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**STATEMENT**

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**NOTES FOR AN ADDRESS BY THE**

**HONOURABLE ROY MACLAREN,**

**MINISTER OF INTERNATIONAL TRADE,**

**TO THE CANADIAN-AMERICAN BUSINESS COUNCIL**

**WASHINGTON, D.C.  
May 24, 1994**

Let me start by thanking the Canadian-American Business Council for the opportunity to address this gathering. It is customary on occasions such as these to reflect on the state of Canada-U.S. relations and, perhaps more important, to muse on the future of North America as a whole now that we are partners in a far-reaching trade agreement with Mexico.

To that end, I suppose that I could have dusted off that hoary speech about the world's longest undefended border. Or I could have reminded you for the umpteenth time that Canada is the United States' largest trading partner, that you export more to Ontario alone than to Japan, that our trade disputes affect only five percent or so of our two-way trade — and so on.

But you know all that. What I want to talk about is the fact that despite five years of bilateral free trade and now trilateral free trade, the disputes do not go away. Before the ink was dry on the final GATT [General Agreement on Tariffs and Trade] text in Marrakesh, the United States announced that it would seek to limit the import of what it alleges is subsidized Canadian grain — despite the fact that such allegations have never been substantiated by various panels and reviews, and despite the existence of a growing market vacuum which the United States has largely created itself with its own subsidy practices. The United States also persists in its eight-year effort to curtail imports of Canadian lumber — again despite repeated trade panel decisions that our lumber exports are neither subsidized nor cause injury, and despite the fact that domestic supplies are short and prices high. These, moreover, are merely the latest in a growing list of disputes — from pork, to beer, to steel — which, if allowed to escalate, risk creating a trade and investment chill between our countries.

What is going wrong? On one level, these disputes expose important aspects of the original Canada-U.S. Free Trade Agreement [FTA] and of the subsequent North American Free Trade Agreement [NAFTA] that were left unresolved in the initial negotiations — the so-called "unfinished business." Canada's original objective in 1988 was not merely to reduce tariff barriers between the two countries — this had already been achieved or was about to be achieved under the Uruguay Round. What Canada wanted was mutually agreed trade rules and exemption from the increasingly arbitrary application of U.S. trade remedy laws — laws that allow vested interests to use the courts to compete instead of the free market.

The final outcome fell short of addressing this key concern. In place of common trade rules, the FTA offered a consolation prize — a binational dispute settlement mechanism to ensure that each country's domestic trade laws were applied fairly and consistently. It did not oblige either country to bring its laws in line with the realities of an open border and an integrated market. Nor did it eliminate the time-consuming and costly legal battles which have done so much to inhibit trade between our two countries.

The advent of the NAFTA four years later did nothing to alter this basic problem. Although there were a number of improvements on the original FTA — environmental and labour standards, clarified rules of origin, agreements to cover investment and services, and, most important, an accession clause — the issue of common trade laws, the black hole at the centre of the Agreement, remained unresolved.

This absence remains significant today. It is significant because it will allow the kind of disputes we have seen in recent years over lumber, steel, and now grain to continue unabated. More importantly, it reveals a deeper cause of our bilateral difficulties — a certain waning of the United States' commitment to implement the policy of free trade. That commitment remains clear enough in the Administration's efforts to get both the NAFTA and the Uruguay Round through Congress, but paradoxically the inducements offered to secure such passage cater to local pressures by individual protectionist measures that directly contradict the global commitment.

For example, what possible economic rationale is there for preserving anti-dumping in a free trade area? Whose interests exactly are we protecting, given that our two economies are so closely integrated? 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? It is precisely these and other questions that go unanswered in the United States' instinct to appease domestic lobbies or to seize a short-term advantage.

This absence of a clear commitment to free trade is all the more surprising because the past success of our two economies has been so inextricably linked to trade liberalization and openness. It was our post-war leadership which helped to create the liberal trade and payments system that has been so central to the expansion of the world economy. It was our vision at Bretton Woods that helped build two of the great multilateral institutions of the last fifty years, the World Bank and the International Monetary Fund, although not, notably, the proposed International Trade Organization. It was our resolve that helped drive successive rounds of GATT trade liberalization, including the latest and farthest-reaching agreement in Marrakesh. The success of our freer trade policy can be measured, not simply in terms of the unprecedented expansion of world trade since 1945, but in the dynamism and strength of the North American economy today.

In the same way, North America's continued global economic leadership will not be secured by retreating into protectionism, still less by ignoring our shared economic interests. Our economic strength now and in the future will depend fundamentally on our willingness to stay on the leading edge of freer trade, to take an active and creative role in forging new relationships and in

building new structures that, over time, can extend the reach of a rules-based international order.

The NAFTA can provide a nucleus for a more open, global trading endeavour, but only if it reflects our collective desire, not to protect narrow domestic or regional interests, but to enable these interests to benefit from a more comprehensive free trade agreement — a GATT-plus if you will. Canada supported the NAFTA on the explicit understanding that the existing three partners would work together to clarify the continuing and vexing question of what constitutes a subsidy and of how dumping should be dealt with in a free trade area — issues which, if left unresolved, will deny all three countries the benefits of an integrated North American market.

Beyond that, however, Canada supported the NAFTA on the understanding that it would continue to evolve into a non-discriminatory, comprehensive free trade regime fundamentally open to all countries prepared to abide by its rules and disciplines. For this reason, we remain committed to facilitating the broadening, as well as the deepening, of the Agreement. We shall continue to assert that prospective NAFTA partners need not be limited to Latin America or even to the hemisphere.

Although there is every good reason to recognize Chile and perhaps other Western Hemisphere countries as likely candidates for inclusion, there is also every good reason to recognize that the accession clause of the NAFTA does not speak of "Western Hemisphere countries" but simply of "countries or groups of countries." For their part, Singapore, Australia, New Zealand, and Korea have, in various ways, all expressed an interest.

Canada is firmly committed to pursuing a more open, global trade strategy building on the commitments we have made regionally and multilaterally and the NAFTA is not the only vehicle available to us to expand our trade horizons. It is certainly, however, a preferred vehicle to bilateralism. The bilateral approach to expanding free trade can all too easily lead to a confusing overlap of rights and obligations, including multiple rules of origin, that will increase business costs and discourage smaller firms from becoming active traders. Surely none of us has an interest in creating a maze of overlapping agreements when a single "undertaking" is possible — especially with countries such as Chile which are obviously capable of accepting NAFTA disciplines.

Canada is also committed to an open, dynamic NAFTA because of the clear signal it would send to the global community. It would reaffirm for other countries which refuse to address our market access and market reform objectives that, in addition to our commitment to an effective World Trade Organization [WTO], North America has a longer term strategy and a clear policy direction. It would demonstrate that we at least are committed to a more open,

more structured, more plurilateral international economic order. It would also underline for those countries unwilling to move toward greater liberalization, that they risk being left behind in the wake of dynamic regionalism.

In short, a credible, dynamic, outward-looking NAFTA could be a powerful foreign policy message for the United States, Canada, and Mexico to send to other trading partners. Used constructively, the NAFTA could contribute to the goal of greater global — not merely continental — trade liberalization by setting in train an external, competitive dynamic to reduce tariff and non-tariff barriers worldwide; a building block — rather than a stumbling block — for the global trading system. Ultimately, it is to the multilateral trading system in general — and to the newly created World Trade Organization in particular — that we must look for the long-term future of free trade.

Indeed, in building a new rules-based international order, the new World Trade Organization and the NAFTA can reinforce each other. The first priority for the WTO must be to demonstrate results, to demonstrate that it can manage its own agenda, establish its own dispute settlement mechanism and prepare the way for the completion of the unfinished business of the Uruguay Round.

Trade and competition policy should be high on the work order of the WTO, as it must be in the NAFTA, but how quickly other issues, seen by some as trade related, are ready for negotiation must depend upon when, and indeed whether, broad common understanding can be elaborated and universally accepted. There remains the risk that, without such broad understanding, the result of any such initiatives would be simply additional vehicles for protectionism.

So what is to be done? Both of our countries have experienced intense and difficult debates about trade policy. Both have felt the dislocating effects of globalization. And yet, more quickly than most anticipated, both have arrived at a new crossroads. It is my sense that the NAFTA is in a somewhat precarious position at this time, one where it must either move forward — deepening its rules as well as broadening its membership — or risk slipping backward. Trade agreements are not static institutions, but changing, dynamic arrangements. Like bicycles, they thrive on momentum. With political will, we can create a new, more dynamic free trade agreement. With the right direction, the NAFTA can help to drive global free trade forward. The salient question is not so much where do we go from here, but do we have the collective resolve to move ahead?