

BUSINESS COUNCIL ON NATIONAL ISSUES

THE CANADA-UNITED STATES FREE TRADE AGREEMENT

SUBMISSION TO

THE HOUSE OF COMMONS STANDING COMMITTEE ON EXTERNAL AFFAIRS AND INTERNATIONAL TRADE

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**INTRODUCTORY STATEMENT BEFORE
THE HOUSE OF COMMONS STANDING COMMITTEE
ON EXTERNAL AFFAIRS AND INTERNATIONAL TRADE**

November 5, 1987

Based on an assessment of the Preliminary Transcript of the draft Canada-United States Trade Agreement, the Business Council on National Issues has concluded that the agreement is sound and in the national interest. It represents a major advance in bilateral cooperation. It brings to the world's largest two-way trading relationship the rule of law. It confers concrete economic benefits on both Canadians and Americans. And it establishes a sound foundation, consistent with international law, for future progress on the basis of rational and balanced negotiation.

The chief executives who make up the membership of the Business Council represent the vast majority of the country's largest enterprises. Many of our members in various parts of Canada already have voiced their individual support for the agreement. Leaders from the resource, manufacturing and service sectors have begun to explain why the agreement will lead to more jobs, expanded production and a more attractive investment climate for Canadians.

We are pleased that our general support for the agreement is shared by organizations that represent a great number of small and medium-sized businesses in Canada. The testimony before this Committee in the past few days by leaders of business organizations such as the Canadian Chamber of Commerce and the Canadian Federation of Independent Business was convincing, and established beyond any reasonable doubt that the Free Trade Agreement will open up new opportunities. We are also pleased that prominent Canadians are confirming our assessment of the agreement. A notable example is the testimony this morning of The Honourable Donald Macdonald.

But let us be perfectly clear about one point in particular. The Canada-United States initiative is not a panacea. It will not solve all our economic problems. It will not supplant the need for Canadians to develop our own economic priorities -- even more vigorously and imaginatively than we have in the past. It will, however, help to secure our prosperity and make us a more effective force in the global economy.

Let us remind ourselves that economic prosperity and economic interdependence go hand in hand. They are not the enemies of self-determination, social progress and cultural enrichment. History and fact tell us that an economically strong and outward-looking society is a society that can most effectively enhance its spirit of independence, its progressive social development, and its cultural distinction.

Finally, we appeal to members of this Committee and to your parliamentary colleagues to put aside as best you can concerns of party and partisanship. Examine the Free Trade Agreement as critically as you can -- but do so with all the objectivity you are able to muster. What is at stake here is much larger than the fortunes of one party or another. Jobs and economic growth are at stake. So is the potential of millions of Canadians engaged in productive enterprise.

AGREEMENT IS IN THE NATIONAL INTEREST

Based on our assessment of the Preliminary Transcript of the draft Canada-United States Trade Agreement, the Business Council on National Issues has concluded that the agreement is sound and in the national interest.

When the Council first proposed publicly in 1983 the negotiation of a Canada-United States Trade Enhancement Agreement, our goals were clear. We desired a comprehensive accord with the United States that would accomplish six key goals:

1. A more disciplined and stable two-way relationship that would encourage long-term security of access for Canadian exports to the United States market.
2. A stronger competitive base so that Canadian industries and workers could expand their opportunities in the North American and world markets.
3. Lower prices and greater choice for consumers in all parts of Canada.
4. Expanded investment by Canadians and non-Canadians alike in Canada and in Canadian enterprises.
5. Benefits under the agreement that would flow to all regions of Canada and that would encourage the dismantling of barriers to trade within Canada.
6. An agreement that would serve as a model and a catalyst for trade liberalization initiatives on a global basis.

In our opinion, the draft Canada-United States Trade Agreement concluded on October 3, will lead to significant results in all six areas. Specifically, our reasons for endorsing the agreement are as follows.

AGREEMENT IS CONSISTENT WITH CANADA'S TRADE GOALS

The agreement is consistent with long-standing goals of Canadian trade policy -- the gradual dismantling of barriers to trade at both the bilateral and multilateral level. The Canada-United States agreement promises to establish free trade between the two countries by the turn of the century. The agreement in no way derogates from the strong commitment of the Business Council or the Government of Canada to significant strengthening of the General Agreement on Tariffs and Trade (GATT). Moreover, the agreement is consistent with the obligations of both Canada and the United States under Article XXIV of the GATT which specifically allows for signatories to create free trade areas.

AGREEMENT WILL HELP SECURE ACCESS TO U.S. MARKET

Close to eighty percent of Canada's exports flow to the United States. About a quarter of our national income and over two million jobs are dependent upon this trade. In recent years, American trade laws have been used increasingly to threaten and, in some cases, damage our exports. We do not question the right of countries to possess trade remedy laws. All industrialized countries, including Canada, possess them and use them to protect against imports that are dumped or unfairly subsidized.

Under the terms of the agreement, Canada and the United States will subject their respective trade laws to new disciplines -- disciplines that will provide order and greater certainty in the bilateral flow of commerce.

Safeguard Provisions

The safeguard provisions of the agreement represent an important step forward. Existing international trade laws allow for countries to protect an industry from serious injury caused by import competition. In such circumstances, imports from all countries are usually restricted even if they are not the source of the problem. Canadian producers have often been "sideswiped" by such measures. The Canada-United States agreement deals with this problem. When imports from Canada are not substantial and are not an important cause of the injury, they will not be affected by safeguard measures.

Dispute Resolution

The dispute resolution provisions of the agreement are important innovations. A panel with representation from Canada and the United States will ensure that each country will apply its trade remedy laws fairly and impartially. Anti-dumping and countervailing duties can no longer be imposed without respect for the law. And changes in anti-dumping and countervailing duty legislation can be undertaken by Canada or the United States only following consultation and, at the request of either country, following a review by a bilateral panel. In addition to these dispute settlement procedures, the agreement establishes a bi-national commission headed by Cabinet ministers to ensure that its provisions are implemented to the satisfaction of both countries.

Some critics are suggesting that what has been accomplished in the area of dispute resolution is of little consequence. We do not agree. By international standards, these components of the agreement represent very significant progress in the application of the rule of law to a large and complex two-way relationship. Furthermore, both governments have agreed to cooperate in establishing, over time, new rules to deal with anti-dumping and countervailing laws, the regulation of services trade, and intellectual property laws.

AGREEMENT WILL HELP IMPROVE ACCESS TO U.S. MARKETS

We welcome the agreement not simply because it helps to secure access to the United States market. We are convinced that as a result of the agreement, access will be enhanced.

Dismantling of Tariff Barriers

The gradual dismantling of tariffs between the two countries by 1998 provides for an orderly transition and for industries and individuals to adapt to the changing economic circumstances. Adaptation of this kind is not new to Canadians. Indeed, following successive reductions in tariffs resulting from periodic multilateral accords, we have not only adjusted to the new environment -- we have prospered as well. Our exports have steadily increased and we have also managed to retain generally healthy trade balances.

Dismantling of Procurement Barriers

Although we would have preferred significantly greater progress in the dismantling of government purchasing restrictions, the agreement opens up new opportunities on both sides of the border. Canadian suppliers will now have access to an estimated \$4 billion in market opportunities. Reciprocal benefits to United States suppliers are expected to total some \$650 million.

AGREEMENT WILL CREATE NEW TRADE OPPORTUNITIES

New economic opportunities will flow from the Canada-United States Free Trade Agreement both for Canadians and Americans. A brief review of the sectoral implications of the agreement explains why.

Automotive Trade

The agreement provides an overdue updating of the terms of Canadian and American automotive trade. At the same time, the agreement respects the principles underlying the Auto Pact. Production safeguards are protected. Tariffs on tires and replacement parts are removed. Products traded under the agreement will conform to a 50 percent North American content standard. This should provide improved opportunities for Canadian auto parts producers. In our view, the proposed changes in the area of automotive trade will have positive consequences for jobs and production in Canada.

Energy Trade

Under the agreement, Canada secures better access to the important United States energy market. The United States in turn is assured that Canada will be a more reliable supplier. In times of energy shortages, established energy imports from Canada would be reduced in the same proportion as reductions in Canada. This commitment on the part of Canada -- to share supplies in the event of a shortage -- is consistent with Canada's obligations under the International Energy Agency. We are pleased that the agreement also will provide for the United States to end embargoes against Canadian uranium exports; not to impose tariffs or other restrictions on the flow of Canadian energy; and to allow Canadian access to Alaskan oil. The energy agreement, in the Council's view, will stimulate energy exports and lead to expanded production in Canada.

Agricultural Trade

Tariffs on all agricultural products are scheduled to disappear over a ten-year period. Canada, however, will be able to provide relief to domestic producers of fresh fruits and vegetables in times of depressed prices. Export subsidies will not be permitted on trade in agricultural products between Canada and the United States. Beef exports between the two countries will be exempt from restrictions. Consequently, Canadian beef and veal will have year-round access to the United States market. Canada will also be exempt from any American restrictions affecting products containing 10 percent or less sweetener.

The right of the federal and provincial governments to protect and stabilize farm incomes will not be affected by the agreement. Nor will farm marketing boards for grains, dairy, poultry, and eggs.

Given these facts, on balance we believe that expanded agricultural trade will result in benefits to Canada.

Fisheries Trade

The agreement provides tariff-free access to the United States market for fish products on both coasts of Canada. Fish processors in Canada will benefit.

Cultural Industries

The Business Council has long argued that Canada's cultural industries should be exempted from the terms of a Canada-United States Free Trade Agreement. We are pleased that the proposed agreement does so while dealing with two outstanding cross-border irritants -- that of postal rate discrimination against United States magazines printed in Canada, and copyright protection for signal re-transmissions from United States broadcasters.

Service Industries

The agreement has made an important breakthrough in an area which knew no rules -- that of general service industries. The United States will be compelled to treat Canadian businesses in the general services sector in the same way as American businesses. Canada will have the same obligation.

Among the services covered by the agreement are transportation and computer services, tourism and enhanced telecommunications.

This achievement by Canadian and American negotiators provides a valuable precedent for multilateral negotiators who are facing strong resistance to the establishment of a code on services.

Financial Services

The agreement provides opportunities for expanded trade on the part of financial institutions in both countries. Financial reforms in the United States will confer the same rights on Canadian financial institutions as on their American counterparts. Canadian banks operating in the United States will be permitted to engage in the trade and distribution of securities issued or guaranteed by the Canadian government. In Canada, foreign ownership restrictions will be lifted from Canadian-controlled financial institutions although any one shareholder will be limited to 10 percent. United States banks will be exempted from the asset ceiling that applies to foreign banks.

The proposals touching financial institutions are complex and their full implications are yet to be assessed. In principle, the proposals point in the right direction.

Investment

The link between trade and investment is a close one. By relaxing restrictions on foreign investment, each country recognizes the importance of its investment stake in the other's economy.

Canada retains the right to review large direct acquisitions and maintains ownership restrictions in key sectors such as energy, air transport, telecommunications and cultural industries. The United States also will maintain existing sectoral investment restrictions.

AGREEMENT DESERVES CAREFUL SCRUTINY

While the Business Council has concluded that the proposed Free Trade Agreement is sound and in the national interest, final judgment is reserved by the Council until we have had an opportunity to scrutinize the formal legal text of the agreement.

Based on what we have seen to date, the agreement represents a major advance in bilateral cooperation. It brings to the world's largest two-way trading relationship the rule of law. It confers concrete economic benefits on both Canadians and Americans. And it establishes a sound foundation consistent with international law, for future progress on the basis of rational and balanced negotiation.