

# STATEMENT DISCOURS

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NOTES FOR AN ADDRESS BY  
THE HONOURABLE JAMES KELLEHER,  
MINISTER FOR INTERNATIONAL  
TRADE, TO THE INSTITUTE FOR  
POLITICAL INVOLVEMENT

TORONTO,  
DECEMBER 3, 1984.

It is a pleasure for me to be in Toronto today, and an honour to speak to the Institute for Political Involvement. The level of understanding that IPI members bring to any discussion of national issues is impressive to say the least. Since trade is an issue of great importance, I feel privileged in being able to be here with you today.

You have all heard, I am sure, that one of the main themes of the new Progressive Conservative Government is national economic renewal, the pursuit of all means at our disposal to promote balanced and sustainable economic growth. This involves putting our fiscal house in order. It involves redefining the role of government so that it provides a better framework for growth and job creation. It involves establishing proper incentives for investment, both Canadian and foreign. And it involves doing everything we can to promote and encourage our exports to the rest of the world.

All of this is a very large order. It is a challenge that will affect all Canadians, and we therefore are actively seeking the views of Canadians on what should be done and how. My primary purpose today is to invite you, the members of IPI, to take part in the dialogue regarding the future of Canada's trade, and particularly our trade with the United States.

To put it bluntly, Canada's trade performance in recent years has been disappointing. In 1968, we ranked fourth among the world's trading nations, ahead of Japan. Today, Japan's share of world trade is double ours, and we have dropped to eighth place. The terms of trade have not been operating in our favour, certainly not to the advantage of our resource base. But we have been slow to adjust. We cannot afford to sink further. Restoring Canada's stature as a first-class world trader is fundamental to economic renewal.

To regain our stature, however, involves facing a host of trade policy issues of great complexity. The international environment is undergoing rapid change. It is intensely competitive, more so than it has ever been. It is also being threatened with increased protectionism. Let me set the scene.

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 the rest of the world -- with our traditional trading partners in Western Europe, in the rapidly expanding markets around the Pacific Rim, and with the second and third worlds.

This government has given top priority to strengthening international trade. Broadly speaking, we intend to move on four fronts.

We intend is to resist protectionism, and keep trade open.

We intend to put a premium on making Canada internationally competitive, encouraging and supporting enterprise, investment and innovation.

We intend to pursue export opportunities, large and small, traditional or new, with renewed vigor. This means a great deal of beefing up, and a certain amount of restructuring

of our export assistance programs.

And finally, we intend to get Canada pulling 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, and in this area we are counting on organizations such as the IPI to play a vital role.

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 open international trading system embodied in the General Agreement on Tariffs and Trade. 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 ultimately it is a futile, even self-defeating game. 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 two years, 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 challenge. In the past few years, several important Canadian exports have been the subject of investigations under American trade remedy provisions. The most recent problems have come from the Omnibus trade bill passed by the last Congress. Fortunately, after our strong representation 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.

Unfortunately, however, the bill does contain a provision which affects our steel exports. It requires country-of-origin marking of all imported piping. The marking would have to be stamped into the pipe, and this might affect the quality of our product. The marking requirement does not apply to steel produced in the U.S. It is inconsistent with American obligations under GATT. Canadian companies with whom I have spoken indicate that it would result in substantive lost sales for Canadian exporters of pipes, tubes and fittings. Our efforts have been directed to achieving immediate relief from the law by securing a flexible interpretation and application by the Administration. This relief has been agreed on for 120 days. For the longer term we are pressing the Administration to seek repeal of the legislation as soon as Congress reconvenes. And, together with the European Community, we are raising the issue in the GATT.

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.

There are of course some very bright spots in the picture. 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. 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 might 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 serious questions, including:

- the relative competitive strength of our industries;
- the special measures of adjustment and transition 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, and it is my hope that you, the members of the IPI, will take part in the study. I invite you to spend some time thinking about the alternatives, and their implications, and let us know your thoughts.

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.

Soon after taking over my responsibilities as Minister for International Trade, I was called upon to present Canada's annual export awards. There were 14 awards in all -- and six of them, by the way, went to Ontario companies. They were honoured because they set a standard of skill and excellence that allowed them to compete with great success in world markets. These 14 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.

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.