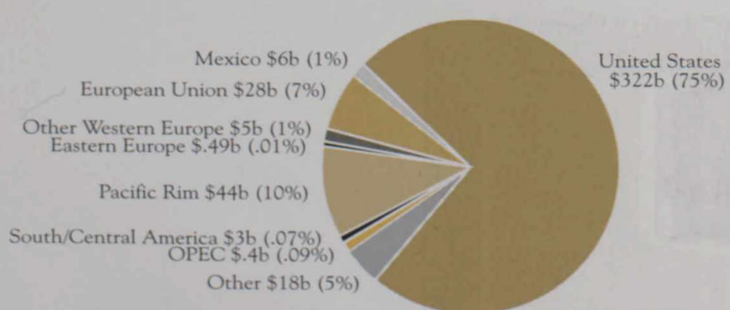
(continued on back cover)

U.S. Merchandise Trade with the World
1994, By Percentage of Total, In Billions of U.S. Dollars



U.S. Total Merchandise Trade: US $1.2 trillion
Source: U.S. Department of Commerce

Canada's Merchandise Trade with the World
1994, By Percentage of Total, In Billions of Canadian Dollars



Canada's Total Merchandise Trade: C $429 billion
Source: Statistics Canada

systems may offer a partial solution, Mr. MacLaren cautions against taking the process too far: "In trying too hard to 'level the playing field'...we may well erase the very differences, strengths and innovations—the comparative advantages—that generate a free market. What a sad irony if in the name of greater freedom, including market freedom, we build the scaffolding for the universal and homogeneous state."

A better solution is "to recognize that economies, like societies, will always differ to some degree, and to try to create the institutions and rules that can allow these differences to co-exist while managing any tensions that may arise."

Canada's Role

Mr. MacLaren argues that the key to ensuring that NAFTA remains "a building block, rather than a stumbling block, for eventual global free trade" is to move the relationship forward. Canada, with more than a quarter of its GDP generated by trade, 80 per cent with the United States, has a particular stake in preserving the openness of NAFTA and has pursued a strategy of deepening the agreement's rules and expanding its membership. No issue is more important to Canada, Mr. MacLaren said, than its efforts in two NAFTA working groups "to achieve mutually agreed trade rules that reduce or eliminate the arbitrary application of trade remedy laws...." The accession of Chile to NAFTA is also crucial: it "will push the pace of overall hemisphere integration...and help ensure that the NAFTA architecture remains fundamentally open and dynamic."

Mr. MacLaren maintains that policy makers have "a responsibility to ensure that the globalization of the economy is as fair and equitable as possible." Canada is in the vanguard of countries working to erect a structure of rules for the global trading system, a task that the trade minister believes comes naturally: "The notion that the rule of law is the essence of civilization, both within and among nations, is central to Canadian values and Canadian culture," as well as being in the national interest.

"Free trade in NAFTA has helped catalyze free trade in Asia, and will perhaps lead to a stronger trade relationship with Europe—all reinforcing a global regime centred on the WTO," Mr. MacLaren said. "This strategy of building an architecture of overlapping circles of free trade not only strengthens the world economic system, it strengthens our critical relationship with the United States."

Mr. MacLaren concluded his speech with a strong statement on the value of free trade: "Only if trade among nations is free, will we maintain the foundations of political and other freedoms"; and optimism that the march towards free trade will continue: "I am amazed by the speed with which the ideal of free trade is being transformed into a global reality...and I now fully expect to be amazed in the years ahead."

Towards North Atlantic Free Trade

Is a stronger trade relationship between North America and the European Union the next step in the march towards global free trade?

Officials in Canada, the United States and Europe have recently suggested that the time may be ripe to pursue liberalization of transatlantic trade.

In a speech to the French Senate in December, Canadian Prime Minister Jean Chrétien challenged the European Union to consider a trade liberalization agreement with NAFTA, to build new transatlantic bridges to guard against the rise of "isolationist mechanisms and defensive, protectionist attitudes" as regional blocs turn inward. "Think of the mess that we would have made of our societies if, after overcoming the enmity between major military and ideological camps, we replaced it with a new antagonism between major economic blocs."

"If the architecture is kept open," Canada's trade minister Roy MacLaren observed in a speech last October, "then a deeper arrangement with Europe would serve to revitalize an economic relationship—and even to bridge potentially exclusionary blocs."

In his January speech to the University of Toronto, Mr. MacLaren added: "Now that we have committed ourselves first to free trade with Latin America and later to free trade with much of Asia, the continued existence of barriers to trade with Europe seems increasingly anomalous."

The Clinton Administration has also expressed interest in a closer economic partnership with the European Union. The U.S. Commerce Department and the E.U. are co-sponsoring a joint business-led effort to create a mechanism to deal with trade disputes. Commerce undersecretary Jeffrey Garten has described the initiative as a possible "stepping-stone" to a transatlantic free trade agreement.

Several European officials have suggested that strengthening the economic links between Europe and North America would have an important security dimension. For example, German foreign affairs minister Dr. Klaus Kinkel said in an address to the annual Munich Conference on Security Policy in February: "The key to half a century of peace, democracy and prosperity in Western Europe lay in the interlinkage of vital national interests within the European Union and the Atlantic Alliance that has grown up over the years....Europe and America are not only a defence community, but also a community of shared values." He called on Europe and North America to "have the courage to set our long-term sights on the creation of a transatlantic internal market."

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