Department of Foreign Affairs and International Trade

Statement

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NOTES FOR AN ADDRESS

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MINISTER FOR INTERNATIONAL TRADE,

TO THE MID-AMERICA COMMITTEE

CHICAGO, Illinois
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Government of Canada Gouvernement du Canada

Canada

For Americans, Chicago represents the heart of mid-America, the gateway to the Midwest.

For a Canadian, Chicago assumes a different but no less important perspective. Chicago is at the epicentre of North America, as prominent in its north-south situation as it is in its traditional east-west orientation.

Chicago symbolizes the "coming together" of the North American continent in the 20th century. The barriers of geography have been eclipsed by the bonds of friendship, shared values and, of course, economics.

Canada and the United States have long been the best of neighbours — allies in war, partners in peace.

And the depth and intensity of that relationship continue to grow as we learn to harness our collective strengths, while respecting our individual differences.

Despite our closeness, we are two separate nations. Even a top-rated, Canadian-produced television program like "Due South," featuring a Mountie roaming the wilds of Chicago, shows just how different we can be at times — and how much the same.

You're happy Michael Jordan is back, and so are we — especially with new NBA teams coming on board in Toronto and Vancouver next year.

You're happy the baseball strike is over, and so are we — especially with the unusual quirk that makes the Blue Jays the defending world champions over again.

The business of sports represents only a microcosm of our shared enthusiasm for common products and services, based on similar preferences and needs.

Our joint trading relationship is the largest in the world — and it continues to grow!

Merchandise exports from Canada to the United States rose 16 per cent to US$129 billion in 1994. During the same year, your merchandise exports to Canada rose by 14 per cent to US$114 billion.

Every day, Canada and the United States exchange one billion Canadian dollars' worth of goods and services.

The province of Ontario alone buys more from the United States than all of Japan.

And the state of Illinois exports more to Canada than the entire U.S. does to Spain.

These statistics demonstrate the magnitude of the thriving trade relationship between our two countries and the need to enhance it.

You might ask, "With the Canada-U.S. Free Trade Agreement and now the NAFTA in place, aren't we doing the right things to promote that relationship?"

My answer to you would be, "Yes – for the most part."

The last time I was in Chicago, for instance, I was with my U.S. counterpart, negotiating about Canadian wheat exports to the United States.

The upshot of these negotiations was that Canada agreed to a one-year export restriction. This was a bruising experience, agreed most reluctantly under the threat of unilateral action under Section 22 of the U.S. Agricultural Adjustment Act – a provision that has since disappeared.

We value our trade with the United States in wheat and wheat products. How could we agree to a rollover of the restriction for a further year, as some in Congress are suggesting? Would it not be making a temporary restriction permanent? How would this fit our free-trade relationship?

We intend to continue to work with the U.S. administration to find trade-liberalizing solutions to resolving this issue.

We are optimistic that the results of the joint commission on grains will make an important contribution to this effort.

There are other areas, however, where we still have a long way to go. Despite the successful conclusion of the free-trade negotiations, we have failed to deal fully with one of the most menacing weapons in the arsenal of protectionism, and in so doing, we left a rather large skeleton in the closet.

I refer to the issue of trade remedies – anti-dumping and countervailing duties. Although we have created the world's largest trade relationship – one in which the vast majority of our two-way trade flows without impediment – we have faced a number of corrosive trade disputes that reflect, for the most part, the triumph of selective sectoral, domestic and political interests over national interests.

In most instances, these disputes have been nourished by a regime of trade remedy laws whose application has not been adjusted to the realities of a free-trade area.

Now, with the NAFTA firmly entrenched, with the Uruguay Round finally concluded and the new World Trade Organization coming into being, it is time to confront our fears, and to address the issue in a meaningful way.

It makes absolutely no economic sense to apply traditional trade remedies in the integrated marketplace we have created in North America.

At one time, the economic world was a lot different. A national border was quite recognizable. There were good reasons and practical methods for excluding products that were unfairly priced. In our own House of Commons, one of my early predecessors pointed out that "dumping is an evil and we propose to deal with it."

But that was 1904 — and we've come a long way as a country, as a continent, and as a global trading network since then!

The old rules may have been appropriate for us when the North American market was not integrated. The rules were developed when producers were generally based in one country, where production functions were simpler, where multinational inputs to products were rare, and where markets for products were distinct.

Today, most producers approach North America as a single, integrated market. Companies make their sourcing and production decisions on that basis. And it is common for products to cross borders in various states of completion, often several times.

Trade within the NAFTA is also very different from traditional forms of offshore trade. It entails product rationalization and just-in-time delivery within a regional market, rather than large, uncontracted shipments.

Governments must now reflect these new realities in their measures to deal with inappropriate pricing behaviour. And governments already have instruments that they can use, ranging from combines legislation to competition laws.

Let's look for a moment at how the present anachronistic use of trade remedies can distort or disrupt modern North American markets, with substantial costs both to you and to your customers.

Take, for example, the common business practice of offering a product at a standard price, no matter where it is delivered in the United States. Companies allow for transport costs in their overall pricing strategies so that the price of a computer or of a box of cereal is the same in San Diego as it is in Bangor. That is an acceptable business practice in the United States — as it is in Canada.

What happens when an international border intervenes?

Take the case of a Toronto company with a customer in Hamilton and a customer in Chicago. Because the freight costs to Chicago are higher than to Hamilton, if the company attempts to sell its product at the same price in both markets, it can be penalized with an anti-dumping charge.

And it works both ways, whichever side of the border you operate from.

Take the case of a cyclical industry, such as steel. Price discounts must often be introduced during market downturns to maintain customer demand in certain markets. For the steel firm, the best economic decision is at least to cover marginal costs, rather than shutting a plant completely.

Since we are dealing with a highly integrated continental market, what usually happens is that prices fall in both the domestic and export markets. There really is no price discrimination between sales to either market. But, if you are exporting, you are dumping.

One more case – one that I am sure is familiar to all. Sometimes, after you have cultivated customers over a number of years in a particular market, prices there suddenly fall.

You have no choice – either you cut your own prices, or lose your investment in customer development and loyalty. In other words, you are pricing to meet the competition in that market.

This may be offshore competition. If you price downward to meet it in your own market, that's normal business practice. If you do the same as an exporter – you are dumping.

These types of examples are played out every day on the current North American trading landscape, at considerable cost to all of us.

For example, the recent rash of trade remedy cases on steel directly affected half a billion dollars in two-way trade between the United States and Canada.

Since 1986, there have been 58 anti-dumping actions and 11 countervailing duty investigations between our two countries over a wide range of products. And Mexican industry has already shown a fondness for anti-dumping and countervailing duty laws as well.

If this fondness continues to grow, both U.S. and Canadian companies may find that protectionism, in the form of trade remedies, has trumped some of the market access in Mexico that we

both thought we had gained in the NAFTA. What's going wrong here, and what can we do about it?

Clearly, blunt and misdirected trade remedies are being used to constrain legitimate pricing behaviour within the free-trade area. Anti-dumping actions are no longer aimed at genuinely injurious pricing behaviour, but are used more for strictly protectionist purposes.

The results are higher input costs, reduced outputs, higher product prices, and more uncertainty in investment decisions for North American firms.

This, in turn, makes Canada, the United States and Mexico less competitive in other international markets, essentially downgrading or nullifying the rationale for a North American free-trade area in the first place. It prevents us all from getting the most from the increased efficiencies that should result from our North American free-trade area.

It is instructive to note that our overseas competitors have already grasped this nettle. Within the European Union, dumping laws have been eliminated. This is consistent with the strong European drive to get the most competitive synergies from their common trading area.

Similarly, Australia and New Zealand already regard commerce within their free-trade agreement to be domestic commerce.

What can we do about it here in North America?

For one thing, the three NAFTA countries have established two working groups to come up with answers by the end of this year to a number of important questions. For example:

- What definitions, thresholds and mechanisms can be used to counter inappropriate pricing behaviour in the modern North American context?

- Can we establish a more direct link between the pricing decisions of one firm and those of its competitors? And if so, what actions or compensation will actually remedy the specific situations?

- Should governments continue to focus on the pricing of individual products – the usual basis for trade remedy actions? Or should the focus be shifted to individual firms – the traditional approach of domestic competition laws?

- Should different sectors of the economy be treated differently at various points in their cycle, or should we still seek a "one suit fits all" approach?

Admittedly, these are not easy questions. And getting agreement on the answers may be just as difficult as it was on other fundamental trade issues covered by the NAFTA.

But we really don't have a choice. If we choose to ignore the "skeleton in the closet," it will continue to haunt us.

We shall continue to see inappropriate corporate and industry actions in all three NAFTA signatory countries, aided and abetted by outdated trade remedy legislation.

And these disruptive actions will continue to cost North American companies – such as your own – hundreds of millions, if not billions, of dollars a year.

The corporate counsel for General Motors, speaking recently before the U.S. International Trade Commission, cautioned about the need "to minimize possible economic harm to U.S. industries that are downstream from the ones involved in the unfair trade proceedings."

In the same month – last November – the American Bar Association declared that "the replacement of anti-dumping law by competition law for transactions between and within NAFTA nations is more clearly consistent with the concept of a free-trade area."

If even lawyers can see this issue so clearly, what is stopping the rest of us?

Firms should be encouraged to take advantage of an integrated North American market, not penalized for doing so. Preserving anti-dumping laws in a free-trade area does not really help producers in the long run, nor does it help the consumer.

Exactly whose interests is the current trade remedy regime protecting, given that our economies are so closely integrated? And, more importantly for you as business people and exporters, can we really afford to engage in such narrow, internecine protectionism when North America is faced with growing competition from an integrated Europe and an ascendant Asia?

These are fundamental questions. Their resolution will require both understanding and ingenuity. Varied and vocal domestic pressures exist on all sides of the issue. But our economic advantages as North Americans, now and in the future, will depend directly on our joint willingness to lead the movement toward freer global trade and investment.

That requires a commitment to recognize our common economic interests, a willingness to expand free trade under agreed rules, and to abide by them.

In the past, the Mid-America Committee has proven itself an influential voice on important trade issues.

Today, you have a key role to play in the question of trade remedy laws in the North American free-trade area.

I urge you to take up the cause. Speak to your Representative in Congress, make sure that your industry associations are on side, educate your suppliers and customers to the real damage that inappropriate trade remedies cause, now and in the future.

Trade remedy laws do not promote progress. They encourage neither innovation nor efficiency. And they certainly do not enhance competitiveness, something that is vital for all of us in the face of increasingly organized global competition.

In the months ahead, while we are enjoying the friendly competition of the Black Hawks and the Maple Leafs, the White Sox and the Blue Jays, and even the Bulls and the Raptors, let's make sure that we are also finding ways to end some of the "unfriendly" competition that results from outdated trade remedy laws.

It's a winning strategy for all of us, and one that is well worth the effort.

Thank you.