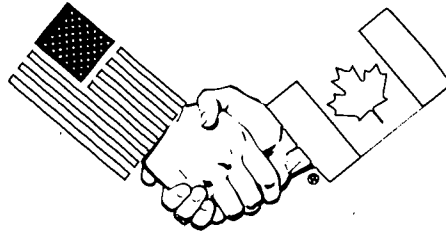


doc
CA1
EA
87G67
ENG



THE GREAT TRADE DEBATE

**A CONFERENCE ON THE
CANADA/UNITED STATES
FREE TRADE NEGOTIATIONS**

FEBRUARY 4, 1987

Los Angeles

b2295404(E)

Canadian Consulate General



Consulat Général du Canada

Dept. of External Affairs
Min. des Affaires extérieures

MAR 20 1988

RETURN TO DEPARTMENTAL LIBRARY
RETOURNER A LA BIBLIOTHEQUE DU MINISTERE

An historic free trade agreement between Canada and the United States looks increasingly probable, perhaps by early 1988.

Those of you who attended the "Great Trade Debate" on February 4, 1987 in Los Angeles went away, I am sure, with a much better understanding of the issues involved in the on-going bilateral trade negotiations.

Responding to interest expressed by conference attendees as well as others, we have compiled and bound the five major speeches presented at the conference for reference and study purposes. Special thanks go to the Honorable William Bennett, Mr. Garth Drabinsky, Mr. William Merkin, Mr. James Miscoll, Ambassador Allan Gotlieb and, of course, moderator Keith Morrison, for their outstanding contribution to the conference.

I would also like to thank the sponsoring organizations, Canada California Chamber of Commerce, who along with Town Hall, UCLA and the L.A. Chamber of Commerce, worked hard to ensure the success of the conference.

Mrs. Joan Winser
Consul General of Canada

43-255-324

THE GREAT TRADE DEBATE
February 4, 1987

The Honourable William Bennett
Former Premier, Province of British Columbia

: Thank you very much, Keith, and good morning, ladies and gentlemen. You know, I guess that after being in the United States and around our own country for a long time, I'm a little puzzled by the title "The Great Trade Debate," because as everyone knows there is no debate taking place on Main Street. It might be taking place on Pennsylvania Avenue, it might be taking place on Wall Street and Bay Street, but frankly, if we are to be successful in understanding the importance of trade that takes place between our two countries, that which we have now and that which we want to continue and grow, then we've got to take the debate and the discussion to Main Street U.S.A. and Main Street Canada.

I'm here as an advocate of free trade, I always have been. I'm an advocate of open trade and I'm against protectionism. And I would hope that in the course of a few remarks I can convince you that protectionism is bad for your country, it's bad for our country, it is bad for the world. History points that out to us very clearly. We only have to look back to Smoot Hawley and the bill, the largest protectionist bill ever foisted in the United States and upon the world, to recognize that the protectionist measures in that bill led to world trade being reduced -- total world trade being reduced by two-thirds within just a few years, and that every country and every

citizen of the world suffered. We only have to look at what has taken place into the Second World War, and succeeding rounds of the game in which liberalized trade has given the world approximately four decades of the greatest prosperity we have ever known. And that's too much to sacrifice, that growth of trade not only between Canada and the United States, but amongst the nations of the world. Our history of success with that is too much to trade away with the irritants that are driving the protectionist forces, not only in the United States but in Canada and in countries around the world. Protectionism brings about retaliation and so it goes, and everybody becomes the loser. Therefore, let's take it as a given that protectionism is bad and that open, free trade is good, and then let us say, look to our own market, the largest trading market in the world, Canada-United States. This year it will probably reach in merchandise, trade and services almost 150 billion dollars of two-way trade. We are each other's most important trading partner. Canada buys more from the United States than almost all of the European Economic Community, substantially 150% of what Japan buys from the United States, and because we are so familiar and are next door, perhaps we are taken for granted and perhaps that is why most citizens of the United States have the impression that your largest trading partner may be West Germany, Japan or South Korea, as somehow we are viewed as always being there. But it's important, that two-way trade is important. It is important to Canada, for jobs and for our economic growth, and it is also strategically

important to the United States, because a large part of what Canada buys from you is in your manufactured goods, a far greater percentage than is purchased by your other trading partners.

We need to put stability into that trading relationship. It is not by design but perhaps by accident that over the years we have grown into the most powerful trading bloc in the world and yet we have no formal bilateral agreement. Our trade is governed, yes, as participants under the GATT, but we do not have a natural set of rules such as governs the trade and encourages trade in the European Economic Community. We do not have a bilateral agreement, such as has been successfully implemented between New Zealand and Australia. We do not have a successful agreement that puts rules and conditions that will stabilize our trade such as is made amongst the Scandinavian countries. We have a trading relationship that is vulnerable right now because we do not have a formal agreement of rules and conditions and how we will deal with trading practices. We are vulnerable now to the protectionist mood that sweeps both of our countries.

I hear a lot in the U.S. about a level playing field. Everybody keeps saying what we need is a level playing field. I've talked to senators and Congressmen who said, I'm a free trader, I'm a fair trader but... the playing field isn't level. Well, I've got to tell you it is. Canada and the U.S. are the fairest traders with each other in the world. You have no partner that trades more fairly than do the people of Canada.

What is the problem is while we have a level playing field, we have two level playing fields, one in Canada, one in the U.S. The trouble is, we do not have the rules on how we're going to conduct the trade or the game, and we do not have an impartial referee to implement those rules. We have unilateral rules for trade transgressions set up arbitrarily and independently, both in the U.S. and Canada, on how we're going to deal with each other. It is impossible, then, for one or the other to feel comfortable or for there to be any stability when you do not have a common set of rules and a common set of enforcement.

Right now, trade is vulnerable from our point of view to the arbitrary use of the Countervale System, in which any industry or any group can initiate an action against a trading competitor, and under their own sets of rules, by their own sets of referees in their country, determine whether they need assistance from their government by the way of penalty or quota or some other method of restricting their competition. And that works the very same way by unilateral action that could be taken in Canada. What we seek to achieve in the free trade talks, then, is a single plane, a common set of rules governing the trade, and a referee system, an umpire system that will equally and fairly be able to recommend action where unfair trade practice may occur, because it will always occur from time to time between companies, between industries, between countries, and if we believe in free trade we don't want to see that type of action in our own country or in our trading partner.

So therefore, what we're really seeking to achieve in this agreement is stability, common playing field, and a fair set of rules. You know, the New York Giants could not have won the Super Bowl if Denver would have had the ability after each Giant touchdown of changing the rules and appointing their own referees to impose those rules. Dennis Connor could not have won the Americas Cup back if he had been vulnerable to the Australian challenger, every time they got behind, being able to protest, write their own rules, and put their own umpire/referee in to change those rules. What we need, then, is stability in the relationship. We need a level playing field, but it must be a single playing field.

Now, how will this negotiation take place? We all agree it's important. We all agree it must be done. We all agree we must have rules that are fair to both sides. Well, I think you understand very easily the U.S. system, that Congress is given the administration of fast track process to negotiate an agreement, and I know you all understand that under that agreement it must be prepared by October, and then of course that Congress has the ability to reject the agreement or sustain it, but they can't amend it.

In Canada, we're a little more complicated. In Canada, our system of government is different and that has caused concern to some of the negotiators. In Canada, we have two orders of government in the provinces are not, in some areas, subservient to the federal government. They have their own rights and responsibilities. They have control over the service

industries, which are going to make a very large and important part of any trade agreement, over and above merchandise trade. The provinces have the ability, then, to control agricultural products, resources, and service industries. Therefore, they must be part of any Canadian agreement, and we must put in place a ratification process.

Now, a lot of people say that's difficult. I say it is not difficult. I was part of the process leading up to First Minister's meetings in our country that set in place the way in which we would set the mandate, conduct the negotiations, and put that responsibility clearly onto the shoulders of the provinces and the federal government. In fact, because the provinces are meeting regularly, and the mandate for the Canadian position is going to come from the table of First Ministers, then they are part of the negotiation, the changing mandate, and ultimately at the end of the day they will bear some responsibility for the decision that is made. We have agreed in principle that there would be a flexible amendment that would not demand unanimity amongst the premiers, although such a constitutional amendment has not yet been devised, although we have the way we amend our constitution now as a guide.

We have agreed that we can make agreements and bind each other. So I believe that at the end of the day the provinces and the Canadian position will be far surer of ratification than I am that the U.S. position will be able to be ratified by the Congress. The Canadian side are part of the mandate,

they're part of the process, and they're part of the decision. On the American side you have the administration, in a way, developing its position in isolation from the Senate, and then having to take their trade package and allow the Congress to attack it, to say they weren't a part of it, and to reject it. I would hope I can be reassured, then, that the American side will be able to deliver at the end of the day an agreement on the most important trade question that has ever taken place between our two countries.

I'd just like to sum up and say that we have a lot of importance together. This negotiation is just a forerunner to the equally and more important negotiations worldwide that are taking place under the GATT. The GATT negotiations are going to take four to ten years, but those GATT negotiations are doomed to failure, because many countries are reluctant participants, if they see the U.S. and Canada, the world's two friendliest traders, fairest traders, with the largest market between them in the world, unable to come to agreement. They will use that as example that it will be impossible and too complex to resolve the trade problems that must be resolved internationally, as well as continentally in North America. Let me tell you very much that I'm positive about the trade talks. I'm positive that we can conclude an agreement. We have too much at stake. We have too many opportunities, and the alternative to concluding an agreement is too horrendous to imagine, and that will be public policy in your country and our country not being driven by positive factors for stability and investment and growth, it

will be driven by negative forces, reaction, and the forces of protectionism, which is no damn way to run a country and it's no damn way to run a world.

What we've got to do, then, is make sure that the people who have the most to gain, the consumers, will not have this opportunity taken away from them by the special interest groups, which are the only voices that are being heard right now in the debate in Canada or in those parts of the United States that I have visited. We've got to have those that have everything to gain and a lot on the table start speaking out as Canadians and Americans for maintaining and enhancing the greatest economic trade that the world has ever seen, and one that can be enhanced even further by putting some stability into the game. Thank you very much.

[END OF BENNETT]

THE GREAT TRADE DEBATE
February 4, 1987

Mr. Garth Drabinsky
Chairman, President and C.E.O., Cineplex Odeon

: I have been asked to participate in this panel discussion on Free Trade in order to put forth the Canadian view because it is, of course, recognized that while our two countries are in many respects, the world's best neighbours, we are bound to have our separate ways of looking at this vitally important matter.

For the past two years, not by choice but because my business life so dictates, I have been travelling almost constantly throughout Canada and the United States. I have spent literally hundreds of hours, most often all by myself, in a small jet, flying to and from obscure communities the scheduled airlines have never heard of -- from Kingston, Ontario, to Kingsville, Texas, from Prince George, British Columbia, to Petersburg, Virginia, from Ocala Springs, Florida, to Ogden, Utah. I have found these long periods of enforced isolation conducive to thinking, and I have found myself comparing these two countries. Of course, every Canadian worth his salt devotes time and energy to trying to understand their similarities and their differences -- it's the great Canadian indoor sport -- but the subject fascinates me even more than most because my company operates theatres and distributes pictures in both countries and so relies heavily on the inhabitants of both to support its continued growth and vitality. It is for these reasons that I presume to give you a

Canadian view -- or I should say, different Canadian views of free trade.

That Free Trade is not an easy matter to resolve to everyone's satisfaction is amply demonstrated by history. A hundred and fifty years ago, the great English historian, Thomas Babington Macaulay, when he was writing about ancient Greece another two thousand years before that, was driven to say "Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular."

From this it can be seen, and ought to be constantly kept in mind, that any two nations attempting to come to an equitable and mutually beneficial conclusion to this vexed question are handicapped and inhibited by the many regional and factional interests within their own respective borders that all have different views. This is certainly true in the United States where the pendulum is always swinging from the isolationism of the thirties, to the enthusiasm for GATT of the late forties, and back again to the protectionism that is once again gaining ascendancy, as the U.S. trade deficit rises to approximately \$170 billion and as the U.S. faces, with understandable aversion, its new status as the world's largest debtor nation.

In Canada the divergencies in outlook seem to depend on the degree to which one values, and fears for, our economic and cultural sovereignty. Canadians differ in their opinions on this point all the way from those who long to be the fifty-first state of the union to those whose battle cry is "No truck nor trade with the Yankees because they are going to take us over."

Many Canadian nationalists think we are too close to the U.S. already, that our extreme dependency on one country is compromising our sovereignty, and that multilateralism with many nations rather than bilateralism with one should be our goal. Others claiming to express sound business principles say that over-dependence upon a single market runs counter to the most basic axiom of prudent business strategy, which demands a diversified customer base. All seem to be contributing to an ever-growing doubt about whether it is wise to continue to present negotiations while Canadians remain divided about their objectives and apprehensive about the results of an agreement.

It is my own view, however, that no matter how difficult it may be to resolve the matter, still it must be done for reasons that I will enlarge upon later, and it is gratifying for me to see our two countries once more addressing themselves seriously to the task.

At least for Canada, the question of free trade is not just free trade with anyone but free trade with the United States. Seventy-six per cent of our exports are to you and seventy-three per cent of our imports come from you. We are much more closely bound to you than are, say, France and Germany to the other countries of the Common Market.

And while the comparable percentages for the United States are not so overwhelming, still we are your biggest trading partner, accounting for twenty-one percent of your exports, nearly twice as many as you send to your next largest partner, Japan.

If the current attempts by our two countries to bring about a long-term free trade agreement are to succeed, certain obstacles that must be termed "psychological" must be overcome and I'll try to deal with these as I see them.

The first is that the matter is of such significant importance to Canada that those holding the highest offices in the country -- the prime minister, senior federal cabinet ministers, the provincial premiers, and leaders of the opposition at every level -- are all constantly and publicly giving their views on the matter--sometimes, it is true, shedding more heat than light but at least taking the matter very seriously indeed. Whereas, in the U.S. the matter is left almost entirely to the specialists on the subject of foreign trade, and generates much less political, and therefore public, interest. So to overcome this first psychological obstacle, the U.S. is going to have to give far higher priority to coming to an agreement.

Up to the present time, there has been a failure by the Americans to develop an understanding of the Canadian point of view. This is unfortunate for the Americans themselves as well as Canadians because the United States stands to reap great benefits from such an agreement -- more jobs, greater ease in investing in Canada; the greater stability to be enjoyed by American companies already established in Canada, and the sense of security that comes from having a stronger economic partner on the North American continent. When one realizes that forty-four per cent of Canadian exports to the U.S. are from

U.S. affiliated companies doing business in Canada, one begins to have some idea of the importance to the U.S. as well as to Canada of good trade relations.

Americans must therefore try to come to terms with the paranoia that colours the minds of some Canadians on the question of sovereignty, and in particular that narrower segment that we Canadians have named "cultural sovereignty." Cultural sovereignty may be defined as a country's right -- without outside interference -- that is to say, its heritage -- through its own indigenous instruments of communication -- books, magazines, motion pictures, graphic arts, music and dance, to name some of those important constituents that form the basic yarn of a country's social fabric and distinguish it from all others. There are, of course, reasons for this national state of mind that stem from the way the country developed.

Canada has the second largest land area in the world but most of its population lives within a hundred miles of the U.S. border. It is characterized by two official languages, wide ranging cultural and ethnic diversity, and strong regional identities.

The Canadian society, as we now know it, was created by a large number of immigrants moving into vast, vacant, geographical areas. These Canadian immigrants were never absorbed into the Canadian psyche so as to bolster national esteem and a distinct Canadian identity. Many came to Canada as a less desirable alternative because their first choice, usually the U.S., was not open to them. Though their new country was

preferable to what they had left, they did not let go of their roots -- they clung to them. In the United States immigrants dissolve into what June Callwood has called "a melting pot of bubbling assimilation." In Canada, the respective cultural elements remain distinct; they never merge into a strong coherent whole.

Then there is the almost overpowering influence of the United States. The American example of economic success, unparalleled in history, has exerted an enormous gravitational pull on the people of Canada. It urged them to emulate the American example, to mimic the methods that had made the U.S. a leviathan. The colossus to the south inevitably resulted in a loss of identity in Canada, a fear of eclipse, a fear of being overwhelmed by American economic and cultural imperialism. Our ancestors began to betray that curious negative psychology which is characteristically Canadian. They struggled to build a northern nation that was almost by definition anti-American in response to American predominance on the continent. Yet, at the same time, they felt driven to attempt to gain access to American markets and to copy the American success story. And so the dichotomy that has always marked Canada's approach to life was established.

Moreover Canada's proximity to the United States, when coupled with today's technology, results in Canada being barraged, not to say inundated, by all-pervasive signals proclaiming the cultural themes of America. This powerful new technology abolishes distance, ignores national boundaries, and

obliterates cultural distinctions. In the eyes of some, the effect is profound and threatens complete erosion of Canada's national identity, and the loss for all Canadians, but especially for its youth, of the opportunity to discover Canada's own cultural heritage. This omnipresent challenge to Canadian cultural life is a basic part of the country's existence.

Canada has found it exceedingly difficult to develop and maintain effective cultural policies in the face of overwhelming cultural and commercial pressure. Eighty-five per cent of records and tapes distributed in Canada are either brought in from abroad or manufactured in Canada from imported sound tapes; seventy-one per cent of all television programs viewed by English-speaking Canadians are American, and ninety-seven per cent of all screen time in theatres across Canada is occupied by American and foreign films.

But the determination of Canadians to remain masters in their own house remains strong and, as I have said, in their own interest, Americans must learn to live with it and to take care not to arouse any unnecessary anxieties. Americans must not resent being reminded that the number of American authors and music stars and movie stars and painters whose names are household words in Canada is legion -- whereas the names of Canadians that an American can bring to mind as a result of any artistic distinction whatsoever are few and far between. So Americans should have no reason to feel at a disadvantage where cultural matters are concerned even if they respected some

rather extreme Canadian demands on this one issue in the interest of a fair and equitable settlement of all issues between the two countries. What is more, speaking hardheadedly of dollars and cents, such concessions as the Americans might be called upon to make in this area wouldn't cost much. The whole cultural industry doesn't account for more than from one per cent to two per cent of the trade between our two countries. If, for sentimental reasons, Canada has to be downright pampered in this area, the price would be miniscule when compared to everything at stake.

So much for the changes in American attitudes that I believe to be necessary if we are to achieve agreement. By the same token, Canadians themselves must deal with their fear of loss of sovereignty -- economic and cultural. This can best be done by a program of universal education whereby responsible politicians, government officials, and media work tirelessly to negate the effect on their countrymen of the propaganda emanating unceasingly from the self-interested by highly visible and articulate few who, in their own narrow interest, pander to that fear by playing up imaginary consequences of a free trade agreement that cannot stand up to rational analysis.

We Canadians simply must have an agreement to sustain our job creation and industrial growth. We can, with our growing entrepreneurial base, far too readily saturate the market possibilities in our own country and we must therefore look beyond our borders in order to avoid the stultifying effects of being confined within them. Our vast geographical area and

small population contribute to inefficiencies. With small production runs, no advantage can be taken of economies of scale. We will suffer far more than the U.S. if we allow our near-sighted over-concern with sovereignty to defeat our efforts to conclude an agreement. We must recognize that trade is the most important means of transmitting technological and industrial innovation, which is absolutely essential to a country if it is to remain competitive.

And it would be even more tragic if this failure were to eventuate from considerations of loss of sovereignty on the part of Canadians that are completely irrational. After all, we are talking free trade, not a common market with an open border to workers, a common external tariff, a common taxation policy and a common competition policy. If the nations of Europe have remained comfortable and secure in their national identities in the face of a startling surrender of protectionist prerogatives, why should sensible Canadians feel threatened by the more moderate concessions they will be called upon to make in the interest of mutual prosperity.

Most Americans agree with most Canadians that both countries are better off as good, but independent, neighbours than they would be if joined together -- even supposing the political barriers in the way of such a union were not, as in fact they are, insuperable. This being so, the sovereignty of each country is important to the other. Notwithstanding yesterday's reported remarks of your trade ambassador, Clayton Yeutter, it is ridiculous to compare the relative risks to Canada and the

United States if their respective cultures are both put "on the table." The sovereignty of the United States is in no possible danger, so the bulk of both countries' care and attention must be given to the economic and cultural sovereignty of Canada. And even a modest amount of care and attention with respect to this particular point on the part of the United States will go far to surmounting the psychological obstacles to the successful completion of a free trade agreement between our two countries.

By hindsight, one would wish that the whole idea of one comprehensive agreement with the U.S. could be scrapped in favour of a staged process -- one that was far less dramatic; one involving less time pressure because it was expected to take, say, ten years; one that was less politically sensitive by reason of the fact that a Canadian federal election is expected in the Spring of 1989. But we are too heavily committed to the present negotiations to make such a fundamental change in approach at this stage, and the failure to reach an agreement will bring on a sense of betrayal on both sides and result in more, rather than fewer, restrictions on trade between us.

Let us therefore press on to complete the comprehensive agreement our respective negotiators are now hammering out. When the job is done, and I say when not if because the consequences of failure are not to be thought of -- the rewards for both our countries will be great. Historically the trade pacts we have reached have been of inestimable benefit to us both and are in large measure responsible for our respective degrees of prosperity and for our great respect and friendship

for one another. The new and more comprehensive settlement of the issue now in the works can be expected to usher in a new era of unprecedented good times for us both and goodwill towards each other.

[END OF DRABINSKY]

THE GREAT TRADE DEBATE
February 4, 1987

Mr. William S. Merkin
Deputy Assistant, U.S. Trade
Deputy Chief Negotiator, Canada/U.S. Free Trade Talks

: Thanks, Keith. I'm not sure I'm going to be tough as nails today. We save that for Simon Reisman and his group when we actually negotiate. You've had two excellent speakers, and I can verify that because I'm there in the negotiating room, and they're really right on in a lot of what this is all about. I think what I'll try to do today is to try to give you a view of what the negotiations are all about from our perspective, and when I say our perspective, I'm not just talking about the U.S. Government, because this is a joint cooperative effort in our view, that this is in the interest of both countries, that if we have an agreement it's gonna be beneficial to both countries or we're not gonna have an agreement. Therefore, we're trying to work together.

Now, obviously, as negotiators, we've been taught since day one that you've gotta posture, you've gotta try to extract the most you can from your opponent, but we were also taught that both have to leave the negotiating table feeling they've gained something, or else you're never going to be able to sit down with that person again. So we are trying to cooperate, and there are going to be tough issues, but we both feel, both governments feel very strongly that this is a very important endeavor, very worthwhile for the two countries. In fact, we've been talking about this for a lot longer than I think many

people realize. We actually began to look at the possibility of some sort of trade agreement between the two countries back in the '83-'84 period, under the Liberal government. Back then we were talking about something sectoral free trade. We were gonna take a bunch of sectors and try to negotiate agreements and then pull it all together. And one wonders if we had done enough sectors, pulled it all together, would it be the comprehensive agreement we're talking about today or not? Only time will tell.

What we are trying to negotiate now, you hear it called comprehensive or free trade or freer trade or enhanced trade. I'm not sure what the best word is, but the bottom line for us, there's a Washington phrase, I apologize, is that we are trying to dismantle as many barriers as we can between the two countries. We're trying to bring some security, some predictability to the trading relationship, and we're also trying to enter new territory. When we talk about establishing rules of the road in new areas such as trade and services, intellectual property, investment, we're talking about areas that have never been brought under any international discipline before. So what the United States is looking at here is not only the most extensive historic agreement from a bilateral perspective, but I would argue we're talking about going further and into new areas where we have never even attempted to go yet in the multilateral forum of the GATT in Geneva, the General Agreement on Tariff and Trade. We are starting a process there, we're going to be getting into a lot of the same issues, and in fact we have an

opportunity here between the two countries to kind of set the tone for those negotiations.

What is it we're talking about? Well, we're talking about just about everything. If you listen to Peter Murphy, my boss, who's always right, everything's on the table. I'm not sure what that means, but as negotiators, we just don't want to give anything away outside the negotiating room. We're talking about those factors that influence trade and goods on the one hand, and some are very obvious, tariffs. If you have tried to ship goods anywhere in the world, you're going to come up against tariffs. Now, between the United States and Canada, we've made great progress in the past in reducing tariffs between the two countries. You've probably heard things like 80% of the trade going from Canada into the U.S. is duty-free, and 65% of U.S. trade going into Canada is duty-free. Well, that's deceptive. Obviously, trade is going to flow where you have the least barriers. If you're in any industry such as telecommunications, furniture, steel, textiles, apparel, you know that there's still significant tariffs out there. So one of our goals here, and I think one that's very achievable, is to eliminate tariffs between the two countries. And let me emphasize, it's between the two countries. We're talking about a preferential agreement. There still will be tariffs affecting imports coming from anywhere else in the world.

The tariff element, I think, is something which will have tremendous benefits for a number of industries. Coming into the United States, we still have high tariffs, as much as we

talk about being the most open economy in the world, I know Ambassador Godley will probably say the Canadian market is the most open in the world. That's why we're negotiating. But we have high tariffs on things like petrochemicals, steel, textiles and apparel. So there will be major export opportunities for Canadian businessmen and women in those sectors.

On our side, we're looking at telecommunications, as I said, furniture, electronics, machinery, a whole range of goods that face fairly significant tariffs going into Canada. I would have to say that, on average, Canadian tariffs are probably twice as large as the United States, running somewhere between 9 and 10% and ours are more in the 4 and 5% range where we have tariffs. So there will be significant impact and benefits, we hope, for both countries.

Obviously, if one were to do this overnight, like you wake up tomorrow, you open up the newspaper and tariffs are gone between the U.S. and Canada, there's gonna be some significant disruption for many industries. So what we're talking about here is not just eliminating tariffs, I mean, that's easy. We agreed to that almost the first day. That's not a scoop. But what we're trying to come up with is a schedule to phase out the tariffs so that there is minimal adverse impact on industries that have been protected for years by these artificial barriers. So whether it's gonna be five years, ten years, twelve years, I don't know. I mean, that's still to be negotiated. But we've already got our bumper sticker figured out: "Free Trade by the Year 2000." So that may be

the target that we eventually will hit, that everything will be gone by that year.

But you also know, if you've been trying to conduct business anywhere around the world, that tariffs are just one part of the problem when you try to shift goods anywhere. There's a whole array. We are ingenious at coming up with what we call non-tariff barriers to restrict trade, and that's also a major element of this negotiation. And it gets complicated when we talk about U.S.-Canada trade, because it's not just barriers maintained by the federal governments. Those would be easy, I think, to take care of in a negotiation. But we also have our friends in the provinces and we have our friends in the 50 states that have their own practices and procedures and policies that impact on trade. Now, of course, I will say that we have much fewer than exist in Canada, mainly because, not so much that we're such good guys, but our Constitution says that the states cannot impede interstate and international commerce. That hasn't stopped them from enacting bi-state or bi-local provisions in numerous laws, or to encourage investment and sourcing of products from their state. But certainly the provinces have, under the Canadian system of government, much more latitude to interfere with trade. And I know if you happen to be, I don't know, in the California wine industry, for instance, that there are tremendous barriers in shipping wine or beer or any alcoholic beverage into Canada because it is an area within the responsibility of the provinces, and there's a very discriminatory

system in place. So these are the type of things we're looking at.

As the Premier mentioned, agriculture is also another area where the provinces have great leeway. Of course, we do that through our Farm Bill, so we both have a lot of sins out there, and that's what these negotiations are all about. Our goal, obviously, is to try to eliminate, or at least reduce, as many of these barriers, again, between the two countries as we possibly can.

Then we get into some areas that are, as I indicated earlier, new to the negotiating process. Services trade, I'm sure many of you are aware, is becoming of greater and greater importance to our economy. We're talking about transportation services, financial services, telecommunication services, professional services like accounting and architecture and all that. There is no international discipline. We can do whatever we want. If we want to say tomorrow we will not allow a Canadian trucker in the United States, and there are many in Washington lobbying for that, it could be done and there would be no international recourse for Canada. So we want to develop some discipline over what you can and cannot do in trade and services. And as I said, this is something which is gonna be important in the international context, as well as within U.S. and Canada, so we're breaking new ground.

We also want to develop, in this agreement, greater protection for intellectual property. If there are any two countries in the world where our ingenuity, our ability to use

our ideas to develop products, where we are threatened by what's happening around the world, is U.S. and Canada. And it's happening every day, whether you're talking about patent infringement or trademark infringement or copyright infringement, we have major problems around the world. This is something that we're pushing for internationally, and we again have an opportunity between the two of us to construct some regime which will ensure that if you come up with an idea, you have a right to that idea. And I think that's what's gonna continue to make our two countries so strong.

But, again, this is important, not just for what we're doing in North America, but for what we are trying to do globally.

Investment. Touchy issue, because it does in some ways get into the cultural debate in Canada. As one that has watched the Canadian scene close-hand for a number of years, I certainly commend the current government in its attempt to liberalize the treatment of foreign investment in Canada. Certainly we no longer have that nasty four-letter word to kick around, FIRA, the Foreign Investment Review Agency, and Investment Canada, which has replaced it, certainly is there to encourage rather than to restrict investment, but you know, there's no agreement between the two of us that this will always be. Tomorrow, this government or a new government could come in and go back to the more restrictive regime. There is no obligation on the part of Canada to continue to treat investment in a more liberalized way.

So we would like to ensure some predictability. We would like a climate as open as ours. And when I say that, I'm not saying that we are without sin, again. We have decided that for what we call national security purposes, we've excluded foreign investment in certain sectors. Well, Canada is taking the position that for cultural reasons, they want to exclude investment in certain sectors. I guess my position is, and of course I'm not giving you the inside word because that's within the negotiating context, but certainly it seems reasonable to me to allow within this negotiation an understanding on what things are important to each side to restrict or limit one's ability to invest. But we need to lay this out in black and white. We need it to be agreed upon. We need it there in place for generations to come. And I think once the business community in both countries understand the rules, understand how investment as well as trade is gonna be treated, it will allow them to make the decisions necessary to be successful in the North American continent.

Last area we're getting into, and it's a very tricky one, is the whole question of how we treat unfair trade between the two countries, as well as fair trade, but most of the debate's on unfair trade. Many people in the United States claim that Canadians subsidize left and right. Government assistance is running rampant at both the federal and the provincial level. Never mind that we're doing many of the same things, both at the federal and the state level, but it's always the other guy that's wrong. So we have a series of laws that deal with what

we consider unfair trade. And this gets again at what the Premier was talking about. We set the rules within our market, just as Canada sets the rules in their market. If we're going to a North American market, if we're talking about having one market for trading purposes between the two countries, shouldn't we have one set of rules, one set of guidelines, one referee to determine who's right and wrong? It's not gonna be easy, because the initial reaction in Washington is, we're giving up our ability to deal with unfair trade. We can't allow the Canadians to dump or to subsidize into the United States market. I certainly wouldn't want to go up to Congress and try to argue that point, and that's not what Canada's asking for. Canada's willing to undertake greater discipline over what their governments can and cannot do by way of government assistance, but in return, they need the predictability, the security of how the game is gonna be played, and I think that's a very reasonable approach. We're gonna make them pay for that, but it's a very reasonable approach and it's something we can negotiate.

So, I don't know if that helps you, but that's what we're talking about here. We're not talking about dismantling the Auto Trade Pact. I don't know how much you get down here about some of these issues, but I get clippings every morning sent down from Canada, and all Peter Murphy has to do is mention the word "autos" and right away the headline says, "Auto Pact on Table." We've been negotiating formally for seven months now, eight months now. We have never once suggested that the Auto

Pact was something we wanted to negotiate. Automotive trade, yes, it accounts for a third of our trade. There are lots of issues related to automotive trade which cuts across all sectors, whether you're talking about tariffs, you're talking about subsidies, you're talking about duty remission programs.

Same thing with culture. In the seven or eight months we've been actively negotiating, I don't think we've spent five minutes on what would be considered the culture, and that was basically to acknowledge how difficult and sensitive that issue is and we should be careful. But then somebody goes out and gives a speech that doesn't really understand all the nuances (I hope that one doesn't get back to Washington), and it's front page news.

What we're talking about is an economic agreement, and the range of issues that I just talked about. I'm probably running over here, but let me just take a second to kind of bring you up to date on where we are, what we're trying to do, and what the prospects are.

As I said, we've been going at it for about, officially, seven or eight months, and the way we structured the negotiation is we have two formal negotiating teams, one led by the big redhead, Peter Murphy, and the other one led by Simon Reisman. Interesting contrast in styles, Peter's about half Simon's age, an ex-textile negotiator, so he can sit there and stare you down for days. But it's amazing, within the negotiating room, how well they're getting along. Sure, you get out in the press and it looks like they're fighting each other all the time,

but you know, they both have to look tough for their constituency. In the room, as I said at the outset, we're trying to cooperate. We're both interested in agreement, and so you can't just sit there and stonewall the other guy. You've gotta really be interested in dealing with his concerns so that they'll deal with your concerns.

These formal teams have been meeting roughly once a month. We're starting to accelerate the pace, we're meeting twice this month, and we'll probably meet at least twice or more thereafter. But in between, it's not like we go home and we rest and take a long weekend. We have roughly twelve working groups, we call them, of technical experts that are meeting in between these larger sessions, trying to grind away at the individual issues. So we have a group working on services. We have a group working at subsidies. We have a group working at agriculture problems. We've got about a dozen of these groups, and their mandate is first -- and most of this has been already done -- is to identify what the issues are, as it relates to that issue, and then start coming up with some options on how we want to deal with it in the negotiations. Their goal is to come up with a common approach, one we both can accept, and obviously at the working level that's gonna be hard. So we've told them, well come up with bracketed language; that is, you know, put brackets around those things you haven't agreed to, but also lay out everything that you've agreed to.

We have actually had bracketed text in some areas already, where we're down to just a few words. "Culture" is one of them.

No, that's just a joke. But you know, we are making more progress than I think is commonly accepted out there. You know, these things taken out of context are gonna get me in a lot of trouble.

But anyway, we have other areas where we're very close to bracketed text, and then we have areas that are gonna take a lot of work. As you heard earlier, we're aiming for October. Why October? Well, the negotiating authority we're operating under terminates the end of this year, roughly. Sure, we can go back to Congress and ask for more, but boy, anybody that goes to Congress and says give me something, you're gonna have to pay about ten times elsewhere to get that. So the administration doesn't want to have to pay to continue these negotiations, especially if we don't need to. October's what, six months away? Plenty of time. We've got a lot to do, but if we put our minds to it, we can.

To conclude an agreement by the end of the year, we have to notify Congress ninety days before that we're going to enter into this agreement, so that's how you get October from that.

Can we do it? I think we can. It was interesting that Garth mentioned that the administration had to give this a higher priority. For those of us that have been in the trenches, and I appreciate being called a trade specialist as opposed to that nasty word bureaucrat, but the trade specialists have really been the ones out there in the trenches all this time, with very little acknowledgement or recognition. Which is not necessarily a bad thing, but not much recognition from

the political level in Washington. Well, that has changed and is continuing to change. As you may or may not know, Vice President Bush recently went up to Canada to talk to the Prime Minister about trade and other problems, and one of the messages we received loud and clear was, you have to raise the profile. You've gotta get the political profile up.

What has happened since then? The President has had two briefings by Vice President Bush on what's going on. We've had a briefing of the full Cabinet with the President present, on what's going on in the negotiations. The President acknowledged in the state of the union address that this is a high priority for the administration. Unfortunately, we get, now, politicians out giving their own speeches. The message is getting through that this is something which, if we're gonna do it, we've gotta raise the political profile in Washington. And I think that's being done.

As I said, it's not always good, because you get people with a little bit of knowledge and all heck breaks loose, but anyway, I think we can do it. We almost have to do it, because the consequences of failure are really too mind-boggling to even want to focus on. We are, as you've heard numerous times again, I hate to say it again, the two largest trading partners in the world. We are next door neighbors. We are probably the closest two allies in the Western world. If these two countries can't sit down and in our mutual interest craft a trade agreement which is in our mutual benefit, then I guess I question, what hope do we have of dealing with the global problems we have,

which have led to these triple-digit deficits that we're running.

So, with that somber note, I want to say I think we can do it. It's gonna take hard work. It's gonna take support from the business sector if we're gonna carry this off, because politicians obviously focus on the short-term and not the long-term. And I appreciate your time. Thank you.

[END OF MERKIN SPEECH]

THE GREAT TRADE DEBATE
February 4, 1987

Mr. James Miscoll
Executive Vice President, Bank of America

: Mr. Prime Minister, Mr. Ambassador, friends on the dais, ladies and gentlemen. Being the last speaker before lunch is like being in the rough, I think, in a golf tournament. My knowledge and relationship with Canada, by way of laying out some credentials, I was sketching as I was waiting here, I do know Canada literally from Victoria to Newfoundland. I have caught fish in Lake Nippigan. I saw my first Canadian football game in what was then Port Arthur. I've done business throughout Canada. I have recreated myself and my family throughout Canada. I've enjoyed Canadian culture in its many variations. My family always enjoyed it, and I always look forward to another Canadian experience.

We do have a problem, however, and that's a language problem between our two countries. It's exemplified by the two British ladies who decided to visit Canada, and they got on the Canadian National Railroad and they were going across the vast expanses and enjoying the view and went across the Great Plains area and the train pulled into a station out there in the middle of the Great Plains, and one said to the other, "Well, I wonder, my dear, where are we?" She said, "I don't know. I'll pull this window down and ask that young porter." So she pulled the window down, she said, "I say there, young main," she says, "where are we?" He looked up and he said, "Saskatoon, Saskatchewan." She turned to her traveling companion

and says, "My God, my dear, they don't even speak English here."

We've only been in Los Angeles two years, and a friend of my daughter, 18-year-old young lady, came over to the house after a trip with her family through Canada, and I asked her, "What did you think of Canada?" And her answer was, "Gee I mean, you know, totally awesome!" We had a language problem.

Kidding aside, I think we do enjoy a very preferential, special, good relationship between our two countries, if we enjoy special relationships with anyone I guess it would be with one another. And anything I can do personally or professionally to encourage, foster, help improve that, I and certainly my bank would do that. As a matter of fact, the person who started Bank of America was a man named Giannini. His idea was a nationwide banking system. Some others have that idea too, now. He got the idea, frankly, from the Bank of Montreal, which at that time, early 1900's, was indeed operating a nationwide banking system. In fact, the oldest continuously existing bank charter, albeit through acquisition in the state of California, is the Bank of Montreal.

I appreciate your asking me to participate in this forum at what I would consider to be a fairly critical time, not only for the relationship between the U.S. and Canada, but in those relationships between and among all trading partners. I find it quite disturbing that in many many countries we're involved in discussions or negotiations of what sort or another addressing international trade problems. The temperature of these conversations is getting very high and the tone of the

conversations is getting loud, certainly in public, hopefully not as the previous speaker indicated, necessarily in the negotiating room. I would say hopefully that with meetings of this type at which issues are aired and politics and personalities better understood, we can avoid the very destructive anti-trade vortex which we seem to be approaching. And I just came from almost two weeks in Japan and Korea on this very subject.

My intention today is to focus on Southern California, or our place in the sun if you will, and I'd like first to try to give you some numbers that might put our region here into perspective with the rest of the state, the nation, and the world, and then I'd like to briefly talk about the importance of our region in the Pacific Rim economy, and next discuss the dynamics of the financial services industry here. I'll conclude with a few thoughts on international marketing and on protectionism.

Southern California has one of the most dynamic regional economies in the nation. During the past half century, it has evolved from an economy dominated by agriculture, petroleum and aircraft into one in which these sectors remain important, but in which other industries have prospered to help make this a very diverse international marketplace.

Our population exceeds 15 million and represents 58% of the state's total residents, as well 16 -- 6% of the country's. This Southern California economic machine is diverse and has a great deal of horsepower. We produce nearly 300 billion dollars worth of goods and services, fully 7% of the output of the

whole country. We rank as the 12th largest country in the world, ahead of Mexico, Netherlands, Australia and Sweden, economically, and excluding the centrally planned economies, Southern California ranks as the tenth largest economy. Our region has played a yeoman's role in expanding total employment in the United States. In fact, since 1972, over 2.1 million jobs have been created right here, representing 10% of the country's job growth.

This outstanding economic performance is attributable to many factors. But key among them has been the area's rapidly changing industrial structure. The employment base here is oriented heavily toward rapid growth industries such as high technology, services of many kinds, trade and finance, insurance, real estate, all of which have grown quicker than basic manufacturing industry. Important, however, is that the region's manufacturing sector has grown, adding over 300,000 jobs, and today the area is home to two-thirds of all manufacturing done in this state.

While the numbers of heavy manufacturing jobs in steel, automobiles and the like have declined, those in aerospace, high technology, printing and several other sectors have grown. Southern California is also one of the strongest and most diverse financial regions in the country. Total personal income exceeds 240 billion dollars annually, 58% of the state's total and larger by itself than the incomes of all individual states except New York and California as a state. Average household income here is \$42,000 per year, some 15% above that

of the rest of the country. Consumers here hold 60% of the state's total bank deposits and outstanding consumer debt. And consequently, a large number of financial institutions, both from within our state and outside of our state and our country, have initiated or expanded their California operations here over the last decade.

Ours is the nation's largest consumer and retail sales market, with retail sales surpassing 80 billion dollars last year. The climate and amenities of our region make this one of the most dynamic consumer markets in the world. Because such a diversity of communities, interests, and attractions can be found here, businesses often merchandise to lifestyles here. Our region consequently tends to be a leader in consumer-oriented innovations, and at times fads. Two key examples would be apparel and the jewelry industry.

In addition to our native strengths, Southern California is in a unique geographic position to tap growing trade with the Pacific Rim countries. As growth in U.S.-Europe trade has slowed, Pacific Rim countries have become major trading partners of the United States. About 12% of total U.S. international transactions pass through the Los Angeles and San Diego customs districts. And since 1970, volume passing through those facilities has increased more than ten-fold. As a result, Southern California currently accounts for over 70% of total California foreign trade.

As part of our rapid growth across a wide number of fronts, Southern California has attracted a growing representation of

financial services companies. The reasons are quite simple and revolve around the fact that we are becoming a world class economy, one that continues to grow more rapidly than most other areas of the country or the world.

One of the primary impacts is that Southern California has become one of the most competitive financial markets in the world, and I now have to fight it out, not only with our good friends at Security Pacific and Wells Fargo, but also with our friends at Chase, City Corp, and many overseas banks. The internationalization of the Southern California market is indeed in full swing. There are currently 140 banks from 35 countries with headquarters or some form of representation here. This has been an integral part of California's 64% increase in number of commercial banks since 1981, during which time the number of banks in the total country has declined.

Also important here is a healthy dose of entrepreneurial spirit, a gene that has its roots in our overwhelming growing business orientation here. Fully 90% of Southern California's 350,000 businesses employ fewer than 20 people. And our total stock of entrepreneurial talent is consequently quite large. Related very closely to this willingness to take risks, we generate a great deal of venture capital. It should not surprise any of us to hear me say that I believe much of this area's growth in financial services ties closely to the Pacific Rim. Trade with countries in that region is vital to the thousands of cargo handlers, dock workers, truck drivers, freight forwarders, trade credit and letters of credit people,

and many others whose jobs and livelihoods are touched by this international explosion of trade.

California currently handles 80% of U.S. trade with the Pacific Rim, and Southern California gets the lion's share of that. It's for these and other reasons that I find the tone of our trade discussions bothersome. I'm distressed as well, by the tone our trade negotiations have taken with our single most important Pacific Rim trading partner, namely our friends in Canada.

Our two countries share an intricately linked economic, demographic and political framework, as well as the longest border between two democratic, industrialized countries. Our discussions over the last two years have touched on both tangibles and intangibles, from lumber to textiles to agricultural products to broadcasting. I'd like to believe that both sides are at the bargaining table in good faith, and looking not only at our respective competitive industries, but also at our role in the entire protectionism debate, as well as our geographical proximity.

The grievances are real and must be addressed, and in so doing will require time and compromise, and probably a one-step-at-a-time philosophy. I don't think we have a choice. It's become trite and a cliché, in a matter of two years, to talk of fair trade if not free trade, and yet as worn out as that expression is becoming, it is still one of the less emotional phrases kicking around in and out of the government today.

We in California and the United States produce a lot of

goods and services that the rest of the world wants and will pay for. We have not been totally successful in selling these goods and services for several reasons, among which I consider the most important to be the following: first, the rising dollar between 1981 and '85, which basically priced us out of many world agricultural and non-agricultural markets, and we've not gotten back in. The worldwide recession and recovery in which the United States did better than many of our trading partners, and consequently pulled growing amounts of imports in from those countries. Three, unfair trade practices in several countries or regions in both Europe and Asia. Four, our marketing efforts, which simply have not been aggressive enough for many products. And fifth, as a person who's spent more of my professional life outside of my country, in my case Europe and Asia, than inside, we do a very poor job, both in managing our companies and in managing our tax laws to encourage American businesspeople to get out around the world and compete, not only for goods and services but in the marketplace of ideas.

There's little I can do to add to the first two points I mentioned, so I won't try. On the third point, one of the unfair trade restrictions, I believe, that in many cases these exist and we must move ahead full speed to change them. There are all kinds of arguments today, pro and con, regarding whether we are proceeding at a sufficient pace to get these things changed. And I won't add to the arsenals of either side. I will say that we in Southern California will be hurt far more than helped by a trade war, should one develop. Not only will

the flow of imports through our facilities shrink, we will see import barriers build reciprocally overseas, and that means that we won't be able to export either.

Which brings me to my fourth point, marketing. If we want to close the trade gap, which in my mind means exporting more as well as importing less, we're going to have to put more shoe leather to the streets around the world, in Tokyo, Beijing, Seoul, Sydney, Hong Kong, Vancouver, Toronto, and the other major growth centers around the Pacific Rim and in Europe. Collectively, we know far less about the cities and countries in the Pacific Rim than they know about us. Well, is that any way to compete? When you're going to sit down and bargain hard with someone on any issue, do you want to feel that that person knows more about you or your business than you know about theirs? Of course not. Simply put, we have not spent enough time learning the business practices, economics, customs, laws, personalities, culture, if you will, of our trading partners, and we will not be overwhelmed by success until we do that. We must realize that we live in a global community, one that is not bounded by lines running from Maine to Florida or California to Washington, but one that instead includes the equator, the billion-plus people living in Mainland China, the newly industrialized countries around the world, et cetera. The U.S. is big, we're 22% of the world economy, but hold up a numerical mirror to that figure and you'll find that nearly 80% of the world is happening outside the borders of this country. That, ladies and gentlemen, is a very large market,

one that is growing, and one that we cannot ignore if we wish to continue to get our piece of the rock.

Thank you for your attention.

[END OF MISCOLL]

THE GREAT TRADE DEBATE
February 4, 1987

The Honourable Allan E. Gottlieb
Ambassador of Canada to the United States

Canada-U.S. Trade: Myths and Realities

More than any other great nation in history, perhaps, the United States is a myth-making country. The Old West, for example, is a classic American myth which is not only larger than life, but truer than life. Indeed, in some sense, America itself is the "American dream": the mythic America, that new-found-land which is forever young, forever innocent, forever new. Our own Canadian dreams are, perhaps, not so different, although we are more diffident in proclaiming them. My subject instead is some of your lesser myths, namely, in the field of international trade and economic relations. More specifically, I have in mind some current myths about your economic relations with Canada.

At first blush, you may find it hard to believe that we Canadians have found our way into American mythology. That we have done so is perhaps a sign of the times. The massive trade deficit now facing the United States provides fertile ground for such myths to spring up, and grow like topsy. But these growths are weeds, of no use to anyone, and they ought to be eradicated.

In case you haven't heard about them yet, let me introduce these myths to you, and attempt to puncture them for our mutual benefit.

Myth number one is that Canada is a second-rank trading partner of the United States, outstripped by Japan or Germany or Britain, or some other large industrial power. This is the hoariest chestnut of them all, and even one of your former Presidents swallowed it. While we have made considerable progress in laying it to rest, every time we go to write its epitaph it is somehow resurrected once again, usually by someone who should know better.

Because I want to give you details and statistics in dealing later with another myth, I will only state here as an incontrovertible fact that we are your best customer in the whole wide world, as you are ours. No other bilateral trading relationship anywhere compares with that of Canada and the United States, in size, in scope, and in quality. Our trade with each other surpasses your trade with Japan, Germany, Britain, France, Italy and indeed almost all the members of the expanded European Community put together. Yet we are a

country of only some 25 million against 120 million Japanese and over 320 million Europeans within the 12 member states of the Community.

The great good news I can now proclaim is that your President himself has just said, in his State of the Union address no less, that Canada and the United States are the world's biggest trading partners. Ah, progress at last!

Myth number two is that Canada enjoys an inordinate surplus in its trade with the United States. This myth distorts reality by being out of focus in one eye and blind in the other. It looks at trade in goods alone, and it ignores trade in services (which includes dividends and tourism).

Before I take you further through the myth about the Canadian trade surplus with the United States, I want to say a word about statistics. The problem is that your statistics from 1980 onwards have consistently under-reported U.S. exports to Canada and over-reported Canada's surplus in merchandise trade with the United States.

To deal with this problem, our statistical agencies meet every year to reconcile their data and agree on a single set of figures.

In 1985, for example, U.S. statistics showed a deficit of 21.6 billion dollars on merchandise trade with Canada. Canadian statistics showed a much lower surplus of 15.2 billion dollars. When our respective statistics were reconciled, the agreed figure was 15.6 billion dollars, namely, our figure plus a small fraction.

The 1986 preliminary figures just released by the Department of Commerce give us even more cause for concern and heartburn. These statistics purport to show a U.S. trade deficit of 15.4 billion dollars with Canada for the first 11 months of 1986, while Canadian statistics show a deficit of only 10.6 billion dollars. If, as in past years, the Canadian statistics prove to give the more accurate picture, your most recent statistics will distort our bilateral trade picture by close to 50 percent. This discrepancy will eventually be corrected, but the impression created will never be fully corrected and these misimpressions fuel and fire the forms of protectionism.

Against this background, you will understand why I will use Canadian statistics in my comments today on our bilateral trade.

Now, let me get on with my dissection of myth number two.

In the first three quarters of 1986, the most recent period for which statistics are available for both goods and services, Canada had a merchandise trade surplus with the United States of under 8 billion dollars. That in itself is not a large figure, given the size of our bilateral trade in goods. But during the same period the United States ran a surplus of 5.6 billion dollars with Canada in trade in services.

The real deficit, taking into account both merchandise and services together, was 2.3 billion dollars in our favour. That imbalance is only two percent of our total two-way trade of some 114 billion dollars in both goods and services for the first three quarters of 1986. That is the figure on which we ought to focus, because it is the real index of our overall trade. It shows that our two-way trade is roughly in balance. Yet there is great difficulty in building an

appreciation among our publics that it is trade in goods and services, or current account balances, not merchandise figures exclusively, which has the greater significance. I welcomed recognition of this point in an editorial in the Washington Post just a few days ago.

As the United States transforms itself into a more service-oriented economy, and aggressively seeks foreign markets for its services and investments, it simply cannot measure its relations with other countries by the merchandise account alone. To do so would run counter both to the fundamental changes occurring in the United States economy and to the dominant thrust of your international trade policy.

You cannot attach paramount importance to services in the new multilateral trade negotiations and yet discount this sector when calculating your balance of payments. After all, Canadian tourism alone poured almost 3 billion U.S. dollars into this country in 1985 and this is important down here. Our tourist dollars equal the total U.S. exports to Brazil, or to the whole of Eastern Europe, in 1985. So let's not sneeze at services.

The substantial United States surplus with Canada in respect of services, and the consequential correction of the imbalance in merchandise trade, is not a pattern that you will find repeated in your other major trading relationships. To illustrate the point, we need only look at the figures for Japan and West Germany.

First Japan, in 1985, the last year for which complete statistics are available, the United States ran a deficit of over 1.8 billion dollars in its services account with Japan. Thus, services only exacerbated the already massive merchandise deficit, which was almost 50 billion dollars, making a total deficit in merchandise and services of just under 52 billion dollars. The deficit in merchandise trade with Japan for 1986 was almost 59 billion dollars. The deficit in invisibles will be very much larger in future years as the United States pays dividends on the large infusion of Japanese capital required to finance the trade and budget deficits.

Now, with West Germany, you ran a deficit in services of 5.6 billion dollars in 1985, and a total deficit in merchandise and services of 16.2 billion

dollars. This was offset by a U.S. surplus in dividends and other remittances of only 329 million dollars.

So, the myth of your trade imbalance with Canada clearly does not match current realities. Moreover, it also suffers from an excessively short perspective in time. With the exception of the last three years, the United States has run an overall surplus with Canada in every year since World War II. That does not suggest any structural imbalance.

For the United States to aspire to a perpetual surplus with Canada would constitute precisely the same kind of mercantilism of which you accuse Japan. Forgive me for saying so but such an aspiration, if it exists, may, perhaps, reflect a certain psychological tendency in the United States to view the Canadian market as being peculiarly your own. It is only a slight exaggeration to say that exports to Canada sometimes appear to be seen almost as domestic trade. Canadian imports, however, are seen in quite another light.

Myth number three, which is being promoted in some quarters, is that Canada has been maintaining its dollar at an artificially low level against the U.S.

dollar in order to generate a trade surplus. Again, the facts do not bear this out.

Canada has had a floating exchange rate since 1970. This means that the level of the Canadian dollar is determined by market forces. From time to time, the Bank of Canada has intervened in the exchange markets to maintain orderly conditions and to counter short-term speculative pressures. This has been aimed at smoothing out the movement of the dollar, not at achieving a specific level.

A review of official intervention in recent years shows that Canadian actions have had the net effect of resisting downward pressure on the Canadian dollar, as was noted by Secretary Baker in his appearance before the Joint Economic Committee of Congress on January 30th.

If you are familiar with Canadian affairs, you will be aware that your prime bank rate stands at 7.5 percent while ours is 9.25 percent. Canadian interest rates have recently run from 2 to almost 3 points higher than yours, in support of the value of our currency.

From the end of 1980 to the end of 1986, the nominal exchange rate of the Canadian dollar against the U.S. dollar has depreciated roughly 13 percent. There has, however, been little movement in the real exchange rate -- adjusted for inflation -- because of higher wages and prices in Canada.

In recent weeks, the Canadian dollar has strengthened substantially against the U.S. dollar, by some 4 or 5 cents and its still rising. This move was certainly not resisted by the Canadian authorities.

Myth number four, which seems to be gaining currency in this country, is that public-sector activity or expenditure is synonymous with trade-distorting subsidies. This notion is inconsistent with economic theory; it is inconsistent with international trade law as embodied in the GATT codes; and it is inconsistent with U.S. trade law.

Underlying this myth, perhaps, is a certain inclination to equate differences with unfairness. Certainly that equation appears to find its way into the rhetoric of the "level playing field", on occasion. But differences in the degree of government involvement in

the economy do not in themselves distort comparative advantage. Neither the GATT, nor U.S. trade law, equates public sector activity with trade-distorting subsidies.

To illustrate, let's look at medicare. It is sometimes suggested that Canada's system of publicly supported medical insurance represents a form of unfair trade subsidy. Frankly, that is a silly argument. It ignores the fact that Canadians pay for medicare and other forms of social welfare through higher taxes.

Similarly, the fact that an enterprise is publicly-owned does not in itself represent a trade subsidy. Some publicly-owned enterprises are run on an entirely commercial basis. Some are not. Some private enterprises, in some countries, receive subsidies. Some do not. So the test of subsidy is not whether ownership is public, or private, or mixed.

Myth number five, which I frequently encounter, is that the United States Government does not subsidize American industry or, in any case, does not subsidize to anywhere the same degree as Canada does.

This misconception, I think, arises out of myth number four.

If you labour under the illusion that anything in the public sector automatically represents a subsidy, it follows that a country with a relatively larger public sector, like Canada, must subsidize like blazes. As I have just indicated, this presumption is belied not only by economic theory, but also by United States and international trade law.

Our two societies have long held somewhat different philosophies concerning the proper role of government. I don't want to exaggerate the differences because the similarities are equally important, especially since the New Deal has irreversibly altered the role of government in the United States. But my point is simply that because of your traditional view of government, there is perhaps some disposition here to deny or at least minimize such government participation or intervention in the economy as does occur.

I don't say that Canadians are crazy about government intervention. Rather, we tend to see it as good or bad depending on its nature and effectiveness.

For example, we are somewhat more inclined to use direct grants in circumstances, where the United States might pursue the same objective through tax breaks. But you are not shy about using grants either, and, in any event, the practical result may be the same, even though the means vary.

Another reason for the U.S. propensity to view subsidies as a foreign phenomenon lies in a sensitive area of your national psyche. You are used to being Number One, and that is understandable. When you slip below that position, you react in a very human way. You look elsewhere for the explanation. If you are no longer competitive, then perhaps in the minds of some, it can only be because someone is not playing fair. And, of course, that is sometimes true. But sometimes the playing field is perfectly level after all, and sometimes it is being tilted on both sides.

When you cut through the mythology and take a cold, hard look at the facts, it seems clear to us that the United States is a major user of subsidies. The most obvious example is agriculture.

Last year the total cost of programs pumping government money into that sector exceeded 25 billion dollars. These programs varied from commodity.

The defense budget is another area involving massive assistance to specific industries. Government expenditures on R and D have been important in giving U.S. industry its competitive edge in such fields as aeronautics, communications and computers, not to mention armaments. As to your shipping industry, the Jones Act keeps it afloat. And your states and municipalities provide tax holidays and industrial parks that also constitute obvious subsidies.

I am not suggesting that the United States subsidizes more than Canada. Frankly, I don't know which of us subsidizes more. Nor am I suggesting that your subsidies are not justified by political, security, economic or social factors. My only point is that the

United States, like other countries, makes quite liberal use of subsidies, as an instrument of public policy.

The United States has become a vigilant opponent of the subsidy practices of other governments, by its hitherto almost exclusive use of the countervailing duty remedy. You should not be surprised, however, if your example leads to greater use of this remedy by your trading partners. That, too, could become part of the level playing field -- or the battle ground.

Myth number six, finally, is that the advantages of a comprehensive trade agreement between Canada and the United States would be all one way; that only Canada would benefit from such an arrangement. Nothing could be further from the truth. The advantages to the United States would be very substantial on several levels.

First, Canada is far and away your single best bet in fighting your way out of your current trade deficit. We are already your best customer by a long shot, as I noted in dealing with myth number one. And

now I'll give you the details and statistics I promised you then.

Last year Canada took 21 percent of your exports. That was equal to well over 150 percent of your sales to Japan and 100 percent of your sales to the whole of the European Community before it was expanded to include Spain and Portugal. With the expansion of the Community, I must admit that your exports to Canada are now a mere 85 percent of your exports to the 12 nations that now make up the EEC.

Compared with your other major trading partners, we take a higher proportion of the value-added merchandise that generates so many jobs in this country. In 1985, 77 percent of your exports to Canada were manufactured goods, and 25 percent of all U.S. exports of manufactured goods went to Canada. Your merchandise exports to Canada in 1985 equalled the value of your exports to some 150 other countries. Pause for a moment and think of that! And 41 percent -- almost half -- of your surplus on services was earned in Canada. Pause for a moment and think of that too!

Moreover, in contrast with the rest of the world, we keep buying more from you every year. From 1982 to 1985 all U.S. exports grew by less than one-half of one percent. Your exports to Japan grew by less than 8 percent and your exports to the European Community actually fell by 4½ percent. During those same three years your exports to Canada grew by more than 40 percent. In fact, the growth in U.S. exports to Canada over those three years is almost twice the value of your total annual exports to the entire continent of Africa.

Canadian statistics show that during the first 11 months of 1986, U.S. merchandise exports to Canada increased by more than 6 percent, while Canadian exports to this market declined slightly. During the same period your trade balance with the world as a whole deteriorated by almost 25 percent.

The Administration and most of the Congress and U.S. industry all agree that the way to cure the deficit is by increasing exports, in part by obtaining improved access to foreign markets. Well, look at the facts. Canada is where your exports are increasing. Given our record, a free trade arrangement with Canada

ought to play a key role in your strategy to bring the deficit down. We are not even a small part of your problem, but we are a very large part of the solution.

The second level at which the United States stands to gain from a comprehensive trade agreement with Canada is in the advancement of the multilateral trade negotiations.

Canada shares with the United States a desire to broaden the new MTN round to include agriculture, trade in services, and intellectual property. That desire is not shared by some of our other trading partners. It was an uphill battle to get these items on the agenda at Punta del Este. To bring them under the GATT presents novel negotiating problems, as well as extraordinarily sensitive political issues. The difficulties of moving 90 countries through uncharted territory are immense.

Our bilateral negotiations could be extremely helpful in this regard. While many of the issues will be similar, the reduction in the number of players should make the process simpler and faster.

Current estimates for the duration of the Uruguay Round vary from 4 to 10 years. If the United States and Canada can succeed in putting together an agreement in these new areas over the coming year, we can act as both a catalyst and an example to the rest of the world. But if we fail, the unhappy omen will be there for all to see.

If the United States and Canada cannot strike a deal, who can?

The third level at which a bilateral trade agreement holds potentially significant benefits for the United States is a broader one.

Prime Minister Mulroney has stated emphatically that Canada's support for U.S. strategic, political and security objectives follows inextricably from our shared values and interests and from our responsibilities as an independent member of the Western Alliance. We do not expect or ask the United States to pay for our friendship with commercial concessions. But it is a political fact that relations between states are, in the final analysis, one and indivisible.

When almost 80 percent of our exports go to the United States, it would be foolhardy to believe that rocky trade relations would not affect general relations over the long haul.

Given our unique trading relationship, it is remarkable that we have been content, until now, to leave its regulation entirely to the GATT and to national laws.

A bilateral relationship of such magnitude should not be left solely to multilateral or unilateral rules. To do so threatens to overload the diplomatic and political circuits, as I think the lumber dispute has clearly demonstrated. Both prudence and vision demand that some agreed bilateral framework be put in place.

Once we dispel the myths and look at the facts, it becomes clear that Canada and the United States have a shared interest in creating a larger North American market within a binding system of North American rules and institutions. Neither country is looking for favours; neither country is the demandeur. Neither country can take the other for granted.

You want to stand tall? Well, so do we.
And believe me, we can both stand taller by standing
together!

We can both win, and we can both lose. What
is harder to recognize is that these are our only
choices: that there is no way one of us can win without
the other winning, or one of us lose without the other
losing. Reality is more complex than any mythology.

Myth-making is often an important part of
nation-building. Cherish your dreams, as we cherish
ours. But let us both look at our trading relations
with clear eyes.

We cannot afford to indulge in fictions in
this area. Let us recognize the reality of our
interdependence and build upon it for our mutual
advantage. Making history together is more productive
than making myths about each other.

LIBRARY E A/BIBLIOTHEQUE A E



3 5036 20000557 0

DOCS

CA1 EA 87G67 ENG

The great trade debate : a
conference on the Canada/United
States free trade negotiations
February 4, 1987 Los Angeles. --
43255324



60984 81800