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NOTES FOR A SPEECH BY
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TO THE BUSINESS COUNCIL

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It is an honour and a privilege to be here with you in this lovely part of the world. Helen and I got in Thursday evening, and we've enjoyed every minute of our stay.

Ed Pratt has given me a tough assignment. He asked me to stand up in front of the world's foremost international businessmen, traders and investors and talk about the problems facing international business, trade and investment.

All right, let's start with the world economy.

Things are pretty calm right now. No recession. No oil crisis. No new international debt crisis. Inflation is down. Interest rates are still too high, but they're only half of what they were three years ago.

Indeed, there are plenty of reasons for satisfaction in the way things are going. Led by the United States, the Western industrial nations have had two years of economic growth. The growth has been uneven, to be sure, but it's there. And this has had positive effects on developing countries. It has restored the markets for the debtor nations, allowing them to expand their exports, keep up interest payments on their debts and start putting their houses in spic and span, I.M.F. order.

In short, when the world economy is growing, everybody's happy. And the prospects are good for continued growth -- at a reduced but sustainable level -- through 1986.

But there are some clouds in the sky. Unemployment is one of them. It is still in double digits in Europe and Canada, and there's no quick fix that will bring it down. The world is in the middle of a great transition, from the industrial age to the age of technology and informatics. That is disrupting the labour market, and short-term make-work policies will only prolong the disruption. Medium-term policies which encourage growth, flexibility and job-creating investment are the only way to bring about sustained employment.

In the meantime, unemployment and welfare payments are draining government treasuries -- and this at a time when we are all trying to reduce budget deficits.

Other reasons for concern relate to a set of interlinked imbalances in the world economy. You are all aware of the impact the high dollar is having on trade patterns, and of the resulting pressures on American producers who either export or compete with imports. There is concern here that by the time the dollar comes down again from the heavens -- as we all know it must -- American businesses will have lost some of their offshore markets and it will take years to regain them. Some American companies might themselves move offshore to stay competitive, and some might go under -- capsized, as it were, under the weight of a very muscular currency.

There is, of course, one hidden benefit to the strong dollar. By making foreign imports more competitive than they would be otherwise, it has encouraged American business to shed some residual fat, to become leaner and more competitive. If and when things get back to normal, these companies will be in fighting trim.

The rise of the dollar has also put pressure on America's partners, who have had to adjust by raising interest rates or letting their exchange rates drop. The consequences of our adjustment have been negative, particularly on interest-sensitive spending and investment, and on the price we must pay for American imports.

Many reasons have been advanced for the strength of the dollar, and most have some validity. But it all goes back to the budget deficit. For this reason, we in Canada are pleased by the recognition by U.S. authorities of the need to reduce the deficit, one way or another. Cracking the deficit should have a lot of pleasant effects. It should contribute to increased personal consumption and encourage business investment. That should keep the business recovery on a steady footing in the U.S. Moreover, with the money markets under less pressure from government borrowing, interest rates should go down. And that will definitely strengthen the international economic environment.

This is important, for as the American economy settles down to cruising speed, there will be a need for other economies to pick up the pace. If a healthy world growth rate is to be maintained, other countries -- particularly Japan and Western Europe -- are going to have to open up their economies, to encourage the investment and trade that will promote growth. The problem we face is how to talk them into opening up.

Perhaps the most troubling aspect of the current situation is the resurgence of protectionist pressures throughout the world. Let me be very plain about this. Trade Ministers do not like protectionism.

The effect of protectionism is to isolate domestic industries by reducing their need to be competitive. At the same time, just as trade is a two-way street, protectionism is a two-way wall. It tends to block the security of access required for your export industries.

There is now talk in the world's press about the possibility of trade wars. This is very disturbing. We saw what trade wars did to the world's economy in the 1930s. They only deepened and lengthened the Great Depression. We cannot afford to repeat that mistake.

Of course, we've become more sophisticated since then. In the 30s, protectionism was easy to recognize. It came mostly in the form of tariffs, and then outright embargoes. Protectionism today is better disguised, more insidious. We have invented an almost endless, and certainly ingenious variety of non-tariff barriers, things like voluntary restraint agreements, local content rules, product specifications, health regulations, and on into the night. There have no doubt been successes in resisting pressures for protection, but there have also been major setbacks.

Of particular concern at this time is the talk in the U.S. Congress of an import surcharge. That's brinksmanship, and it is very dangerous. It could very well set off the trade war that we simply must avoid.

Brinkmanship would be particularly dangerous at this time, because there is a crisis of confidence in the trading system. Whether or not the crisis is justified is probably irrelevant. The perception of crisis, in this case, is all that's needed to make it real.

Quite obviously, it is up to governments to take the lead in restoring confidence in the trading system. Also obviously, the best instrument to use for this purpose is the GATT, since it has been setting the rules of the game. You know of the lead that the United States has taken in promoting another round -- the eighth -- of multilateral trade negotiations. Canada fully supports this initiative. And despite the reports you may have heard from the Bonn Summit, I can tell you that hope for the next round is still very much alive. There <u>is</u> a consensus among the developed countries on the need for a new round. There <u>is</u> agreement that it should start as soon as possible -- although not on how soon "as soon as possible" is possible. But there <u>will</u> be a meeting of senior officials this summer to prepare the ground, and the talks could still get underway next year.

So what are the talks likely to be about? At this point, the agenda for the new round seems likely to include trade in services, high tech, agriculture and other resource products. There will certainly be an attempt to tighten existing GATT rules, including safeguards and dispute settlement procedures. Another priority will be further improvements in disciplines concerning government procurement practices.

I'm not going to talk about these in any detail, but I would like to bring up another aspect of the negotiations. They will be wasted unless the developing countries -- the LDCs -- take full and active part.

But to get the L.D.C.s to the table, we must take their concerns on board. We should be prepared to think carefully about their requests for special treatment for their products, including not only agriculture and resource products but value-added goods as well. At the same time, we have to be sympathetic to their financial positions. Many of these countries are under I.M.F. management, and that puts them in a difficult position. The I.M.F. demands that they curb imports so they can pay off their debts. What the GATT is asking them to do is almost exactly the opposite: lower their tariff barriers. Obviously, some negotiations would be useful.

So much for the grand picture. Let's go to relations between Canada and the United States.

So much has been said about the many similarities and the subtle differences between our two peoples that I'm sure you could tick them off as well as I. We have so much in common that it's hard for us to think of each other as foreigners. Our business relationship is the largest in the world. Not only are you our largest customer, but we are yours. And if the province of Ontario were counted separately, it would be your second largest customer.

And yet, as you know, there have been ups and downs between us. Most of our scrapes are minor, localized and temporary, the inevitable abrasions that come from our proximity and the sheer volume of business that goes on every day between us. But there have been real "downs", and they have usually been caused by the politicians.

You had "54-40 or fight", for example, and we had "no truck nor trade with the Yankees." More recently, you had the Nixon Doctrine and we had the "Third Option" -- an attempt by the previous government to move Canada away from the United States.

The attempt didn't work, of course. Business kept growing anyhow, to the point where you now take three-quarters of our exports. But the Third Option ushered in a period of some suspicion across the border, and it was followed by such nationalist creations as the Foreign Investment Review Agency (better known as FIRA) and the National Energy Program.

We have put that period behind us.

The government which is now in office, and which I represent, was elected with a record majority in Parliament. A lot of things contributed to the size of our landslide, but one of them was a commitment by Brian Mulroney to restoring and refurbishing our relations with the United States. The Prime Minister strongly believes that enhancing the economic relationship with the U.S. is vital to Canada's interests. The public opinion polls, by the way, show the people of Canada agree with him.

So we're moving, and I believe rather quickly, to revitalize our relationship. We're scuppering the National Energy Program, replacing it with measures that will encourage exploration and production again. We're doing away with FIRA, creating in its place Investment Canada, an agency designed to encourage -- indeed, to go looking for -- new investment in Canada.

And then there was the Shamrock Summit, between Prime Minister Mulroney and President Reagan, in Quebec City. Without any doubt, the Quebec Summit was one of the most substantive Canada-U.S. meetings ever held. Among other things, it broke new ground directly relevant to the economic interests of the private sectors in both Canada and the United States.

Let me quote briefly from the joint declaration that your President and my Prime Minister made. It opens with the following sentence: "We embark today on a joint effort to establish a climate of greater predictability and confidence for Canadians and Americans alike to plan, invest, grow and compete more effectively with one another and in the global market."

The trade declaration is of great significance to both our countries. It really has three parts to it. First, a commitment to halt protectionism -- backed up by an agreement on the immediate resolution of a number of outstanding irritants, such as U.S. marking requirements on tubular steel and Canadian taxes on tourist literature. I'm happy to note, incidentally, coming from a steel town, that legislation to modify the marking requirements has already been brought before the House by Dan Rostenkowski, Chairman of the Ways and Means Committee.

Second, the trade ministers of both countries were charged with charting ways to reduce or eliminate all existing barries to trade between us. This is a large order, and we have a September deadline to report. I thought for a while that I'd be spending the summer with Bill Brock. That seems to be out of the question now (unless I'm transferred to Labour too), but I met with Clayton Yeutter last month in Chicago, and I'm very much looking forward to working with him.

We will also be working on the third part of the declaration -- a comprehensive work plan, to be completed by next March, to resolve a wide range of specific impediments to increased trade. One of the major areas here is the so-called "Buy America" or "Buy Canada" provisions to government procurement programs. Both our countries have learned in the past 20 years or so that there are all sorts of hidden costs in such artificial purchasing policies, including inefficiency and resistance to change. What we intend to do is to see whether government procurement might be better designed.

But we in Canada also have a longer-range program going. It is a program intended to secure and enhance access for our exports to the United States. We started it up back in January by publishing a discussion paper on the options open to us, and I have just finished a cross-Canada tour of consultations. In the past eight weeks, I have been to 15 cities in six time zones, listening to business people mostly, but also to labour, consumers and academics.

The paper sets out four possible courses that our trade with the United States could take.

We could try to keep going along as we have been, under the status quo, and hope that the protectionist pressures in Congress can somehow be contained by shooting from the hip.

Or we could try to negotiate arrangements limited in scope to particular sectors, or to particular types of non-tariff barriers. We've already taken a whirl at the sectoral approach, as you know, but what we've found is that if one country's industry is for it, the other's is opposed. The approach did not allow trade-offs.

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Another approach would be to negotiate a framework agreement, which would commit the two governments politically to objectives and mechanisms for the removal of trade barriers and the settlement of bilateral disputes. This could take off from the Quebec City agreement.

Or finally, we could try to negotiate a comprehensive agreement with the U.S., one which would involve most of the trade passing both ways between us.

Those are the four options. There are advantages and pitfalls to each of them. None of them is perfect, none of them entirely free of risk, and we have made no prejudgments on which course would be best for Canada. But this phase of the consultation process is nearing an end, and after talking to the governments of our ten provinces I hope to be able to put my preliminary recommendations to Cabinet some time next month. It's still too early to tell which way we'll be going, but one thing I can tell you. Wherever I have gone, the feeling has been close to unanimous that we have to do something of substance to secure our access to the U.S., and that we'd better get on our horses and do it.

Whichever course we choose, I believe we will find a receptive negotiating table in the U.S. Our American counterparts have told us, and I certainly have no reason to doubt them, that they are as interested as we are in strengthening our trade relationship. And they would like to move as quickly as possible to strengthen it. It is my hope that we can start the negotiations before the end of the year.

Let me make a final observation. Twice this century, Canada and the U.S. have almost -- but not quite -- reached agreement on opening up our trade. A Canadian election in 1911 scotched the first attempt -- and turned out the government for trying. Prime Minister Mackenzie King put the hex on the second attempt in 1948, supposedly after hearing voices from the spirit world.

But this time it's different. We don't talk to spirits any more. And we're not just talking in the wind. Our Prime Minister, and our Government, are absolutely committed to giving meaning and substance to the new era in our relations, and the Canadian people are behind us. So my message is this: We're open for business. And we mean business.

- 30 -