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# CANADA QUARTERLY

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## AXWORTHY URGES CONTINUED U.S. ENGAGEMENT IN WORLD AFFAIRS

AP Photo/Mark Wilson



Canada's Foreign Affairs Minister Lloyd Axworthy, left, and U.S. Secretary of State Warren Christopher after signing a five-year renewal of the NORAD agreement.

Foreign Affairs Minister Lloyd Axworthy, in his first official visit to Washington on March 27 and 28, called on the United States to collaborate with Canada in "pursuit of internationalism and engagement" to achieve common ends in foreign policy, and he registered Canada's concerns about several areas where the U.S. has acted unilaterally.

In a speech at Johns Hopkins University, Mr. Axworthy said the "unique partnership" the two countries have developed, built on an elaborate framework of rules and agreements, offers the world a model of cooperation in solving problems.

He cited their successful collaboration

in the defence of North America through the North American Aerospace Defence Agreement (NORAD). Originally established in 1958 to provide early warning of an attack by long-range Soviet bombers, NORAD has evolved to meet new circumstances, first to counter the threat posed by long-range missiles and, since the fall of the Soviet Union, to monitor aircraft suspected of drug trafficking. In Washington, with Secretary of State Warren Christopher, Mr. Axworthy signed a five-year renewal of the agreement that includes a new emphasis on global surveillance from space.

In his discussions with Secretary Christopher and National Security

Advisor Anthony Lake, he emphasized opportunities for close cooperation between Canada and the United States, in the civil reconstruction of Bosnia, furthering the Middle East peace process, promoting human rights and democracy, working for arms control and disarmament, and combatting terrorism and drug trafficking.

One key area for collaboration is broadening democratic development in Haiti. After the U.S. began withdrawing its troops from the island in March, Canada assumed command of the U.N. peacekeeping force, which has been extended through June. The multinational force, which has been reduced to

some 1,200 military personnel and 300 civilian police from 4,000, will include about 50 Canadians at the command and control headquarters and 100 Royal Canadian Mounted Police officers. The U.N. contingent will be augmented by an additional 700 Canadian troops who will help maintain a visible presence throughout the country and provide security for the U.N. mission.

Mr. Axworthy's meeting with U.S. Labor Secretary Robert Reich focused on developing joint strategies to promote the development of labour standards for the global economy and to halt the exploitation of child labour in the Third World.

(continued on page 2)

# CANADA REQUESTS NAFTA CONSULTATIONS ON CUBA LEGISLATION

**O**n March 12, Canada requested consultations with the United States under the North American Free Trade Agreement (NAFTA) to clarify U.S. plans to implement the Cuban Liberty and Democratic Solidarity (Libertad) Act, which provides for sanctions against third country companies or individuals that profit from property in Cuba claimed by U.S. nationals.

Canada believes the bill creates a dangerous precedent and is an improper extraterritorial extension of U.S. jurisdiction that violates fundamental principles of international law regarding the settlement of claims for expropriated property.

The U.S. has agreed to the consultations and Mexico will participate. Consultations are the first step in determining whether to issue a challenge under NAFTA's dispute settlement process.

The legislation, sponsored by Senator Jesse Helms of North Carolina and Representative Dan Burton of Indiana, was passed by Congress and signed into law by President Clinton after Cuba shot down two civilian U.S. aircraft on February 24. Canadian Foreign Affairs Minister Lloyd Axworthy condemned Cuba's action as "an excessive and inappropriate use of force, (which) violated internationally accepted rules for the interception of civil aircraft." Canada supported the presidential statement issued by the U.N. Security Council and the International Civil Aviation Organization resolution setting in motion an ICAO investigation of the incident and the circumstances surrounding it.

While Canada shares with the United States the goal of a peaceful transition in Cuba to a democratic society and an open economy with full respect for human rights, it believes that a policy of engagement is more effective than one of isolation. Senior Canadian officials have repeatedly expressed Canada's concerns to the Cuban government about its overall human rights record, particularly on civil and political rights such as freedom from arbitrary detention, freedom of association and freedom of speech. In Cuba, Canadian Embassy officials meet regularly with human rights activists and have discussed individual cases with the Cuban authorities. In addition, Canada has co-sponsored a number of U.N. resolutions critical of Cuba's human rights performance.

Canada's development assistance program in Cuba, which first began in the early 1970s, was halted in 1978 because of Cuban military involvement in Africa. In 1994 the Canadian International Development Agency

began providing funds to Canadian non-governmental organizations, academic institutions and the private sector to support development and social programs in Cuba. Canada has also provided Cuba with emergency humanitarian aid.

## AXWORTHY MEETS WITH U.S. OFFICIALS

*(continued from page 1)*

Despite myriad areas of cooperation and partnership, Canada's perspective differs from that of the U.S. on several issues. "There is at times a disturbing trend in certain elements of U.S. foreign policy to go beyond the rules and to act unilaterally without regard for the legitimate interests of others," Mr. Axworthy told his Johns Hopkins University audience, and he cited Cuba as an example. "The issue is whether it is appropriate for any country unilaterally to take measures intended to force other countries to agree with its foreign policy."

He presented the case to the U.S. Secretary of State for waiving provisions of the Helms-Burton Act that attempt to penalize Canadian and other third country investors in Cuba (see related article on this page). After their meeting, Secretary Christopher told reporters: "I believe we will work our way through this particular problem, trying to take into account the interests and concerns of Canada."

Mr. Axworthy also raised the impasse over implementation of the 1985 Pacific Salmon Treaty, which committed Canada and the U.S. to conserve dwindling salmon stocks and to ensure that each country receives benefits equivalent to the production of fish in its waters. Since the treaty was signed, U.S. fishermen have increased their interceptions of fish spawned in Canada by 50 per cent, while Canadian fishermen have reduced their interceptions of salmon originating in the U.S. by 40 per cent. The two countries have been unable to agree on an equitable formula for sharing the catch, and the U.S. has rejected a mediator's proposals.

Canada is particularly concerned that without an agreement, overfishing of endangered salmon stocks will lead to a collapse of the fishery. Canada has severely reduced allowable catches by its fishermen. Over the next few years

it will cut the West Coast commercial salmon fleet by a third, or 1,500 vessels, at a cost of more than \$65 million to Canadian taxpayers to buy back fishing licenses. The Fraser River sockeye fishery will be shut down completely in 1996.

In his meetings with Secretary Christopher and Interior Secretary Bruce Babbitt, Mr. Axworthy stressed the urgency of the salmon conservation problem and made a forceful case for submitting the issue to international arbitration, which the U.S. has agreed to consider. He also reiterated Canada's position that the "inside passage" between Vancouver Island and the British Columbia mainland, which is used by fishing vessels from the northwest United States to reach salmon grounds off Alaska, is an internal Canadian waterway. The U.S. has claimed that it has the right to pass freely through those waters.

A third area of concern to Canada is financing of the United Nations. The U.S. Congress has withheld payment of more than US\$1 billion in U.N. dues while demanding that significant cuts be made in U.N. spending and bureaucracy. Canada has led the effort for comprehensive fiscal and administrative reform of the U.N. but wants to ensure that the organization's role in preserving international security is not compromised by severe shortages of funds. In meetings with congressional leaders, Mr. Axworthy called on the United States to pay its overdue U.N. assessments, while working with Canada to promote reform.

Notwithstanding their occasional differences in foreign policy, Mr. Axworthy expressed confidence that Canada and the United States can expand their partnership, and he urged that more regular bilateral discussions be held at every level to forestall problems and explore opportunities for joint action in the world.

## EGGLETON AND KANTOR DISCUSS BILATERAL TRADE

Reuters/Law Novotich/Archive Photos #WA/S01



**A**fter his first meeting with U.S. Trade Representative Mickey Kantor in Washington on March 3 and 4, Canada's International Trade Minister Art Eggleton told *The Globe and Mail* that despite disagreements on several issues, the bilateral trading relationship is "on solid ground." Trade in goods and services between the two countries amounts to a billion dollars a day.

During the two-hour meeting, Mr. Eggleton presented Canada's objections to the extraterritorial provisions of the Helms-Burton legislation expanding U.S. sanctions against Cuba. "This sets a dangerous precedent," he said afterwards. "We can't allow another country to tell us what our trade policy should be."

Prominent among a range of cultural trade and investment issues the officials discussed was Canadian legislation that imposes an 80-per-cent excise tax on "split-run" editions of foreign magazines, that is, those having Canadian advertising aimed at Canadians with little additional editorial content.

Successive governments have sought to ensure that Canadians have access to Canadian sources of information, culture and ideas through magazines, and that the Canadian industry has an adequate revenue base for survival. The new legislation closes a loophole in a longstanding policy that discourages split-run editions

on the grounds that they divert scarce advertising revenues from Canadian periodicals.

Mr. Eggleton told reporters after the meeting: "We have a very open market in terms of American access via television, radio, films and publications. Indeed, over three-quarters of all the products of those industries originate

in the United States. At the same time we need to ensure that Canadian identity is maintained."

Mickey Kantor later announced that the United States would challenge the Canadian legislation on split-run magazines at the World Trade Organization in Geneva.

The trade officials also reviewed a U.S. challenge under NAFTA of Canada's supply management of dairy products, eggs and poultry. The Canada-U.S. Free Trade Agreement allowed the U.S. to maintain import restrictions on dairy products, peanuts and sugar, and Canada to keep import quotas on dairy products, eggs and poultry. This arrangement was continued under NAFTA. Under the agreement creating the World Trade Organization, Canada converted its quotas to tariffs up to 351 per cent.

In its formal response to the U.S. challenge, Canada said: "The United States is now attempting to obtain through dispute settlement the market access for certain agricultural products that it did not obtain through negotiation in the FTA, in the NAFTA, or in the Uruguay Round." The NAFTA panel is expected to release its final report in June.

Mr. Eggleton and Mr. Kantor also discussed negotiations for an agreement on softwood lumber (see box), multilateral trade issues and an interim Canada-Chile free trade agreement, which Mr. Eggleton said could be a "bridge" to Chile's eventual accession to NAFTA.

## CANADA-U.S. AGREEMENT ON SOFTWOOD LUMBER

On April 2, International Trade Minister Art Eggleton announced that Canada and the United States had finalized an agreement in which the United States makes a commitment not to launch any trade actions on Canadian exports of softwood lumber for five years.

In return, Canada agreed that softwood lumber exports to the U.S. from British Columbia, Quebec, Ontario and Alberta that exceed 14.7 billion board feet a year will be subject to a border fee of US\$50 per thousand board feet for the first 650 million board feet, and US\$100 per thousand board feet for greater quantities. No fee will apply to shipments below 14.7 billion board feet, a level higher than the average

annual exports of softwood lumber from those four provinces to the U.S. between 1992 and 1994. The agreement provides for an increase in exports without fee during periods of high prices.

Revenues from the fee will be collected by the government of Canada and remitted to the four provinces. The fee will not apply to exports from other provinces or the territories, whose exports will not be affected by the agreement. The Canadian government, in conjunction with the governments of Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland, reached an understanding with the U.S. that maintains those provinces' traditional exemption.

## CANADA TO MEET DEFICIT TARGETS

The Chrétien government's third budget, unveiled by Minister of Finance Paul Martin in a speech to the House of Commons on March 6, meets deficit targets through sustained reductions in government spending, while laying the basis for the future viability of social programs and reallocating money for new investments in priority areas.

Mr. Martin reiterated that the federal

government will meet its previously announced deficit targets on the march to a balanced budget: "The attack on the deficit is irrevocable and irreversible."

By 1998-99, program spending will be reduced to 12 per cent of GDP, its lowest level in 50 years. The growth rate of debt relative to economic growth will begin to decline in 1997-98.

## 1995 ECONOMIC AND TRADE UPDATE

(All figures are from Statistics Canada.)

Canada's economic growth was weak in the fourth quarter of 1995, with real Gross Domestic Product (GDP) rising by only 0.8 per cent. GDP grew by 2.2 per cent for the year, compared to 4.6 per cent in 1994. Statistics Canada attributed the anemic growth to hesitant consumer spending and government cutbacks.

A surge in sales abroad was the bright spot in the economy for the year. Record exports accounted for Canada's smallest current account deficit in a decade, \$13.1 billion. Canada-U.S. two-way merchandise trade reached a record \$371 billion, up by 12.4 per cent over 1994. Canada exported \$202 billion

worth of goods to the U.S. in 1995, 13.5 per cent more than in the previous year, and imported \$169 billion worth, an increase of 11.2 per cent.

Inflation rose slightly in 1995, with an annual average increase in the Canadian Consumer Price Index of 2.1 per cent for the year, compared to a 0.2 per cent rise between 1993 and 1994, when the average was held down by significant cuts in tobacco taxes. The CPI increased by 1.6 per cent in January and 1.3 per cent in February 1996.

Employment rose by 88,000 jobs in 1995, with almost all the gains occurring from August to December. The unemployment rate at year's end stood at 9.4 per cent. Job creation continued in January and February, which both posted an increase of 44,000 jobs. The number of people looking for work outpaced the job gain in January and the unemployment rate rose to 9.6 per cent, remaining steady in February.

The Canadian Embassy's Internet address has changed. Find *Canada Quarterly*, news summaries and information on trade, foreign policy, the environment, culture and tourism at: <http://www.cdnemb-washdc.org>

## BUDGET

### HIGHLIGHTS

■ Deficit targets will be met:

1995-96: \$32.7 billion  
(4.2 per cent of GDP)

1996-97: \$24.3 billion  
(3 per cent of GDP)

1997-98: \$17 billion  
(2 per cent of GDP)

■ Program spending will be cut by \$1.9 billion over three years, including \$700 million from block transfers to provinces in each of two years (stabilized for five years beginning in 1998-99), \$600 million from defence in 1996-97, and \$998 million from foreign aid in 1998-99. Dairy subsidies will be phased out and postal subsidies cut.

■ There are no increases in personal, corporate or excise taxes.

■ Beginning in 2001, old age benefits to high-income senior citizens will be reduced to target assistance to the needy. Those now 60 or over will not be affected.

■ Funds will be reallocated to high priority areas: \$165 million for education tax credits and student loans and \$315 million to support summer jobs for youth; \$250 million to a technology fund to leverage investment in environmental technologies, biotechnology, advanced materials and aerospace; \$50 million to the Business Development Bank and \$50 million in equity capital for the Export Development Corporation.

All figures are in Canadian dollars.  
On April 15, the noon exchange rate was  
US\$1=C\$1.3560.

# Canada

## CANADA QUARTERLY

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