



Statements and Speeches

No. 82/21

CANADA-UNITED STATES TRADE ISSUES AND CONCERNS

An Address by the Honourable Edward Lumley, Minister of State for International Trade, to the National Foreign Trade Council, New York, July 22, 1982

...Canada relies heavily on trade for its livelihood; our exports account for almost one-third of our total gross national product (GNP). Of the major industrialized countries represented at the annual economic summits — most recently at Versailles — none is more dependent than Canada on the trade dimension for economic growth. Just to illustrate, it is estimated that more than two million Canadians are directly involved in the production of goods for export; that is 20 per cent of our total work force. Two-thirds of our exports are destined for the United States. In 1981, two-way trade between our countries exceeded \$107 billion (Cdn), this is larger than your trade with Japan and almost as much as your trade with all the countries of the European Economic Community (EEC). Not only are these figures impressive but so is the broadness of this trade, extending as it does from basic resources to the most advanced technologies, from basic services to the complexities of international financing.

In the area of direct foreign investment, almost 80 per cent of the estimated \$62 billion in Canadian funds invested in Canada comes from the United States, while Canada, which traditionally accounted for about 15 per cent of the direct foreign investment in your country, last year became the second largest foreign investor in the United States accounting for more than 25 per cent of the \$19.2 billion in US funds of foreign investment that took place. The estimated cumulative total of Canadian direct investment in the USA, to the end of 1981, is \$16 billion (Cdn).

While these figures certainly point to the significant role that the US plays in Canada's domestic and international growth and development, they also reflect the increasingly important role that Canada is assuming as not only a market for US goods, services and investment capital but as a supplier to and investor in the United States.

We know that any economic recovery that takes place in the US will pay immediate dividends to our economy and that, given the amount of trade we carry on with your country, that is in terms of trade that such dividends will be most visible. However, it should also be borne in mind that any ensuing recovery that takes place in Canada can increase both export and investment opportunities for the United States and assist in further stimulating your recovery.

In the meantime, however, there is room for concern over some of the protectionist pressures that are becoming apparent in both countries. At a time like this, with domestic industries facing prolonged recession, unemployment, high interest rates

**Concern over
protectionist
pressures**

and heavy competition from imports, such pressures are perhaps understandable. It is all the more important, therefore, that governments develop alternative ways of dealing with the problems that give rise to them.

We in Canada are certainly determined not to ignore the lessons of the 1930s. We do not intend to place our economy in a strait jacket which will prevent adaptation and real growth in the 1980s. "Beggar thy neighbour" policies, artificial props for inefficient sectors or band-aid solutions do not provide either effective or convincing alternatives. Because of our small domestic market and consequent dependence on external trade, Canada has a great deal to lose and little to gain by trade wars or anything else that will affect the free international flow of goods.

It is apparent, however, that there will be occasions due to specific domestic considerations when some trading partners will need to initiate some trade restrictions in certain sectors. What is important is that during these difficult periods, trading partners be sensitive to each other's problems in order to ensure that any restrictions of a short term nature will not result in the unravelling of the liberalized international trading frame-work which has evolved since the Second World War.

For example, if much of the so-called "reciprocity" legislation now on the Congressional calendar were to be passed, even though such legislation may be emotionally appealing, it could, if carried to extremes, reduce trade to even lower levels and make a mockery of the international system which has served both our countries so well during the postwar years.

The General Agreement on Tariffs and Trade (GATT) with which I know you are as familiar as I, attempts to provide a matrix for global discipline on the increasingly complex maze of international trade. At a time when it is tempting to focus on the weaknesses that may exist in the GATT, we should not overlook its very remarkable achievements. To a large extent, because of GATT, tariffs have been lowered to the point where they are often not the central issue any more. The most recent round of negotiations launched a major initiative against non-tariff barriers to trade. The GATT provides the most solid base from which to expand the assault on the new trade-inhibiting measures which have recently proliferated in order to ensure that future trade is fair trade for all.

**1980s trade
agenda
expected**

The November meeting of the GATT ministers, which incidentally Canada will chair, is the first such meeting since 1973. While it is not intended to launch a major new round of trade negotiations, it is expected to agree on a work program, a trade agenda for the 1980s so that issues of concern and areas of particular interest can be addressed in ways to strengthen and make more relevant, hence more credible, the system as a whole. We attach the highest priority to a successful result at this meeting and are preparing our case on issues of special concern to Canada.

I might add that we share with the United States many of the same concerns about the GATT, such as the need to make it more effective, to strengthen the safeguard system, to study the problems related to trade in services, to integrate the developing countries, especially the newly industrialized countries, more fully into the trading system and to a renewed commitment by all nations to the GATT dispute settlement mechanism.

Time does not permit me to go into greater detail about these but I have made available for you copies of a speech which I delivered to the International Chamber of Commerce on June 22, 1982, in which the priorities which Canada sees as meriting attention are spelled out.

Our two countries also share many other areas of common interest where there is scope for co-ordinated and concentrated efforts on the part of our respective governments. The joint interest we mutually share in preserving and strengthening the North American automobile industry is one such example. Another is our joint interest in urging Japan to open its market to efficient producers from both our countries, realizing that Japan, as a country, is for both Canada and the United States our second most important market. We must focus on all those issues where our two nations share the same interests and ensure that they are concluded to the mutual benefit of both of us.

To our mind, the dispute settlement procedures are one of the most important aspects of GATT. This would seem to be confirmed by the increasing use which is being made of them. Some have dismissed this as unnecessarily bureaucratic. Yet much of it arises from the variety of problems with which trading nations are faced these days and it is surely preferable to make use of established procedures rather than to take independent and sometimes irresponsible action. Many of the questions currently at issue between the United States and Canada are being dealt with in GATT, not the least of which is the US complaint against certain practices of our Foreign Investment Review Agency (FIRA).

On the topic of FIRA, the government's objective remains to ensure that through the Foreign Investment Review Act the foreign-controlled corporations serve the Canadian interest by contributing fully to the development of an innovative and internationally competitive industrial structure which provides the greatest benefit for all, including investors both domestic and foreign. I think that it is clear that the Canadian government has responded to many of the concerns expressed by foreign investors and others about aspects of the FIRA process.

As a result of the recent budget there have been some changes made to the administrative procedure in an effort to make that process more timely and efficient. Some of these changes include the establishment of new thresholds under the small business procedures for new investment and direct acquisitions in Canada, and even higher

Areas of
common
interest

thresholds for the review of indirect acquisitions of Canadian businesses under FIRA. With the new, higher thresholds, approximately 95 per cent of new business investments and 80 per cent of direct acquisitions will be eligible for consideration under the shortened procedures and will require only the short form notice. That compares with about 92 per cent of new business proposals and 67 per cent of direct acquisitions under the old, lower thresholds. About 80 per cent of indirect acquisitions will qualify for the shortened procedures. This compares with about 45 per cent under the old thresholds. By setting a higher threshold for indirect acquisitions, the government aims to prevent instances of Canadian investment screening procedures acting to complicate unnecessarily investment transactions which are largely concerned with the acquisition of businesses outside Canada.

**Good
investment
opportunities**

In spite of the recent doom and gloom in some of your media, I firmly believe that Canada remains one of the world's better markets in which to invest. As no less a firm than Price Waterhouse has stated in its study *Investment Policies in Seventy-Three Countries*, "there are still relatively few restrictions in Canada if the country is compared to other industrial countries". At the same time, I am convinced that the government's policies correspond to the firm wish of the people of Canada to have a say in the future economic developments of their country.

I do not have to remind you of recent concerns in your country about a degree of foreign penetration much lower than that occurring in Canada. Having lived in a border city all my life, there is no question in my mind that if the manufacturing, mining and oil and gas sectors of your economy were under foreign control to the same extent as they are in Canada, there would be great pressure exerted on your national government to put in place a policy framework of some kind to ensure that the US benefited from new foreign investment.

But this in no way implies that you are against foreign investment. It simply states that you would like to ensure that its activities are consistent with your national goals and objectives. In point of fact, the US currently restricts foreign ownership in a number of areas such as broadcasting, coastal shipping, telecommunications, and nuclear and hydro power. These and similar restrictions exist at the federal and state level and reflect US judgments about what is necessary for economic security and well-being. From the point of view of Canada, with its unusual degree of outside investment, the idea of short-term restrictions is not an altogether academic question.

It is one thing to insist on the right of US companies to invest where they will without restriction or qualification. On the other hand, should the host country be prepared to see its exports come to a halt and employment suffer simply because of the unilateral and extraterritorial assertion of US law by one US Administration which has different political views from another? The recent decision by the US Administration with respect to the Soviet gas pipeline is a good example of the problems that can arise. There are enough uncertainties already without exposing our industries to sudden changes in the foreign policies of other nations.

Because of such factors as our small population base, the vastness of our land, and the huge untapped resources, Canadians are more willing than Americans to let their government play a larger role in our economic development. The Canadian government assumes this leading role when the dimensions are such that the private sector could not be expected to shoulder the burden and risks. This has been the case throughout most of the 115 years of Canada's history.

Much criticism has been recently levelled at both the City of New York and Canada concerning the sale of Bombardier subway cars for that city's mass rapid transit system. The City of New York bargaining in good faith, was attempting to obtain the best equipment possible and at terms which would be the most favourable to its citizens. We in Canada felt that not only was the product offered by Canada the best available but that the employment which would be generated in Canada and the United States was a decided advantage. Only when it became apparent that in order to ensure a comparable opportunity for the Canadian supplier and in order to meet foreign competition, did the Canadian government offer its assistance and in that instance not to beat but to meet the competition. Canada has not taken the lead in this contract but has been in the lead as you may know in working toward an international consensus limiting predatory concessional financing.

It has been and will be Canadian policy to abide by the rules. However, we cannot continue to watch idly when contracts on which Canadian companies with quality products are bidding are in danger of being lost because of the intervention of competing governments.

I have previously mentioned our commitment to fair trade and I will repeat that Canada is indeed committed to such a policy. However, our great dependence on trade to stimulate our domestic growth obliges us to ensure that our exporters receive the necessary support from their government when they face challenges in the export marketplace which are beyond the scope of normal competitive practices.

I remain convinced that trade can be the engine of growth, that expanded trade opportunities provide a firm basis for new investment and more jobs. I would like to think that many of you share this view and attach priority to the maintenance and strengthening of an open trading environment.

I believe that Canada's potential and its future is unequalled anywhere. But potential is empty unless we nurture the conditions necessary to its realization. Political stability, private enterprise, energy development, domestic and foreign investment, technological capability, fair and equitable trade between nations - in each area Canada is dedicated to maintaining the conditions where these will expand and prosper.

Canada and the US cannot be expected always to agree on the value of each other's

policies. We can count on you to let us know when you are concerned, and I can assure you we will do the same for you when we have concerns. But this is the measure of the success and significance of our relationship and of a partnership which is without equal between nations anywhere in the world.

S/C