



DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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MINISTERS MAKE TRADE-TALK STUDIES PUBLIC

The Secretary of State for External Affairs, the Right Honourable Joe Clark and the Minister for International Trade, the Honourable James Kelleher announced that twenty-six documents relating to trade negotiations with the United States, including over sixty sector studies, are being made public today.

The release follows extensive interdepartmental consultations and a thorough review of all documents requested by the Ministers.

The number and range of the documents released exceeds the requirements of the Access to Information Act.

The studies may be examined, or requested in writing, at the Access to Information Office, first floor, Tower A, Department of External Affairs, Lester B. Pearson Building, 125 Sussex Dr. In order to avoid a further delay documents are being released in the original drafting language.

A summary of the studies is available in both official languages.

For more information:

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Studies for the Trade Talks

The following pages provide an overview of studies prepared or commissioned by the government between August 1985 and April 1986. These papers represent only a portion of completed and on-going studies that the government has undertaken to strengthen its negotiating position in bilateral trade talks with the United States and in multilateral negotiations through the General Agreement on Tariffs and Trade (GATT).

Unless otherwise noted, all of the studies which are referred to here are available for review in the Access to Information Office, Tower A, Department of External Affairs, Lester B. Pearson Building, 125 Sussex Drive, Ottawa.

Readers should be aware of the following:

- Some documents available to the public do not lend themselves to summaries, and thus only brief descriptions are provided here.
- In order not to jeopardize trade negotiations, portions of some documents have been "severed", and only those parts which are neither prejudicial to negotiations nor contain commercial information are available.
- Many studies described here are preliminary drafts, and thus lack the precision of the final versions.
- The views expressed in outside studies commissioned by the government are those of the authors and are not necessarily those of the Government of Canada.

AN INTERNAL OVERVIEW OF COMPETITIVENESS ISSUES

**Prepared by: Department of External Affairs
Policy Development Bureau
August 23, 1985**

Severed study available.

Description

This interim report contains preliminary results from the research program undertaken in the summer of 1985 on the economic implications of an enhanced trade agreement between Canada and the United States and is based on two separate studies, one by Informetrica Ltd, the other by the Department using the University of Maryland's Inforum model.

Highlights

Informetrica Study

Seven alternative trade liberalization cases were selected for comparison with the base case. Case 4, assumed to be the most likely, combined tariff and non-tariff barrier elimination with a productivity increase.

The results of this case are as follows:

- Real Gross National Product is, on average, about 1.7 percent higher per year than in the base case.
- Canada's real net exports increase.
- The Consumer Price Index is lower than the base case in every year of the period.
- Employment gains are evident from the outset, reflecting increases in industry output. By 1994, overall employment is running more than 100,000 above the base case.

- Employment losses are indicated in agriculture and manufacturing, in spite of the aggregate rise in employment. Informetrica attributes these losses not to declining manufacturing activity but, rather, to increased labour productivity.
- The exchange value of the Canadian dollar appreciates, and by 2115 it is running around 92 2/3 cents U.S.

Inforum model

- A free trade arrangement, requiring immediate removal of tariff barriers by Canada and the U.S.A. with no adjustment or phase-in, would result in some short-term economic damage to the country or economic hardships to some people. Under this trading arrangement, Canada would have a net job loss of around 131,000. New manpower or industrial adjustment programs would be necessary to buffer the impact of job changes in some industries or communities.
- There seems to be large potential, at least in our manufacturing sector, for reaping benefits from scale economies through expanding markets in the U.S.A. , and thus, for improving employment prospects in the country. However, these benefits will be realized over a longer period.

Trade Liberalization Between Canada and the United States:

The Implications for Canadian Consumers and Consumer Protection Policies

Prepared by: Department of Consumer and Corporate Affairs

Severed study available.

Highlights

The review of Canadian studies on the effects of trade liberalization from the viewpoint of the consumer's interest revealed that estimates of net benefits range from between very little to about nine percent of G.N.P., but never negative. The

uniformity of the conclusions of the studies reviewed provided very strong support for the conclusion that freer trade between Canada and the United States would serve the interests of Canadians, particularly Canadians as consumers.

Differences in standards commonly intended to serve the interests of consumers can act as a nontariff barrier to trade. While there are cases where such differences can be clearly justified, there are many others in which this may not be true. Consequently, the report recommended that this issue should be subject to closer scrutiny.

POSSIBLE CANADIAN OBJECTIVES AND OPTIONS IN A COMPREHENSIVE TRADE AGREEMENT WITH THE UNITED STATES

**Prepared by : Department of External Affairs
Trade Policy Bureau
26 February, 1986**

Severed study available

Description:

This paper considered the manner in which safeguards might be dealt with in the context of the negotiation of a comprehensive trade agreement with the United States. "Safeguards" refers to emergency action against imports of particular products, which, while neither dumped nor subsidized, nor unfairly traded in any

other manner, are deemed to be causing serious injury to domestic producers.

CANADA/USA TRADE IN SERVICE

**Prepared by: Department of External Affairs
Services and General Trade Policy
Division
December 4, 1985**

Severed study available

Overview

When the Prime Minister of Canada met with the President of the United States in Quebec City in March 1985 they agreed on a Work Plan on Trade, a number of elements of which would facilitate and enhance trade in services.

The Canadian and U.S. economies both have an overwhelming percentage of gross domestic product accounted for by services (in 1983, approximately 63% in Canada).

In 1984, trade in services between Canada and the United States amounted to approximately \$20 billion. Of the \$141 billion generated in Canada by tradeable services exports in 1984 some 59% is estimated as exports to the U.S. Of Canada's 1984 tradeable services imports of \$19.2 billion, 61% is estimated as imports from the U.S. Canadian business service exports to the U.S. were \$2,400 million in 1984.

INTELLECTUAL PROPERTY IN THE CONTEXT OF BILATERAL NEGOTIATIONS

**Prepared by: Department of Consumer
and Corporate
Affairs
Strategic Policy Research Branch
August 20, 1985**

Severed study available

Description

This paper provided background information and preliminary assessments regarding intellectual property issues which are relevant to the upcoming Canada/U.S. bilateral trade negotiations.

Conclusions

Stronger intellectual property protection in Canada will not necessarily result in changes in the pattern of Canada/U.S. trade but it will ensure that some remuneration flows to the rights holders, most of whom reside in the U.S.

The Americans will likely wish to raise a number of intellectual property issues in the initial phase of bilateral negotiations. The only issue from the Canadian side would be S.337 of the U.S. Trade and Tariff Act of 1974 although the effect of this section on Canadian economic interests is arguably small.

Should the trade talks proceed to encompass more comprehensive integration of the two economies, intellectual property would have to be eliminated as a potential trade barrier between the two countries along the European lines.

THE AUTOMOTIVE AGREEMENT IN A CANADA- UNITED STATES COMPREHENSIVE TRADE ARRANGEMENT

**Prepared by: Grey, Clark, Shih and Associates
Limited**

November 6, 1985

Severed study available

Description

This paper examined the options to the future of the Automotive Agreement, likely United States attitudes and international implications as well as current international trade and industrial developments in the automobile industry.

Highlights

Substantial structural changes in the production techniques employed by the North American automobile companies will occur as they adjust to new competition which will determine production, location of vehicle assembly and parts plants and employment levels.

The North American automobile companies will experience a declining share of the automobile market which will bring further pressure on decisions relating to the shared production objectives of the Automotive Agreement.

POLICY HARMONIZATION: IMPLICATIONS OF A CANADA-UNITED STATES TRADE AGREEMENT

**Prepared by: C.D. Howe Institute
February, 1986**

Complete study available

Highlights

A trade agreement would leave the bulk of the pressures for Canada to harmonize its domestic economic policies with those of the United States more or less unchanged. Political and

cultural sovereignty and enlightened social programs are unlikely to be seriously affected -- although some specific cultural support may be subject to review.

Added pressures to harmonize policies could be expected in intellectual property regimes, in agriculture, and in certain areas of cultural and commercial policies promoting Canada's cultural identity and autonomy.

The mounting pressures in the United States to use duties to penalize perceived Canadian subsidies to such goods as softwood lumber could be halted; pressures to prevent Canada from using regional subsidies as instruments of social policy could diminish; pressures on cultural policy could stop if Canada were able to negotiate an acceptable approach.

FEDERAL AND PROVINCIAL BARRIERS TO INTERNAL TRADE

**Prepared by: Department of Regional Industrial
Expansion
Trade Policy Directorate
August 29, 1985**

Study Available from DRIE

Description

This paper examined selected internal barriers to trade in the context of possible future international trade negotiations. This paper did not provide an exhaustive inventory of such barriers, nor did it attempt to pass judgement on their legitimacy.

Highlights

There is a wide range of areas where internal barriers exist: labour mobility, government procurement, and industrial programs. This paper listed and examined a limited number of such areas more directly relevant to trade negotiations:

- liquor regulation,
- government procurement,

- agricultural policies,
- transportation regulation,
- subsidies.

Canada's domestic preparations for international trade negotiations must include a discussion of barriers to internal trade as they affect international trade, the willingness of the provinces to reduce such barriers and ways of arriving at a commitment that will satisfy the provinces as well as Canada's trading partners and be sufficiently binding to ensure compliance.

INVESTMENT RESPONSES BY MULTINATIONAL ENTERPRISES TO THREE CANADIAN POLICY OPTIONS FOR CANADA-UNITED STATES TRADE

**Prepared by: Derek Chisholm
Institute For Research on Public
Policy**

Available from IRPP

Description

This study examined probable changes in foreign direct investment within Canada by multinational enterprises (MNEs). The examination sought answers to three questions about MNE responses to reductions in trade barriers. First, will the level of foreign control over domestic industries change significantly? Second, will foreign-owned firms change their Canadian strategy? Third, what is the impact on our trade with the United States of various economic determinants and policy determinants that are independent of foreign direct investment?

Highlights

The level of foreign control over domestic industries could initially diminish during the medium term after trade barriers are reduced, but over a longer horizon technically advanced foreign investment and foreign control could increase.

The form of foreign control could alter as MNEs respond to reduced trade barriers with corporate strategies that integrate Canadian subsidiaries by rationalization or world product mandates.

Taxation is probably the most important policy influence on our trade patterns. Labour costs are the major determinant of both our trade patterns and foreign investment flows.

TRADE POLICY AND THE SYSTEM OF CONTINGENCY PROTECTION IN THE PERSPECTIVE OF COMPETITION POLICY

**Prepared by Rodney de C. Grey
 February 1, 1986**

**To be published by the Department of Consumer and
Corporatate Affairs.**

Description

This paper considered a range of trade policy measures applied in the U.S., Canada and the EEC in relation to competition policy and the extent of contradictions between the two policy objectives.

Highlights

The paper proposed a considerable tightening-up of the contingency protection system because it was seen as providing more restrictive action than the economies of importing countries, and their political systems, could afford.

ECONOMIC INTEGRATION SOME ASPECTS OF THE EUROPEAN EXPERIENCE

**Prepared by: A.W.A. Lane
October 21, 1985**

Complete Study Available

Description

The paper looked at some of the features of the movement towards economic integration in Europe. It concluded with some comments on the implications of a comprehensive trade agreement with the United States.

Highlights

There are some useful lessons to be learned from the European experience:

- Permanent dismantling of tariffs and NTBs can provide a stimulus to industrial restructuring which increases efficiency and competitiveness.
- Where there is integration between highly developed countries which have a broad range of secondary industries, intra-industry specialization tends to predominate.
- The way in which state aids are treated in a Canada-U.S. trading arrangement could have an important bearing on its regional impact. The Rome Treaty took a particularly tolerant attitude towards measures of this kind.

ECONOMIC IMPACTS OF ENHANCED BILATERAL TRADE NATIONAL AND PROVINCIAL RESULTS

**Prepared by: Informetrica
August 20, 1985**

Complete Study Available.

Description

This study assessed the impact of removing both Canadian and American tariff and non-tariff barriers (NTB) staged over 1988-1992, with varying assumptions.

Highlights

The results suggested there would be positive effects on real Gross National Product from all dimensions of trade enhancement. The effect of a reduction of non-tariff barriers is comparatively large, providing notable benefits to Canadian economic activity through to the mid-1990s.

Increased industry output is reflected in employment gains at the outset. By 1994, aggregate employment would increase by more than 100,000, this level being sustained throughout most of that decade.

The study showed that the economies of all provinces would gain from fully enhanced trade with the U.S. The Atlantic provinces, Ontario and Manitoba would enjoy the largest increases in economic output.

**ECONOMIC EFFECTS OF TRADE
LIBERALIZATION WITH THE USA: EVIDENCE
AND QUESTIONS**

**Prepared by: Moroz and Meredith
Institute for Research on Public
Policy
September 1985**

Complete Study Available from IRPP

Description

The paper evaluated freer trade with the United States, in the form of a functional, sectoral or comprehensive arrangement in the context of existing economic literature.

Highlights

The main conclusion in this paper suggested that bilateral trade liberalization could be expected to provide large, long-run economic benefits to Canada. It could also be expected to lead to a more efficient and flexible microeconomic structure which, in turn, could significantly improve the performance of the Canadian macro-economy and its ability to create more, and better, job opportunities.

Bilateral trade liberalization would involve significant structural changes in the economy. While these structural adjustments are a major source of the large potential long-term net economic benefits, the adjustment process could entail significant transitional costs.

These costs would include labour adjustment costs as workers move from one industry to another. There could also be various factors which would affect the adjustment process, adjustment costs, and the ability and speed by which the long-term economic benefits are realized. Nevertheless, it would appear that the bilateral trade liberalization option would provide the conditions and the environment for a healthier and sounder Canadian economy.

**IMPACT OF TRADE LIBERALIZATION ON
INVESTMENT:
The Adjustment Process**

Prepared by: Department of External Affairs

Complete study available

Description

This paper, and a companion piece on survey evidence, estimated the nature of changes in investment patterns by referring to studies on the nature of the adjustment process and to surveys dealing with investment decisions at the individual firm level.

Highlights

National adjustments within the European Community after the 1958 Treaty of Rome were so much lower than expected that it was decided in 1960 to accelerate tariff reductions from 10% to 20% per year and to eliminate all quotas by 1961.

A major empirical analysis of Canadian industry reaction to the most recent tariff cuts under the GATT shows none of the effects predicted by the "deindustrialization" argument. Both Canadian imports and exports increased, and no industry experienced major declines.

Surveys conducted by the Conference Board of Canada and the Department found that the majority of firms surveyed did not consider trade barriers as a governing factor on future investment decisions.

UNITED STATES TRADE REMEDY LAW

Prepared by: **Arnold & Porter**
January, 1986

Severed study available

Description

This memorandum discussed the political and legal feasibility in the United States of various proposals which Canada might make in the trade talks to modify the way U.S. import relief laws are applied to Canadian exports.

Highlights

Although elements of a Canada-U.S. trade agreement may be generally welcomed, individual provisions that are perceived as weakening the U.S. import relief laws are likely to generate considerable controversy.

To proceed under the fast-track procedure, the Administration is required to keep the relevant congressional committees closely informed on the progress of the negotiations. In practice, the fast-track procedure gives Congress a continuing and persuasive influence over the U.S. negotiators that permits it to significantly limit their discretion.

INSTITUTIONAL PROVISIONS AND FORM OF THE PROPOSED CANADA-UNITED STATES TRADE AGREEMENT

**Prepared by: Frank Stone
Institute for Research on Public
Policy
April 1986**

Study available from IRPP

Description

The study addressed two institutional and legal issues: new institutional arrangements created under the agreement and the nature and form of the bilateral agreement.

Highlights

The agreement should provide for a Ministerial-level committee to help ensure cooperation between the two governments in its implementation, interpreting its provisions and improving it in the light of changing circumstances.

The proposed Joint Trade Commission would be designed to operate in a collegial manner to assist the two countries in implementing the new agreement, and to assist generally in the management of the bilateral trade relationship.

- The Commission should be authorized to establish a Joint Advisory Board drawn from the two federal governments, provincial and state governments and the private sectors.
- The Commission should be authorized to establish Joint Dispute Panels to help resolve particular bilateral disputes.
- The Commission should be authorized to establish a Joint Injury Panel, drawn from the Canadian Import Tribunal and the United States International Trade Commission, to investigate and report on injury to domestic producers.

SECTOR COMPETITIVENESS PROFILES AND SECTOR PROFILES

Prepared by Department of Regional Industrial
Expansion

Energy, Mines and Resources Canada

Department of Fisheries and Oceans

Department of Agriculture

Description.

Draft studies on over 40 economic sectors were prepared by desk officers in these departments for consultation with industry and the provinces. The comments from the provinces and other necessary revisions or additions are currently being incorporated into new drafts.

UNIT COST COMPARISONS FOR CANADIAN AND AMERICAN INDUSTRIES

Prepared by: Data Resources of Canada
September 1985

Description

The study compiled Canadian and American economic and industrial statistics, and compared total unit costs, both in nominal dollars and in terms of exchange-rate adjusted dollars, and labour productivity.

Highlights

The depreciation of the Canadian dollar relative to the U.S. dollar after 1976 has provided a significant advantage to domestic producers, making most industries more cost competitive than their U.S. counterparts in 1984. This cost advantage is a recent development; few industries have enjoyed a consistent cost advantage for many years.

Where industries show a cost advantage, it is more often related to lower material costs than to labour costs. Many industries show high and rising labour costs relative to U.S. industries.