

Minister of Industry,
Science and Technology and
Minister for International Trade



Ministre de l'Industrie, des
Sciences et de la Technologie et
ministre du Commerce extérieur

Statement

Déclaration

92/26

CHECK AGAINST DELIVERY

"THE FTA BLAME GAME"
NOTES FOR AN ADDRESS BY
THE HONOURABLE MICHAEL WILSON,
MINISTER OF INDUSTRY, SCIENCE AND TECHNOLOGY
AND MINISTER FOR INTERNATIONAL TRADE,
TO THE
CANADA-U.S. BUSINESS ASSOCIATION

TORONTO, Ontario
June 15, 1992

Four years ago, we concluded the Canada-U.S. Free Trade Agreement (FTA), and you and others like you, on both sides of the border, set out to make it work. Tonight I can stand before you and say that, after a positive start, Canada reached an all-time record high in its exports to the U.S. in the first quarter of 1992.

Four years ago in Canada, we were in the midst of a great debate, a vigorous debate about the economic future of this country. We debated whether we should open our economy to greater competition and experiment with a new set of rules to govern our trade relations with the United States. Canadians were involved. Views were put forward with great passion and conviction. In the end, the issue was settled by Canadians in an election.

Four years later, the debate has flared up again. Canadians continue to find the issue compelling. Some still feel threatened by the demands of the global economy; others are stimulated. Some have changed their mind; others remain constant in their views.

There is, however, a fundamental difference between the substance of the debate then and now. Four years ago, we staked our faith on what might be; today, some of the evidence is in and we can talk about what is. And to those Canadians who had the confidence and the gumption to give free trade a try, I say, "The evidence is good." To Maude Barlow, Mel Hurtig, and their imitators in the NDP and Liberal Party, who would have us believe that every sparrow that falls is the fault of the FTA, I say, "It's a bum rap, dangerous and dishonest."

Let us consider briefly, for a moment, the history of our trading relationship with the United States and how we got to where we are. Last Friday's newspapers carried reports of a recent GATT review of Canadian trade policies, and those reports dwelt heavily on the fact that more than two-thirds of our total foreign trade today is with the U.S. (The figure is in fact 72 per cent on a balance-of-payments basis, and 70 per cent on a customs basis.) In a remarkable example of putting the cart before the horse, some of those press stories, not content just to report on the GATT study, offered their own view that this state of affairs was "in part thanks to the Canada-U.S. free trade agreement." I invite all Canadians to consider the facts.

In the roughly 50 years of mostly Liberal government between 1935 and 1985, our U.S. trade rose as a proportion of our global trade from 45 per cent to 74.7 per cent (on a customs basis). Only once in that half-century did the figure drop significantly: the 1955 to 1965 decade, which included the six Conservative years under Mr. Diefenbaker.

After 1965, it resumed its steady ascent under Liberal government again.

So for the better part of 50 years, ladies and gentlemen, the party of Reciprocity, the party of Sheila Copps and Lloyd Axworthy, presided unconcerned over this increasing concentration of our trading eggs in the U.S. basket. Nor do I necessarily blame them for that trend. Most experts will say it was inevitable, and we all know what a dismal failure the Liberals' "third option" policy was in the seventies. As last week's GATT study pointed out, the U.S. does occupy a "natural geographic role" as Canada's main trading partner.

What I do blame them for, however, is their repeated failure to accept their responsibilities, first in government and now in opposition, to seek the necessary arrangements that make of this situation a strength rather than a weakness. And that, ladies and gentlemen, is what the Free Trade Agreement is all about. The government of Brian Mulroney didn't create the Canada-U.S. trading relationship. In fact, since 1985 the relationship has declined slightly as a proportion of our overall trade.¹ But the government of Brian Mulroney has had the courage to take the bull by the horns and obtain for Canada a unique trading arrangement with the largest national economy in the world, an arrangement that is already giving Canadian workers and Canadian companies the competitive edge and expanded base they need to take on the rest of the world.

To my friend Bob White, I say that the FTA isn't the "corporate agenda" he is so fond of calling it: it's Canada's agenda. The jobs it creates are for Canadian workers; the investment it generates goes into Canadian communities; the competitiveness it induces in Canadian enterprise is what will pay for the great Canadian social safety net, long after Bob White and I are both gone. I congratulate him on his election last week, but urge him, in his new position, not to allow the doctrinaire protectionist agenda of the NDP to override the long-term interests of the Canadian workers he represents.

If the country had listened to Bob White's Canadian Automobile Workers (CAW) predecessor in 1965, we would not have today the Auto Pact which has served us so well and is so highly prized by Mr. White and his colleagues. With a

¹ 74.7 per cent in 1985, 70.0 per cent in 1990, on a customs basis.

little foresight, they may anticipate the day 30 years from now when they will feel the same way about the FTA.

To Jean Chrétien, whose views on free trade seem fuzzier than ever these days, I say come on board and let's look at the facts.

Despite the problems generated by a tough global recession, a spate of difficult disputes with the United States and a deep slide in public support for the FTA in Canada, there is now clear evidence that the FTA is working. It is meeting its objectives. It is helping to lay the foundation for a stronger, more prosperous, more resilient and more confident Canada, a Canada that is a vibrant part of the global economy.

That is a message we need to get out. Now is the time for Canadians to speak out about the benefits of free trade. Now is the time for those on the front line to say yes we can compete, yes we are adjusting, and yes we will succeed.

In the few minutes I have today, I want to share with you my assessment of the FTA. I want to report to you how well the FTA is performing as economic policy in promoting competitiveness; how effective it has been as trade relations policy in managing Canada-U.S. trade issues; and how catalytic it has been in influencing the evolution of the global trading system.

While the fact is not broadly appreciated, the most important objective in negotiating the FTA lay in its potential impact on our future competitiveness. The world's thirty-first-largest population did not become, and cannot sustain, the world's eighth-largest economy without expanding its base well beyond its domestic market, now 27 million people. By opening our economy to greater competition from U.S.-based firms, by encouraging Canadian-based firms to serve both the U.S. and Canadian markets and exposing them to the discipline of meeting greater competition both here in Canada and in these new U.S. markets, the FTA provided Canadian companies, particularly manufacturing firms, with the impetus to adopt global business strategies. Has this objective been achieved? Evidence to date is encouraging.

Five years ago I told the House of Commons:

I often have the opportunity to meet Canadians, people from our business community, not just the captains of industry but the entrepreneurs, the risk-takers, the small business people, the people who are creating jobs, the people who have their money, their life savings on the line. At these meetings we invariably

talk about a trade agreement with the United States, the pros and cons, who is against and who is for it. The outcome is always the same. Unanimously and unequivocally they all want the chance to compete in the great big market. They are confident of their ability to make it. They know that they can compete, and they cannot wait to get on with the job.

Many of you did just that. You put your confidence to the test. You set out to compete in the big market. You got on with the job. And many of you succeeded. That's good news.

Consider for a moment these salient facts. Over the course of the 1980s, Canada enjoyed the second-highest economic growth in the Organization for Economic Co-operation and Development (OECD), and the highest job-creation record in the Group of Seven leading industrialized countries. Various international think tanks are convinced that we are now poised to achieve the highest economic growth among industrialized countries in the 1990s. The UN has concluded that Canada is the best place to live and work in the world.

The Canada-U.S. Free Trade Agreement will help keep it that way. Over the past few years, the agreement's opponents have celebrated every critic who purported to discover a flaw in the FTA. They have been eager to report on every business failure and job loss, and quick to blame the FTA, despite what the GATT review calls the "cyclical and structural factors" which have contributed to current worldwide recession.

Over the next few months, I hope to see a reversal in this pessimistic assessment. Why? Because over the past three years, you and your colleagues throughout the business community have been quietly preparing for this moment.

Even during the recession, Canadian exports to the United States grew while other countries' exports to the U.S. stagnated. Over the past three years, Canadian merchandise exports to the United States totalled \$322.5 billion. Over the previous three years, the total was \$287.6 billion. In effect, during the first three years of FTA implementation, merchandise trade grew by more than 12 per cent. In 1991, Canada enjoyed a merchandise surplus with the U.S. of \$15 billion. In the first quarter of this year our exports both to the U.S. and to the world reached all-time record highs.

A recent DRI study of 108 U.S. and Canadian manufacturing industries indicates that 97 Canadian industries either gained or maintained their U.S. market share over the past three years; only 11 industries lost market share. A Canadian Manufacturers' Association (CMA) survey released

last week confirmed this study. More than half of those surveyed reported they had not lost market share in Canada, while 39 per cent said their exports to the U.S. market had grown. But the best is yet to come.

What has been obscured by the misery of the recession is the fact that Canadian businesses have been taking the necessary steps to become more efficient, more productive and, as a result, more competitive. You and I know these are not dirty words. They are the keys to our future prosperity. They are the basis for future jobs. They will generate the wealth to finance our social programs in the years to come.

Businesses from British Columbia to Newfoundland, from Calgary to Chicoutimi, from Saskatoon to Sarnia, have been retooling to become players in the global economy. The same CMA survey reported that nearly half of the respondents had increased capital spending since the FTA came into effect, while only 9 per cent reduced it. As a result, Canadian manufacturers have turned around the long-term decline in productivity and the rise in unit labour costs. Real manufacturing output per person rose an astounding 0.4 per cent in 1991. This is unprecedented for a recession year.

Since the FTA came into effect, there has been a marked improvement in Canada's investment picture, from a net foreign direct investment number in 1988 of \$4.4 billion, to an all-time record of \$6.6 billion in 1990 and a second-highest ever of \$5.9 billion in 1991.

Now, as economic recovery begins to take hold, we should begin to reap the benefits of these adjustments. Wood Gundy Economics forecasts that labour productivity in manufacturing should rise by 8 per cent this year and 12 per cent next year. As a result, we should see manufacturing in Canada take off as global demand recovers. The trend of the second half of the 1980s of increased manufactured exports to Europe and Asia Pacific should continue with renewed vigour. The next few years should see a substantial increase in the percentage of manufacturing that is exported. That, in turn, will translate into a substantial recovery in the jobs lost during the recession.

We are beginning to see a gradual diversification in Canadian export destinations and sources of imports. As Canadian companies become more competitive manufacturers and more confident exporters as a result of their U.S. experience, they are turning to markets across the Atlantic and Pacific. In fact, our trade commissioners around the world are reporting an upsurge in inquiries from new companies with a new interest in becoming involved in new markets. At the same time, overseas exporters and investors

are increasingly finding Canada an interesting place to do business, further diversifying Canadian business contacts and alliances.

While you would never know it from reading last Friday's newspapers, Canada's trade dependence on the United States -- exports and imports -- peaked in 1984, the year we took office, at 75 per cent. It has steadily declined since then. In 1991, it reached 70 per cent. In effect, we are benefiting from our proximity to the U.S. market and the more open and secure access to it flowing from the FTA, not only by selling more to that market, but also by becoming more competitive and by gaining the necessary experience to tackle overseas markets. Our Going Global strategy was designed to make sure that we take advantage of opportunities in a more unified Europe and a rapidly expanding Asia-Pacific region. Like the FTA, it too is working.

A significant number of Canadian-based firms now see North America as their home market and the world market as their vocation. I would not be surprised to see the share of trade in Canada's national income rise from one-quarter to one-third during the 1990s. And remember, every billion dollars of new exports translates into roughly 15 000 new jobs.

Proctor and Gamble, for example, have restructured their North American operations so that their U.S. plants now specialize in long production runs of standard products and their Canadian facilities are used to provide specialty products for the whole North American market. That's the kind of rational, long-term planning that makes sense, but it only made sense after we negotiated an agreement with the United States that erased the border as a major factor in commercial planning.

Similarly, Gandalf Technologies, GTE Sylvania, Heron Cable, Hughes Aircraft, Kodak and Polymer International -- to name but a few -- have rationalized production to serve the North American market from Canada.

Dow Chemical, Cargill Foods, E. D. Smith, DuPont, Rubbermaid, Camco, Nikon Optical, Ganong Brothers and dozens of other companies have expanded facilities in Canada to serve the North American market. Their decisions have strengthened and enlarged their presence in Canada -- and made the jobs of their employees more secure.

Free trade's critics have their lists of companies that have closed. They recite the number of Canadians who are looking for work or who have lost their jobs over the last few

years. But let's understand what is involved. The Council of Canadians recently made the preposterous claim that "the total number of goods and services jobs lost in three years under free trade has climbed to 1.4 million." This assertion is a fraud, on several grounds. First, it is a gross rather than a net number. Worse, thousands of the jobs it lists as lost are in sectors specifically exempted by the FTA (for example, autos, beer, transportation and defence equipment), or in sectors (iron ore mining, gold mining) where trade has been duty-free for years. Included are jobs lost in the fisheries sector. Apparently even the decline in the cod stocks came about as a result of the FTA! It's time to blow the whistle on this "free trade blame game."

Our numbers, supported by studies by reputable independent organizations such as the University of Toronto indicate that, if anything, the FTA has stimulated growth, lowered the rate of inflation, and lessened the severity of the recent recession.

There are complex factors at work here, which the Council of Canadians simply ignores, including a global recession, structural adjustment to technological developments, the globalization of production and markets, and a secular decline in manufacturing in all OECD countries as they become knowledge-based service economies. Canada is not immune from these developments.

But rather than wring my hands and make the FTA the scapegoat, I am addressing real problems and looking for real solutions. In working with Canadians in finding solutions, I am heartened by the numerous success stories that I hear. They may not make good newspaper copy, but they are real.

Let me cite a typical story. Sit-Rite Products Ltd., makers of high-end furniture, decided that they would consolidate their activities in Mississauga and close their Atlanta facilities. It's a decision the company does not regret. It has been good for its employees, good for its suppliers and good for its customers. They did it because Mississauga offered a good site from which to serve the whole North American market. It made sense because borders were open.

Canadian agricultural exports were up 29 per cent in the first quarter of this year over the same period last year, on a global basis.

If the answer to Canada's economic difficulties lay in closing our borders and handing out subsidies, I would not hesitate to recommend that route to my colleagues. But the bitter experience of the past few years is proof positive

that that is the road to disaster. The companies that are closing, the jobs we are losing are, in most cases, companies and jobs that could not adjust to meet the tough reality of a global economy. I take no satisfaction in making this point. But it is a point that we must never forget.

That is why Canadians must be at the forefront in every major trade negotiation. We live by trade and are critically dependent on the rules. We insist on a seat at every trade negotiating table because our future depends on it. We know that we can always count on the protectionists -- at home and abroad -- and we know that the only effective weapon against them is a good rule book, a rule book that is constantly updated and improved. In a poll my Department will be releasing later this week, four Canadians out of five said in March that Canada was right to be at the North American Free Trade Agreement (NAFTA) negotiating table protecting our interests, in a negotiation that will go on with us or without us, with an impact on Canada either way.

We are a nation with many advantages -- an educated work force, abundant resources, and an efficient infrastructure. With the right will and determination, the world can be our oyster.

I do not have to tell this audience that to get there, we need a policy mix that rewards private initiative and that encourages entrepreneurs to look to the future with confidence and to search both inside and outside of Canada for opportunities.

The FTA is thus working as domestic economic policy. Coupled with the rest of our agenda for economic renewal, it is giving Canadian business the incentive to restructure and retool to meet global competition and thus create the base for our future prosperity.

What about the FTA as a management tool in our relations with the United States? How successful have we been in meeting that objective?

The U.S. market is a big, dynamic market, critically important to the success of many Canadian-based companies. The United States is by far our best customer, and we are its best customer. Last year alone, we did \$256 billion of business. No one else comes close to that figure. And it is quality business. It is software and engineering contracts. It is satellites and subway cars. It is flight simulators and wing assemblies. Something like 35 per cent of the output of our manufacturing sector is destined for the U.S. market.

Most of that trade goes on without incident. Every day, thousands of truckloads, trainloads and planeloads of goods cross the border, quietly, efficiently and without hassle. But sometimes things do not go smoothly. And that is when we need good rules, rules to level the playing field. The last six months have put that precept to the test, and proved its value.

We are very vulnerable when the Americans are in a fractious mood fuelled by a recession and an election. The amount of trade that is affected by the various disputes between Canada and the United States may represent only a small percentage of the total, but it sends shivers up and down our spines nonetheless. Even one per cent is too much.

The solution, however, does not lie in tit-for-tat trade campaigns where the result is little more than shooting yourself in the foot. The solution lies in the effective functioning of international trade rules. We know that and the United States knows that. In fact, U.S. officials are the first to admit that they need good rules more than anyone else because their particular system is so vulnerable to the seductive call of special interests.

Has the FTA met this challenge? I believe it has. We have not always avoided disputes. But we are resolving them. The FTA has given us the tools to strike back, to tell the Americans when they are out of line. No other trading partner of the U.S., in the world, has these tools at its disposal.

Last week, for example, we received the welcome news that a panel constituted under Chapter 18 of the FTA had unanimously upheld our case. We had contended that the FTA rules of origin consider any kind of interest charges on debt incurred on acquiring plant and equipment in Canada or the United States to be part of the cost of production. Such costs, therefore, constitute an eligible expense for the purpose of calculating FTA content. The panel agreed. That marked a significant vindication for the GM-CAMI plant in Ingersoll, Ontario. We expect the U.S. to abide by that panel's recommendations, and note that it may have positive implications for the Honda case.

Even more importantly, the decision tells all other businesses that they can pursue a North American marketing and production strategy that makes sense.

In a similar case last year, a Chapter 19 panel ruled that pork producers in Canada were not receiving injurious subsidies and should not be penalized by countervailing duties. Duties worth \$20 million were returned and trade

worth upwards of half a billion dollars annually was made more secure.

Dispute settlement efforts by Canada over the past few years have proven the value of the FTA. Its clear rules and objective decision-making have avoided the danger of power-based dispute settlement. Experience demonstrates that whenever there is scope for the United States government to exercise discretion, it tends to exercise that discretion in favour of domestic interests at the expense of Canadian interests, even where the case is weak. Objective panels, however, have overturned a number of these decisions. While the immediate cost may appear high, the end result is the highly prized objective of gradually strengthening the rule of law and enhancing stability and predictability.

Beyond dispute settlement, the FTA's institutional provisions have proven an effective way to defuse conflicts before they become disputes. Last week I met with U.S. Trade Representative Carla Hills in Washington for one of the periodic meetings of the Canada-U.S. Trade Commission. Together we reviewed the whole gamut of potential problems. Our aim was not to score points, but to share information, to answer questions and to clarify procedures in order to head off disputes.

When two countries do \$250 billion of business per year, there will always be frictions. The challenge is to manage them and keep the little problems from becoming big problems. The FTA's rules and procedures have proven a critical factor in meeting this challenge.

Over the next few months, bilateral trade in steel products should provide a good test of these rules and procedures. We operate in an integrated North American steel market. We are not causing problems in the U.S. market and we should not be included in any investigation. We play by the same rules, however, and if the U.S. industry launches an action against our steel producers, they should not be surprised if Canadian producers seek an investigation of U.S. exports to Canada.

The biggest issue between us now is softwood lumber. It has been a contentious issue for more than a decade. Billions of dollars in trade is at stake. Last year we determined that the Memorandum of Understanding which we had negotiated with the U.S. in 1986 in order to avoid a countervailing duty action was no longer warranted. Circumstances had changed. It was time to put lumber trade back on a normal footing.

The U.S. chose to trigger its countervailing duty procedures. Along with the industry and the provinces, we are fighting the U.S. case with every tool at our disposal -- under the FTA and the GATT. The recent final subsidy determination by the Commerce Department may have reduced the subsidy level to 6.51 per cent but it is still offensive. We are appealing this finding to an FTA panel. If the International Trade Commission finds injury later this month, we will appeal that decision also. We are confident of our case.

We are currently fighting the ruling by U.S. Customs that cars assembled by Honda in Alliston, Ontario do not contain enough North American content. What did they rule? That the engines were not North American? Where are they made? Ohio. The U.S. position is, of course, hard to understand and we expect that our view will prevail in the end, but the issue underlines the need to continue to improve and strengthen the rules and procedures so that there will be no repeats.

The bottom line, however, is whether any of the issues I have mentioned, difficult as they may be, would be easier to manage without the FTA. The answer is no. Of course, the FTA is not a panacea. Just because you build yourself a good, sturdy house doesn't mean you expect it never to rain. On the contrary, problems will continue. But they are more likely to be resolved in our favour on the basis of the clear rules and balanced procedures of the FTA. And that's what counts.

Nonetheless, we can never rest on our laurels. Steel, softwood lumber and Honda cars demonstrate that we must be ever vigilant in protecting and promoting Canadian interests, whether by pursuing our rights under the current rules or by negotiating better rules. From that perspective, and this is my third point, the FTA is also proving its worth. It provides a superior platform from which to seek stronger and better rules than anything we have had before. That's not just my view. That's the view of my colleagues around the world.

But the most telling vote of confidence in the FTA comes from the people of Mexico. In effect what they have sought and will soon get is an extension of the benefits of the FTA to them. They looked at the Canada-U.S. FTA and told us that that's what they want.

In effect, that's what the NAFTA negotiations are all about. They are about taking the rules of the FTA and extending them to Mexico. That is why the onus in these negotiations is on Mexico. It is Mexico that will have to stand and

deliver. Canada and the United States have already adjusted to the rules of the FTA. Now it is Mexico's turn.

In taking this approach, Mexico is showing tremendous courage. Mexico is a developing country negotiating with two rich countries. There are no precedents for a country like Mexico negotiating on an equal footing with developed countries. If successful, these negotiations will create hope for all the other poor countries of the world, and will tell them that trade rather than aid is the constructive way forward.

I cannot describe it better than one of Mexico's leading industrialists, Claudio González:

Mexico has experimented with many unsuccessful economic models over the past few decades. We've tried import substitution, an oil-based economy, protectionism, foreign credits, and government intervention, but all have failed. Now we've finally found an approach that works.

In the process of negotiating a North American trade regime, Canada and the United States are taking advantage of their experience over the past three years to improve and strengthen the rules where we can. We want to do better on rules of origin. We think we can make customs administration more transparent and predictable. We may be able to include transportation under the new agreement.

From the beginning, however, Canada and the United States have adopted one basic rule. Neither of us is interested in undoing any delicate compromises settled in 1987. But we are interested in improving the rules and procedures where we can. It would be folly to miss this opportunity.

What will a successful NAFTA negotiation mean for Canada? Three things come immediately to mind. We will gain vastly improved access for goods, services and investment to a growing market of more than 85 million people. We will gain that on the same basis as our American competitors.

In this case the past is not a good indicator of the future. Our exports to Mexico have been modest, for good reason. Mexico was a closed economy. They could sell to us but we could not sell to them. A NAFTA, however, will open the Mexican economy to Canadian and U.S. firms and provide significant scope for new business. The more than 200 Canadian firms who showed up at the Monterrey Fair earlier this year are already filling their order books. They are not waiting.

Secondly, improvements in the FTA incorporated into the

NAFTA will provide Canadian-based firms with an even more stable and predictable framework within which to pursue new opportunities. And it will extend that framework to an integrated market of 360 million consumers. It will allow businesses to plan their production and marketing along North American lines, from the Yukon to the Yucatán.

Finally, by establishing clearly and unequivocally that expansion of the FTA regime to other countries is not just a U.S. prerogative but a shared interest and responsibility, we have put paid to the threat of a U.S.-dominated hub-and-spoke trading system in this hemisphere.

On the subject of low wages, I know this is causing some concern in Canada. But let me remind those who worry, that wage levels are only one of several factors determining investment and business location decisions. Eighty per cent of Mexico's exports to Canada are already duty free, and if wage levels were the only element in competitiveness, we'd have been wiped out long ago. But we are not, and should be reassured by the fact that despite our low tariff walls with Mexico, fully eighty-seven per cent of our global imports come from high-wage industrialized countries. As Bob White knows full well, it's not for low CAW wages that Ford of Canada has just announced \$2.1 billion of new investment in Canada, when it could easily have gone elsewhere. It's in no small measure because of the quality of the Ford workers.

At the same time, I want to remind you that, together with the United States and 106 other countries, we are working hard to bring the Uruguay Round GATT negotiations to a successful conclusion. Canada has many arrows in its quiver. We will not shy away from any opportunity to open markets and create better rules. As long as those rules are aimed at creating a more open and more stable trade regime, Canada should be there, and will be there.

From various perspectives, therefore, the FTA is a clear success. It is doing what it is supposed to do. It is encouraging Canadian firms to become more competitive and more global in their outlook. It is rewarding those that succeed. It is providing a more reliable basis upon which to resolve issues between Canada and the United States. It is creating the predictable, stable environment you need to become more active and successful traders. And it is providing a sound platform upon which to build even better rules and more open markets, in North America and around the world.

Thank you.