



Minister for
International Trade

Ministre du
Commerce extérieur

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NOTES FOR REMARKS BY THE
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MINISTER FOR INTERNATIONAL TRADE,
TO THE NATIONAL FOREIGN
TRADE COUNCIL

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Canada

If I took the press too seriously, I would be in combat uniform today, and I would be in enemy territory. The headlines, particularly on our side of the border, have declared a trade war between Canada and the United States. But I know that I'm in friendly territory here, and I strongly suspect I'm among friends. There may be a trade war going on, but it is not between Canada and the United States. It's a war between the forces of protectionism and those of us who want an open international trading system. In that war, we're on the same side.

The stakes of the war are enormous. I don't believe it would be going to far to say that what is at stake is the prosperity and well being of the industrialized world, indeed the whole world. Look at the record. The trade wars of the 1930's contracted the world's economies and prolonged the great Depression. It took a world war to bring us out of it. But since the war we have enjoyed four unprecedented decades of prosperity. Why? More than any thing else, I believe, it was because the world's trading nations got together in the GATT and mounted a determined -- and progressive -- campaign to bring the barriers down.

But you never really lick the forces of protectionism. And it is a strange sort of war that they fight. It is a battle in which the protagonists are not evenly matched nor are their forces similarly arrayed. The laws of economics support an open trading system, but the dynamics of politics favour protectionism.

Democratic government is notoriously susceptible to the pressure of special interests, and it is precisely special interests -- sectoral, regional, flailing enterprises and individual unions -- that benefit from protectionist measures. But it is the whole

of society that pays, often out of all proportion to the benefits bestowed on the protected. The challenge of politics is to rally the silent majority who benefit from the liberal trade, while resisting the special interests who are always knocking on our door in search of favours and protection.

In many ways, the American system of government is a marvelous institution. It guards against many evils, including the abuse of power by any branch of the government. But with its division of powers and lack of party discipline in the Congress, it is just as susceptible to the influence of special interests as is any other government -- and in some cases probably more so.

We saw this in April when a coalition of special interests in the Senate Finance Committee, some of them not even remotely connected to Canada-U.S. trade relations, almost killed the historic initiative to negotiate a comprehensive trade agreement between our two countries.

We saw it in May when the House of Representatives passed an omnibus trade bill which, if enacted, would turn back the clock to the 1930's and plunge the industrialized world into a full blown trade war.

We saw it again the same month when the Administration slapped a duty on our cedar shingles and shakes, forcing us to respond in kind.

And, we saw it again this month when the U.S. lumber industry, supported by Congressmen from the lumber producing states, launched yet another countervailing duty action against \$3.5 billion worth of Canadian softwood lumber exports to the U.S.A.

They did this, by the way, despite the fact that a similar action failed

only three years ago. They did it despite the fact that other voices, including the housing industry and the Chamber of Commerce, were saying, "Hey, wait a minute -- that'll hurt us." And they did it despite a study last year by Wharton Econometrics that spelled out what would happen if they got their way.

According to Wharton, a 30% tariff induced increase in lumber prices would result in a small increase in employment in four states -- Alabama, Georgia, Mississippi and Oregon. The biggest winner would be Oregon, which would gain a total of 188 jobs. All other states would lose, partly because higher lumber prices would spell fewer housing starts. Throughout the U.S., 15,000 jobs would go down the drain. California alone would be out 3,700 jobs.

Lumber is obviously not the only irritant in the trade between us. Given the immense volume of business that we do with each other, there are bound to be some disputes, and at present there are five formal actions going -- four on your side, and one on ours. We are now threatened with some form of restrictions on cut flowers, brass sheet and strip, salmon and herring, and uranium. And this is in addition to the barriers already put up against our fish, shakes and shingles, hogs, sugar and some of our iron and steel products.

On our side, in response to the action on shakes and shingles, we have just put tariffs into force on American books and magazines, computer parts and some other products. In addition, a countervail action is pending against American corn.

These are some of the reasons that we in Canada believe a new bilateral trade agreement would be in the interest of both sides.

I do not mean to suggest that pro-

tectionism is an American disease. On the contrary, the United States remains one of the most open trading environments in the world. We know that and we applaud it.

We also know that American leadership is indispensable if the world is to maintain an open trading system and move to further liberalize international commerce. We would not have the international trading system we have today, nor the prosperity that flows from it, were it not for the leadership the United States has given since the last war. It is because that leadership is so beneficial to this well-being of the free world that we are so distressed when we see the forces of protectionism make yards down here. We know our fate is caught up in this struggle.

It is because your prosperity and ours are so inextricably linked that the bilateral trade negotiations that have just started between our two governments is so important to all of us.

I don't have to tell Canadians how important this initiative is. They know it.

But we sometimes get the feeling that down here, familiarity breeds indifference and that Americans are less than fully aware of how important Canada is to them.

Some Americans still think that Japan is America's biggest trading partner, despite the fact that you do twice as much business with us. Last year we took more than one-fifth of everything you sold abroad, and the trade between us is roughly 1/15th of all the trade that is done in the world. We estimate that some 2 million American jobs depend on your exports to Canada alone.

Not only that, but in contrast to 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 0.5%. Your exports to Japan grew by less than 8% and your exports to the European Community actually fell by 4.5%. During those same three years, your exports to Canada grew by more than 40%.

It's true that at the moment, you have a fairly sizeable trade deficit with Canada. But this is a recent, and probably passing phenomenon. The U.S. usually runs a surplus with Canada. The current deficit is due, more than anything else, to the high price of the American dollar, over which we have no control.

The other thing about your trade deficit with us is that it is only on merchandise trade. In services, the advantage is all yours -- by 13½ billion dollars -- so that our total current account is pretty much in balance. We're slightly ahead, but only slightly. And when you come right down to it, we couldn't afford to use the financial expertise you've developed here on Wall Street -- or enjoy the Florida sun -- if you didn't buy our merchandise.

So far, I've been talking bilaterally. But the significance of our bilateral trade negotiations goes well beyond our bilateral trading relationship. The United States' trading interests are global to a degree unmatched by any other country. The United States, like Canada, belongs to no regional trading block. We share an enormous interest in the successful launching this fall of the next round of multilateral trade negotiations under the GATT -- and in the successful conclusion of the round.

We also share with the United States a desire to broaden the agenda of the next round to include agriculture, trade in services and intellectual property. That desire is not shared by some of our other trading partners. It will be an uphill battle

to get these items on the agenda, let alone to make real progress on them.

The success of the GATT to date has been essentially in merchandise trade. To bring agricultural commodities, services, and the trade related aspects of intellectual property under the GATT presents novel negotiating problems, as well as extraordinarily sensitive political issues. The difficulties of moving 90 countries through uncharted territory are enormous.

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 makes the process a bit simpler, and, presumably, faster.

If the U.S. and Canada can succeed in putting together agreements in these new areas, we can act as both a catalyst and an example to the rest of the world.

But if we fail, the omen will be there for all to see. If the U.S. and Canada can't strike a deal, who can?

And right here I should say that, although we both want to talk about trade in services and intellectual property, our interests and positions on these issues are not exactly the same as yours. They do not, for example, stand as high on our list of priorities as they do on yours. Our service sector is relatively advanced, but its development is uneven. We are net importers in certain areas where you are net exporters.

When it comes to intellectual property, we are largely importers, while you are generally exporters. Your emphasis is on the protection of property rights. Ours is on promoting the transfer of technology.

What we are more concerned about are the U.S. import relief laws. They

may be a relief to some U.S. enterprises that can no longer compete with foreign producers, but they are a pain for us. Since I know these laws enjoy considerable support in the United States, and particularly in the Congress, I want to take a little time to explain why we have such problems with them.

First, we have real doubts about the underlying premises on which much of this legislation is constructed, namely a distinction between fair and unfair trade. There are certainly instances where the distinction is valid, for example, trade in counterfeit goods, predatory pricing, and export subsidies. But increasingly the U.S. contingency protection system deems as unfair public policies or commercial practices that are different from the way they're done in the U.S. We question the wisdom and propriety of such an approach.

Natural resource pricing is one example of what I am talking about. At the heart of the softwood lumber dispute, for example, is the fact that our stumpage system is different from yours -- as are our forests. The fact that we have different systems, however, should not imply that one or the other is subsidized.

We also question whether the contingency protection system does not demand excessively litigious procedures. Most of the import relief actions available to U.S. producers are extremely costly for foreign exporters to defend. Since 1982, for example, the Canadian lumber industry has spent almost \$4 million in legal fees and another \$15 to \$20 million in corporate salaried time fighting the countervail actions brought by U.S. In our view the expense of these procedures makes them weighted in favour of domestic petitioners.

One more observation and then I'll stop. The interpretation of your import relief laws is constantly changing, and that produces an unpredictability and uncertainty that has a chilling effect on bilateral trade and investment. Again the lumber case is a good example. We are facing a new investigation involving the same parties, the same claim, with substantially the same facts and under the same law as the case decided in our favour three years ago. And the justification for this is that the Department of Commerce may have changed its interpretation of the law.

We would like to see these anomalies and others in the U.S. contingency protection system amicably resolved, and we will be addressing them in the trade negotiations.

Despite what disagreements we may have with one another, it is no accident that these trade negotiations have been launched at this time by a Republican Administration headed by President Reagan and a Conservative Government led by Prime Minister Mulroney. Both governments are committed to promoting economic growth and efficiency by placing greater emphasis on market forces and reducing government intervention in the economy.

In a very real sense, the trade negotiations are the extension of that policy into the realm of international commerce. They are the external counterpart to the deregulation already accomplished or in train in such areas as energy, transportation and investment.

One of the first actions of our Government was to pass the Investment Canada Act, replacing FIRA with a new agency that seeks to promote foreign investment. Most foreign investment entering Canada is now exempt from any

review procedure. In those limited instances where review remains, we have sought to make the rules as transparent and predictable as possible. Canada is now one of the most open countries in the world to foreign investment, and one of the most attractive investment environments you will find anywhere.

The National Energy Program, with its retroactive back-in share, is also gone. Canadian energy policy is now market oriented and non-discriminatory. Many controls over the export

of oil and natural gas have been abolished and further deregulation is in progress. Together, our two governments have created an open, market-oriented North American market in energy trade.

The next step, if we can manage it, is to create an open market for most of the rest of our trade. And despite all the headlines about trade wars, I firmly believe we can manage it. If the United States and Canada can't strike a deal, who in the world can?