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NOTES FOR A
SPEECH BY THE HONOURABLE
GERALD REGAN, MINISTER FOR
INTERNATIONAL TRADE TO
THE CANADIAN MANUFACTURERS'
ASSOCIATION

MONTREAL,
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Sector Free Trade Initiative

My congratulations to the Canadian Manufacturers' Association for their sponsorship of this Conference. I am sure that I speak for all participants in welcoming this opportunity to discuss a topic which could have a significant bearing on Canada's future economic performance and on our relations with our major trading partner, the United States.

The Government's decision to examine the pros and cons of limited sectoral free trade with the United States is beginning to generate significant public interest. This is most welcome. I believe it is highly appropriate that the initiative and the issues it presents should be openly aired and argued and that the process should involve those who stand to be directly affected, Canadian consumers, Canadian workers, and of course Canadian manufacturers represented by your Association. My fervent hope is that the debate will focus on real

economic and political considerations and not be distorted by emotional or dated impulses.

Most business leaders I have spoken to on the initiative have welcomed it as a modest but pragmatic and incremental technique for improving and securing access to the United States market.

The sectoral free trade concept emerged from the Trade Policy Review which appeared last August. The Review recognized the importance of trade in the Canadian economy and it reconfirmed Canada's fundamental commitment to the multilateral trading system as the bedrock of Canadian trade policy.

The Review also took into account the evolving nature of the trading relationship with the United States:-

- The United States is by far our most important single trading partner; the increase in our trade to the U.S. last year was double our total trade with Japan, our second trading partner.
- trade liberalization is already far advanced; over 80% of our exports will enter the U.S. duty

free after the full implementation of MTN tariff cuts in 1987. In the reverse direction the figure will be 65%;

- more than a quarter of our two-way trade with the U.S. is already covered by sectoral arrangements - the Autopact and Defence Sharing Arrangements.
- economic interdependence, forged by trade flows, is a fact of the international economy; in Canada's case this means progressively more intense economic exchanges with the U.S.
- cyclical forces are strengthening this tendency; the sharp United States economic upturn is the 'locomotive' for recovery throughout the international economy. This influence is of course particularly pronounced on Canadian exports.
- for a number of important Canadian industries the U.S. represents the most accessible and promising market on which to base future growth and efficiency.

- success in the U.S. market is seen as critical in terms of improved competitiveness in the global market.

A theoretical option open to the Government was to contemplate and build on existing North American economic integration by seeking a full free trade arrangement with the United States. There are many Canadians who advocate this course and who are critical of the sector approach as inadequate or sub-optimal in terms of Canada's economic development. However the Government concluded that no consensus exists for a move of this magnitude at this time.

Instead it was decided to give "careful consideration to the advantages and disadvantages of limited free trade arrangements with the U.S. in particular sectors where Canadian producers are internationally competitive or could significantly rationalize or improve their efficiency as a result of improved access to the U.S. market."

How are we implementing this commitment to explore limited sectoral free trade?

- We have undertaken analytical work in a number of sectors. In a few, including steel and procurement problems in urban mass transit, our analysis is relatively advanced and we have had preliminary contacts with Canadian industry.

- We are also examining the scope for expanding Canada /U.S. free trade in agricultural equipment and inputs including agricultural chemicals: herbicides, fungicides and pesticides. Consultations with industry and the Provinces will be scheduled soon.

- Reflecting a preliminary mutual interest in the topic we are attempting to define the coverage and issues which might be dealt with in an arrangement covering computer services and the broader category of "informatics".

These sectors and issues are included in the joint work program to which Bill Brock and I agreed to on February 17. In addition, we are analyzing other sectors with a view to considering their inclusion in the program:

- We are examining how to respond to the private sector task force report on petrochemicals which includes a recommendation relating to sectoral arrangements with the United States.

- The Textile and Clothing Board will provide its report on the economic impact of free trade in that sector by the end of April. We assume that the question will also be pursued by the recently established private sector task force.

- At the suggestion of the Alberta Government and Western Cattlemen we are examining prospects for an arrangement in beef and other red meats.

The CMA has skillfully drawn up a speakers list for your Conference which involves key figures in the steel, urban mass transit, petrochemicals and textiles and clothing industries. I know that all of us will be interested in their presentations. They will help clarify the advantages and disadvantages of prospective free trade arrangements as seen by the "players".

The Government's consideration of possible sectoral free trade arrangements with the United States

has necessarily to cover United States interests and objectives.

Both Governments will need to be satisfied that any sectoral arrangements are mutually advantageous. Moreover, political realities decree that an arrangement would need to be broadly acceptable to the companies and labour unions involved on both sides of the border. Accordingly we will need to aim as much as possible at balance within particular sectoral arrangements. Cross-sectoral trade-offs may, however, have limited application, e.g., in the overall procurement area.

Because we recognize the requirement for mutual advantage and balance, we have of course begun to exchange views with the United States Administration to clarify the perspectives of the two sides. I know that Mike Smith, who will be speaking to you at lunch, will want to elaborate on the U.S. position. It is already clear that the U.S. Administration sees this initiative as an opportunity to bring about trade liberalization and to demonstrate to Congress that there is a viable alternative to protectionism.

Let me make one thing clear. The U.S. Administration is not, as has been suggested in recent press reports, simply responding to Canadian proposals and ideas. The USTR has already canvassed the opinions of a wide range of U.S. industries. They are seeking industry views on interests to be pursued in their sectors. The U.S. side has advanced its own ideas on what sectors might be included in the joint work program.

We both understand that the activity needs careful management and study. Clearly, neither side wants to raise unrealizable expectations or unnecessary concerns.

It is therefore a joint effort in every sense with a joint work program, looking to possible arrangements which will be mutually advantageous.

The process is still at an early stage. Neither side has a mandate to negotiate as yet but we are doing the analyses and beginning consultations which will in time provide each government with a sound basis for decision. I see this as neither dangerous nor irresponsible; it is realistic.

I met with Bill Brock on February 17 to review progress and exchange ideas and provide a clearer focus on our joint work. We agreed on an immediate priority list of sectors which we would both examine. These were steel, agricultural equipment and inputs, government procurement with particular reference to urban mass transit and computer services/informatics. We agreed to meet again in May to receive reports from our officials on work on the priority list of sectors. At that time, we will review the desirability of including new sectors for examination.

I want to turn now to some of the concerns that have been mentioned by critics of the sector initiative.

Some suggest that it will lead to a loss of sovereignty. If one defines loss of sovereignty as the loss of flexibility in trade policy matters then obviously bilateral sectoral arrangements would have such an effect. So indeed does the GATT, the Autopact and other trading instruments in which we agree to remove Canadian trade barriers in return for concessions by the other party.

It may be, however, that what is meant by sovereignty in this context is related more to national

identity and a feeling that arrangements with U.S. which lead to closer economic ties constitute in some way a dilution of Canadian "nationhood". The problem is evidently of a psychological rather than legal or economic nature. I believe it is an out-dated attitude, one which fails to take account of the enormous strides taken by our country in the last decade towards a stronger, more confident sense of nationhood. There may be further consolation in the news from Brussels. Has European economic integration resulted in any perceptible loss of national identity or appreciation of national interest by the nations involved? If so, it is difficult to discern. I Doubt Mrs. Thatcher would agree!

Then there are those who claim that sectoral arrangements will lead inevitably to a southward drift of production, investment and jobs. They argue that trade liberalization with the United States would be contrary to Canada's interest because Canadian industries cannot compete with American and that even where Canada is a competitive location, multinational enterprises would always choose to produce in the United States.

If this argument has any validity it applies of course to any liberalization, however achieved. The same

economic and ownership factors will be present if trade barriers with the U.S. are removed through bilateral or multilateral negotiations.

In my view, however, this attitude is unfounded. It is symptomatic, I am afraid, of a type of reflex inferiority complex which ignores the success of Canadian exporters in competing in international markets. It demeans the achievement of those Canadians whose ideas, workmanship and competitive enterprise have put subway cars under New York and Mexico cities; have put telecommunication equipment literally around the world, and have put robotics into space.

This attitude also implies that Ministers are insensitive to Canadian interests and would willfully jeopardize an industry's future (and, presumably, their own!). I am confident that we are capable of negotiating bilateral agreements of benefit to Canada. The Autopact is an obvious example. The Pact is certainly not without flaws but I wonder what sort of automobile industry we would have, or what shape our manufacturing trade balance would be in, without it.

Our own analysis on individual sectors will of course cover all the relevant aspects of the Canadian industry including investment performance and ownership, and, most importantly, competitiveness of Canadian operations internationally and within North America.

We want to determine whether the benefits to be gained through greater specialization, hence improved productivity, will offset the risks involved in reducing Canadian import barriers.

We will also seek the views of the producers themselves on whether they can compete in a free trade situation with the United States. I want to stress this point. Government will consult fully with the industry and the Provinces before deciding whether to pursue a particular sectoral arrangement. No decision to seek negotiations will be taken until after the domestic consultative process is complete. This is an integral and vital part of the process.

I am convinced above all that we cannot stand still. We must explore new alternatives to preserve and expand our market access. Our economic wellbeing depends on our trade performance more than many Canadians realize. If we were not examining new forms of trade liberalization there would be ample ground for criticism.

The status quo is simply not a viable option for Canada's future.

Some would have us avoid bilateral arrangements with the United States because this would expose Canadian producers to the whims of an arbitrary and irresponsible U.S. Congress. In my view, comments such as these demonstrate a misunderstanding of our trading relationship with the United States. Do Canadian producers of lumber, fish, steel, copper, cement and beef really feel they enjoy total security of access today! They and others are exposed to all the uncertainties of potential trade restrictions under existing U.S. trade laws.

Of course, the American political system differs from the Canadian. The separation of powers under the U.S. constitution undoubtedly creates risks for our access. We are not going to change the U.S. system. But this does not mean that we should simply give up. In fact, I see sectoral arrangements as a technique for involving Congress in a process which would at least reduce risks to our access from existing trade laws. In the steel sector, for example, we are examining the possibility of minimizing the exposure of Canadian exports to escape clause action or legislated quotas. I know the Canadian industry shares this goal. You can be assured

that the Government would not enter an agreement unless we are satisfied that improved access to the U.S. market were as secure as possible.

In the particular context of this Conference, I have inevitably concentrated on the United States. But sectoral trade liberalization with the United States must not distract us from the task of improving our links with our other trade partners and of promoting trade into those markets which absorb the remaining 30% of our exports. We will need to ensure that the EEC and Japan and our other partners understand what we are doing; that we will not impair their vital trading interests in Canada; that we are fully prepared to explore further trade liberalization and industrial cooperation with them; and that we will as necessary reconcile any bilateral arrangements with the United States with our GATT obligations. It would, however, be premature to address this GATT issue in the abstract. It is one which we may face when we get down to negotiating.

The multilateral trading system embodied in the GATT remains the foundation of Canadian trade policy. The Trade Policy Review referred to the strong Canadian interest in strengthening the multilateral system. This

remains our number one trade policy priority. It is, of course, reflected in the support that Canada is giving to a new round of multilateral trade negotiations, both in the GATT itself and in the Quadrilateral discussions where I meet with my counterparts from the U.S. EC and Japan.

Moreover, I believe that it may well prove possible to blend the results of bilateral negotiations with the United States into future multilateral trade negotiations. Concessions exchanged with the United States bilaterally could be extended, on a basis of reciprocity, to other trading partners in a broader GATT negotiation. Arrangements entered into with the U.S. could indeed serve as models for multilateral instruments.

It seems only natural that Canada should examine ways and means to improve access and reduce vulnerability in what is overwhelmingly and increasingly Canada's most important market. But this initiative should not be distorted as meaning there is now an exclusive emphasis on the U.S. nor as signifying a dramatic change of direction.

Bill Brock and I recognize, of course, that political events on both sides of the border are a

complication in 1984. But both of us see the exercise as durable. I believe firmly that future Canadian Governments now and in the future will want to seek means of improving and securing access to our largest market to facilitate the world's largest bilateral trade flow. As I see it, the facts make any other course unthinkable.

- our two-way trade exceeds \$120 billion.
- our exports to the U.S. increased by 15% in 1983.
- We are continuing to benefit from the strong U.S. recovery in 1984.
- We cannot afford to take the U.S. market for granted and must continue our efforts to improve and secure our access.
- The sectoral initiative can make a contribution to achieving this goal.

I urge you to give it careful study. Your views will be of direct value as we advance our work.