

STATEMENT DISCOURS

MINISTER
FOR
INTERNATIONAL
TRADE.

MINISTRE
DU
COMMERCE
EXTÉRIEUR.



NOTES FOR AN ADDRESS BY
THE HONOURABLE JAMES KELLEHEP,
MINISTER FOR INTERNATIONAL
TRADE, TO THE EMPLOYER'S
COUNCIL OF BRITISH COLUMBIA

VANCOUVER
NOVEMBER 28, 1984

It is a pleasure for me to be in Vancouver today, and an honour to speak to the Employer's Council of BC. I can think of no group that better represents the economic vitality of any province than does this Council.

It strikes me that everyone from Eastern Canada who ventures out here to speak suddenly discovers that Vancouver is a Pacific port -- and then, blessed with that revelation, launches into a lecture on the importance of the Pacific Rim. Well, I'm not going to reinvent that wheel. I will assume you are aware of the Pacific Rim's importance, that it has replaced Western Europe as Canada's second largest market, and that it is a rapidly growing market. All of these things I will take as given. Today, I'd like to talk about trade with our largest market, the home of the Kingdome and the Astrodome and aerobic dancing on TV, our friendly giant just to the south of here.

Trade is important to all of us, and your membership offers some shining examples of trading well. Soon after taking over my responsibilities as Minister for International Trade, I was called upon to present Canada's annual export awards. Two of the award-winning firms were from British Columbia: Western Packaging Systems Ltd., and Epic Data Sales Ltd., both of whom were honoured because they set a standard of skill and excellence that allowed them to compete with great success in world markets. These companies, in other words, are doing exactly what we must all do as a nation to maintain our prosperity. They set themselves tough goals, and achieved them. They put their products up against the best in the world, and bettered them. They proved that Canada can compete with anybody. Canada needs more companies like these.

The world economy is now recovering from a serious recession, the impact of which was felt all over the world. Recovery has been uneven, however, and serious economic and financial difficulties remain.

There is a significant risk that growth in world trade, investment and technology exchange will be stifled by a combination of many factors -- by diminishing growth in major world economies, by the rise of protectionism and the uncertainties generated by the large U.S. budgetary and trade deficits, by the high value of the American dollar and by the debt problems of the developing countries. That is a sobering assortment of threats.

As a nation heavily dependent on exports, we have inevitably experienced the adverse trade effects of the recession. The problems facing Canadian companies, furthermore, were accentuated by shifts in exchange rates.

While the Canadian currency has fallen in value in relation to the U.S. dollar, it has appreciated against most other currencies, placing Canadian goods at a competitive disadvantage in most offshore markets.

Fortunately for our export performance, both the U.S. recovery and the decline in value of our dollar versus the greenback have led to record exports to the U.S.

In 1983, we in Canada exported more than 90 billion dollars worth of goods and services. That is nearly a third of our gross national product, and fully 73% of it went to the United States. That was an all-time high, but it won't be for long. The volume is still going up. And as it rises, so does Canada's reliance on the United States as a customer for its products.

So we have to pay attention to the States. Any one customer who buys three-quarters of your products is a very important customer indeed. At the same time, we have every intention of improving our performance in other markets, including of course in the Pacific Rim.

This government has given top priority to strengthening international trade. Broadly speaking, we intend to move on four fronts. Let me spell them out for you.

The first is to resist protectionism, and keep trade open.

The second is to put a premium on making Canada internationally competitive, encouraging and supporting enterprise, investment and innovation.

The third is to pursue export opportunities, large and small, traditional or new, with renewed vigor.

And the fourth is to pull together more effectively, with a greater and more urgent sense of shared purpose than ever before. It is our intention to increase practical, working cooperation between the Federal and Provincial Governments on trade matters, as on other matters. We also intend to restore and develop the sense of teamwork between the private sector and government; it is in areas such as this that organizations such as yours have a vital role to play.

These are our guiding principles. The challenge is to make them work amid the economic and political realities in which we live.

In the broad international sense, we are faced with two conflicting realities. One is the General Agreement on Tariffs and Trade, otherwise known as the GATT. Just over 100 nations subscribe to the GATT, and in the 35 years since it was created it has succeeded in reducing a great many of the tariff barriers that impeded trade. The GATT might be looked at as an expression of the long-term wisdom of the trading nations, the recognition that the freer the trade the greater the prosperity.

But this long-term wisdom is tempered by short-term "smarts" -- the perceived need to keep local industries protected, one way or another. And this has led to the erection of a growing maze of non-tariff walls, things like quotas, local content rules, special marking regulations, so-called "voluntary restraint agreements" and a variety of other baffles, many of them ingenious. Protectionism is a game the whole family can enjoy, and everybody plays it, to some extent, including Canada.

Yet we all wish we didn't have to play the game, because non-tariff barriers can block trade just as effectively as prohibitive tariffs, and barriers to trade make less and less sense in a world that is becoming more and more interdependent. There is, in fact, an emerging international consensus in favour of a new round of multilateral trade negotiations under the GATT. The new round could begin, if all goes well, in about a year, and could make some progress, eventually, in reducing trade barriers. I say "eventually" because the last round of GATT negotiations, the Tokyo Round signed in 1979, took six years to accomplish and will not be in full effect until 1987. My government, however, is actively supporting the initiatives of the United States and Japan to launch another round of negotiations. The GATT may be cumbersome, but it has brought us a long way.

At the same time, however, it is of critical importance to Canada to secure our access to the American market. The erection of barriers to that market, or even the threat of barriers, can have a negative impact on our economic growth.

Protectionism in the U.S. is an ongoing -- and compelling -- challenge. In recent years, several important Canadian exports have been the subject of investigations under American trade remedy provisions. There is no need for me to remind British Columbians of the 1983 lumber countervail case. Copper and steel exports have also faced the threat of

restrictions. The recent U.S. omnibus trade bill has given us problems. Fortunately, however, after our strong representations to Washington, a provision governing natural resource subsidies was deleted from the bill. Had this provision become law it could have reopened the old question of whether Canadian stumpage practices were countervailable -- thus putting at risk, for a second time, two billion dollars worth of softwood lumber exports from BC and other provinces.

I do not want my remarks to be construed as singling out the U.S. for criticism. There are many countries in the world -- including most of the GATT -- that are more protectionist than the United States.

Nor is the picture entirely negative. A substantial volume of the trade across our border already moves free of tariffs. By 1987, when the Tokyo Round is in full effect, some 80% of Canadian exports to the States and approximately 65% of their exports to us will be duty free. Nevertheless, there are important areas where duty rates are high, particularly in the field of fully manufactured goods. And, among the major non-tariff barriers, on both sides of the border, is extensive discrimination in procurement by all levels of government.

I believe there is a compelling case for us to explore all possible ways to secure and enhance our market access to the United States.

Fortunately, I am by no means alone in this belief. The question is being posed more frequently, particularly in the business community, whether we should not be seeking special bilateral arrangements with the United States.

A number of ways have been suggested for approaching new bilateral arrangements. These include negotiating a general trade enhancement agreement, sectoral agreements, functional arrangements and a comprehensive agreement. Each has advantages and disadvantages.

A trade enhancement agreement might provide a framework in which the two governments would agree in principle to work towards the goal of more open trade. For example, joint institutions might be created to examine means of improving trade and resolving problems that arise from time to time. A trade enhancement agreement would establish longer term objectives but would not bring any immediate substantive change in our trading arrangements with the States.

The second approach would involve sectoral accords. There are at present two sector agreements with the USA, the Canada/USA Defence Production Sharing Agreement and the Autopact. A further sectoral initiative was launched last February, with four sectors coming under review: steel, urban transit equipment, agricultural equipment and inputs, and the whole area of informatics, including computer services.

But two major constraints on the sectoral approach have been apparent from the outset. One is the general operating principle that any sector arrangements would need the support of the industries in both countries, would need to be perceived as mutually advantageous, and would not involve cross-sectoral trade-offs. The other constraint is the "most favoured nation" clause of the GATT, which would require us to extend the conditions of any bilateral agreement on lowering trade barriers to all members of the organization.

A third approach might be to seek a "functional" arrangement, designed to remove, reciprocally, a particular non-tariff barrier. Government procurement practices would be an obvious example. However, like the sectoral approach, there would be problems of negotiability and GATT compatibility.

The fourth approach would be bilateral exploration of a comprehensive "free trade area" agreement. This could provide for the phased elimination of barriers on trade specifically between Canada and the United States -- without affecting trade measures applied by either country to other trading partners.

A treaty based on this approach would be consistent with GATT so long as it encompassed the bulk of bilateral trade and provided for the elimination of tariffs and significant non-tariff barriers.

Since a large proportion of our two-way trade is already tariff free, it is important not to exaggerate the impact of such a step. Nonetheless, it would raise some very large questions, including:

- the competitive strength of our industries;
- the special measures of adjustment which might be needed;

-- and the anxieties of those concerned with Canadian identity in any proposal for a closer relationship with the United States.

These and other important issues would need to be examined closely before we went ahead. I would like to take this opportunity to invite you, as Canadians and members of this prestigious council, to spend some time thinking about the alternatives, and their implications, and let me know your thoughts.

I believe that Government must be more closely attuned than ever before to the business community. I intend to be. I will, further, give you a commitment that the government I represent intends to consult with all interested Canadians, and particularly the business community, on trade matters.

We are a trading nation. In a world in which protectionist pressures are mounting, we must act energetically and sensibly to maintain our export markets, and expand them.

It is my belief, and that of my government, that Canada's trade interests can be effectively identified and pursued only through the closest consultations and cooperation between governments, both federal and provincial, and the private sector.

The importance of trade to our economy cannot be overstated. On our ability to secure our markets, and to compete in them, will hang our standard of living, the number of jobs we can provide, and what kind of jobs they will be. We live in a rapidly changing world. Can we keep up with the changes? I am convinced that we can. But to keep up, we must work together. And together, we must decide how best to meet the challenges we face.

Thank you.