



Minister for  
International Trade

Ministre du  
Commerce extérieur

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# STATEMENT DISCOURS

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Speech by  
the Honourable Pat Carney,  
Minister for International Trade,  
to the New England - Canada  
Business Council

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Canada

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It gives me great pleasure to be here today in this historic center of education, science and technology. As a person of Irish descent, I have a special affinity for the city of Boston. And even if my name wasn't Pat Carney, as a former Canadian Minister of Energy, I can only support the home of "Oil Can" Boyd.

As you know, my current portfolio is International Trade. It is a fascinating and complex portfolio, particularly during this time of growing international trade skirmishes and rising protectionism.

Our two governments are presently fighting this ominous trend by seeking a long-term binding trade agreement between our two countries. Such efforts have provoked much debate in my country. But they are not new.

In 1854, for example, the United States entered into a treaty with the colonies of British North America and its termination by the United States after the Civil War was a key element in the decision to create the country of Canada in 1867.

In 1935, Canada and the United States agreed to reduce some of the tariff barriers that had helped to start the great depression.

And in the years since 1947, Canada and the United States have negotiated reductions in trade barriers with many other trading partners and between themselves in automotive and defence products.

This has brought great prosperity to both our countries. Yet throughout this process, coalitions of interest groups have repeatedly fought against change. In both our countries, they have wrapped their self-interest in the flag. And at times, they have succeeded in promoting the interests of the few at the expense of the many.

One such occasion in Canada was in 1911. At that time, the debate pitted the great Liberal Prime Minister, Sir Wilfrid Laurier, against a protectionist Conservative Party and a group of industrial interests centred in the provinces of Ontario and Québec. Although the reciprocity agreement of 1911 won support in the United States, in Canada opposition to the agreement grew. In the end, a general election saw both the Government of Laurier and the reciprocity agreement defeated by a coalition of nationalists and protectionists. "No truck or trade with the Yankees," was the political slogan of the day. The Liberals were swept from power, and the political issue of free trade passed into obscurity -- never to be raised by Canadian politicians for 75 years.

Now 75 years later, much has changed. Today Canada and the United States enjoy the largest trading relationship in the world. We have reduced our tariffs to the level where next year 70 per cent of Canadian exports and 75 per cent of American exports will cross the border duty free. And, now, it is the Conservative Party that is the champion of free trade, with a protectionist Liberal opposition.

Yet while much has changed, other factors have remained constant.

Despite the immense growth in trade between our two countries since 1911 and the profound changes in our relationship, there are those today who oppose an attempt to improve our relationship. The echo of "no truck or trade with the Yankees" is still heard, and the same arguments are being made. Opponents are asking us to believe that freer trade between our two countries is against our best interests.

They oppose us for a variety of reasons -- some because of fear of change, some because of fear of the unknown, and some because of narrow self-interest.

Just as opposition to freer trade still exists, so too do trade barriers. Despite the significant reduction in tariff barriers over the past half century, non-tariff measures have replaced them -- non-tariff measures which often protect the interests of the few at the expense of the many.

An example of what Canadians view as trade harassment by an interest group is the series of actions that led to last week's imposition of a provisional duty of 15 per cent on Canadian softwood lumber exports to offset alleged Canadian subsidies.

Canada does not dispute the right of the United States, or any country, to exercise its rights under international law to protect its industries from injury caused by unfair trade practices. We do dispute the labeling of different policy approaches as unfair merely because they are different from your own approach. And we do dispute efforts to use existing rules to advance narrow interests over broader national interests.

Unfortunately, that is what has happened in this lumber case. Three years ago, Canadian producers faced allegations of unfair subsidies; and three years ago, the Commerce Department cleared Canada completely of wrongdoing. That wasn't good enough for the American complainants, so a political lobby known as the "Coalition for Fair Lumber Imports" was formed. They lobbied Congress for changes in the rules. When they failed in the Congress, they launched a repeat of their 1983 case. The U.S. producers timed their case so a preliminary determination would be required prior to the mid-term election.

They created a political environment that could only enhance their own narrow interest to the detriment of other interests. This time, although the facts were the same, the result of the case was entirely different. The earlier recommendation was reversed with analysis that we in Canada find badly flawed.

I say badly flawed because industries in a whole sector, which is made up of pulp, paper, newsprint, particle board, plywood, and softwood lumber producers, were lumped together to form one

industry for the purpose of the decision. Yet, U.S. authorities have previously held that production of fresh and frozen orange juice constitute two different industries.

As for the level of the so-called subsidy, the list showed by Commerce officials ignored prior practice and was internally inconsistent.

The decision shocked us and should concern all U.S. trading partners. We view it as an unacceptable attempt to impose U.S. views on how other governments should manage their natural resources. What is the result of this successful petition by a narrow U.S. interest? The new duty, if allowed to stand will raise the cost of every American home by at least \$1,000; not only that, a study conducted by your own Wharton Econometrics estimates that four American jobs will be lost for every job gained directly in your lumber industry. Wharton went on to point out that by 1990 a 15 per cent tariff increase on softwood lumber would result in a net loss of 13,000 jobs. In the case of Massachusetts, by 1993 the tariff would create 19 jobs at the expense of 637 according to the Wharton study.

In fact, to underline this point, Senator Chafee of Rhode Island pointed out that this lumber decision would result in only four states being winners and 46 states becoming losers. These are clear costs of protectionist actions.

This countervailing duty injures more than the U.S. consumer. Canadian jobs are potentially threatened. Investment and business decisions for forest companies and smaller businesses who depend on that sector are threatened.

And finally, the decision raises questions in the minds of Canadians about the feasibility of seeking better relations with the United States. Many Canadians will perceive -- wrongly in my view -- that this action of one U.S. industry is an indication of the general view of Americans towards their northern neighbour. Protectionist action poisons the atmosphere surrounding a trade negotiation which is intended to free trade between us.

If our two countries allow the interests of a minority to override the interests of the majority, Canadians will suffer, Americans will suffer, and Canada-U.S. relations will deteriorate.

Both our countries support the principles of freer trade. It is time to practice what we both have been preaching.

Prime Minister Mulroney and President Reagan realized that it is in the national interest of both our countries to conclude a trade agreement. I think that if the majority of people on both sides of the border stop to consider the benefits of a better trading relationship, they will agree.

Why do I say this? Let's look at the facts.

Fact number one - the size of our relationship. Canada and the United States are each other's largest trading partners by far. This year, trade in goods between us will exceed \$120 billion (U.S.). Add in services such as shipping, tourism, insurance, and telecommunications, and the amount rises to \$146 billion (U.S.). This relationship is simply too large and complex to be governed by existing trade laws. It should be governed by a treaty tailored to its special needs. We need better rules of the road appropriate for such heavy two-way traffic.

Fact number two - exports mean jobs for both American and Canadian workers. More than two million American and two million Canadian jobs depend on trade between us. In fact, you enjoy a large surplus in trade in manufactured goods and Canada is one of the few export markets where American exports are increasing. Already some 21% of total U.S. exports find their way north. If you allow special interests to block our exports and slow our economy, we will obviously have less demand for your goods and services.

Take for example, our steel trade. Currently, American interest groups are lobbying to curtail our steel exports. But what they fail to explain is that every \$1 of exported Canadian steel generates \$1.25 of American goods and services exported to Canada.

Fact number three - businesses thrive in a secure and predictable environment. Traders and investors in both countries need governments to set standards of conduct which are appropriate for a relationship of such size and sophistication. And a long-term binding trade agreement could give them that certainty, by limiting the ability of interest groups on both sides of the border to use harassment tactics.

Fact number four - trade barriers raise prices and depress consumer and business spending. For example, the decision to impose a duty on softwood lumber will clearly depress American housing starts - one of the engines of American economic growth. A trade agreement should create better methods of dispute settlement, thereby limiting the possibilities of such self-inflicted wounds.

Fact number five - trade barriers often lessen the international competitiveness of domestic industries. Here in New England, for example, your high technology sector depends on a secure supply of competitively priced Canadian hydro power. So it's hard for us to see how you would benefit from a surtax at the border, as some in your Congress propose.

And fact number six - a trade agreement holds the potential to set precedents for global action on such vital issues as trade in services. Services, which are the fastest growing parts of our economies, are not yet properly regulated by international treaties. A Canada-U.S. trade treaty could make an important contribution to broader international negotiations.

And it could provide a model for the 93 countries of the General Agreement on Tariffs and Trade on how to solve disputes and how to improve existing codes on subsidies and government procurement. Those are all top American objectives in the new round of GATT negotiations launched at Punta del Este, the most important round of negotiations since the GATT was launched forty years ago. But those negotiations, of course, will take years to produce significant results.

Canada and the United States, on the other hand can conclude an agreement within the next year -- if there is sufficiently strong support for such an agreement on both sides of the border. That is why some Canadians are perplexed by current American actions. Because if you cannot reach agreement with your closest trading partner on such issues, good luck to you in dealing with the rest of the world. And God bless all of us in the resulting chaos!

Those are six reasons why a trade agreement would be mutually advantageous. And, there are other reasons which meet our respective national needs. On our part, more secure access to the American market would encourage larger, lower-cost production runs in Canadian factories and help us to achieve the economies of scale that have largely eluded us in the past.

So, what can we do to get from here to there? Two things come to mind.

First, both governments must educate the public about the goals of a trade treaty. The goal is not immediate, unbridled and absolute free trade. The goal is to create a long-term binding framework that will dismantle tariff and non-tariff barriers over time and in an orderly fashion.

The objective is to create a secure relationship that will promote economic growth and create employment in a secure environment.

Second, the private sector both here and in Canada can help by fighting protectionism -- by fighting for the interests of a silent majority against the interests of a vocal minority - and to warn governments when they are shooting themselves in the foot.

I recognize this will not be easy in the United States. Despite the President's strong support for the trade talks with Canada, the mood in the United States seems protectionist. The trade deficit has become a major political issue. As a trading nation, we are sympathetic to your concerns.

But we are fair traders. Your problems are not with us. It is no secret that Canadians are feeling uneasy about this outbreak of American protectionist fever. Trade actions are being launched against us in increasing numbers. Key sectors such as steel and softwood lumber are being threatened. Often we are innocent victims of broader trade conflicts. I can think of no better example at the

present time than the serious damage to Canadian wheat farmers caused by disputes between the United States and the European community.

But I can tell you that fighting the protectionist tide in Canada at this time is also not easy. And in my country, the opponents of freer trade with the United States are fighting the war on emotional grounds - not economic. They are raising unwarranted fears that a trade treaty with the United States will lead inevitably to an erosion of Canadian culture and to the loss of Canada's political sovereignty.

However, our historical experience has shown that trade expansion has been the source of our economic strength. And it is that economic strength which has allowed Canada to develop the policies and institutions which define us as Canadians today -- the very institutions which our opponents say are threatened by a trade agreement could be better protected by the economic growth that such an agreement can foster.

Today, I've described the trade challenge facing both countries - it is a difficult one. But we believe it is our responsibility to meet the challenge. We believe the evidence shows that existing trade rules between our two countries must be improved if both of us are to avoid mutually destructive actions. And neither Canada nor the United States can improve these rules if we choose to ignore modern realities and stick our heads in the sand.

We choose to negotiate - not because it is easy; but because it is in the national interest of both our countries.

It is time for us to practice the principles of free trade that we preach. This historic initiative deserves our mutual support.