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CANADA IN AMERICAN EMPIRE

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The Mulroney-Reagan Free Trade Agreement commits Canada irrevocably to a North American bill of rights for business and transforms the dream of continentalism into a political reality. What has been signed is not just a free trade agreement along European lines with egalitarian national rights for the countries involved. Rather its sweeping nature calling for "liberalization in all sectors of the economy"[1] including agriculture, trade in services, business travel and investment, binds Canada to a political-administrative project imposed by an astute commercially-minded American empire on its feckless client state.

For Canada's neo-conservative mercantilist state that believes it can increase its bargaining leverage vis-à-vis foreign capital without breaking with foreign economic dependency, signing the trade pact means that Ottawa has abandoned any pretence of acting as a buffer between the domestic economy and external forces.[2] The trade pact not only grants American capital the right of national treatment and national presence but it also gives the U.S. multinationals unrestricted access to Canada's banks, resources and services, the fastest growing and most profitable sectors of the economy.

Under its terms, U.S. business interests will be treated no differently than Canadian firms with respect to their ability to invest, divest or receive government subsidies. American investors will be able to buy Canadian firms and resources without review. In other words, the trade pact establishes a common market in social and economic policy that depends on the investment criteria of American capital. Here then is a *deal* that will not only expose Canada to more foreign ownership and control but, when signed, will also dramatically limit the federal and provincial governments' power to regulate economic activity in Canada's national self-interest.

The way that the Canadian state proposes to eliminate all trade and investment barriers for U.S. firms is specified in the legal text of the trade pact whose chief features are examined below.

Energy and Resources

Under the new rules, the federal government cannot demand export, local content, local sourcing or import substitution requirements on such investment. On the other hand, American multinationals are allowed to divest or sell their operations without restriction. Only takeovers above $150 million will be subject to review. Canada and the United States also agreed to raise the gross asset threshold for review of an indirect acquisition by a U.S. investor of a Canadian firm to $500 million by the third anniversary date. Since 90 percent of all foreign investment is well under this threshold, this means, for all practical purposes, no review procedure at all.

The most controversial feature is that the above provision of 'national treatment' has been grandfathered. No future Canadian government can introduce legislation to screen foreign ownership or restrict the backflow of interest and dividend payments or take other measures against American companies in Canada's national interest. The final agreement provides that any change in the right of national treatment will be grounds for the abrogation of the agreement.

Financial Services

Services are the fastest growing sector of the economy and consequently, the area of expected job growth. Despite the vital importance of this sector in the new global economy, Canada has given American banking and other financial services, the equivalence of unrestricted access to the Canadian market without a firm obligation that the restrictive U.S. law governing the relationship between the banking and securities industry will change. American institutions will receive right of national treatment, right of establishment, right of commercial presence all of which will apply to future laws and regulations governing trade and investment in the covered sectors.

Critically, the new trade pact exempts U.S. banks, individually and collectively, from existing limitations on total domestic assets of foreign bank subsidiaries in Canada. This exemption will result in major amendments to Canada's Bank Act. Phased out will be Schedule B which regulated foreign banking in Canada by allowing them to operate in Canada under the restriction that as a group they could not acquire more than a 25 percent of the assets of Canadian banks. In other words, if Bank of America or Chase Manhattan want to bring in a billion dollars, they can bring in a billion dollars. That is undoubtably the best way to give American banks the means to buy into or control Canadian banks in the near future.[3]

More privileges will be accorded to American financial industries. The final text provides for unimpeded mobility of "business persons" in the field of business and professional services which will impact directly on small business firms. This measure is in many aspects extraordinary because it recognizes the right of business persons to move freely which is specifically associated with the creation of a common market. This way giant American consultancy firms will be allowed to compete directly in the Canadian market largely against small business entrepreneurs.

Finally, the trade agreement is committed to opening Canada's computer market to American firms and American individuals, industries which are already dominated by such giants as IBM, Honeywell, GE, etc. At present, Canada has a massive deficit with the U.S. in knowledge-based industries. The elimination of existing restrictions will force many firms to put their businesses up for sale.

Energy and Resources

The trade pact gives the U.S. one of its key demands, namely, control over energy pricing and energy supply. In effect, Canada has agreed to a continental energy policy which prevents it from imposing restrictions on its energy exports to the U.S. in time of need. The U.S. has been granted, therefore, non-discriminatory access to Canada's energy supplies.

Moreover, Canada has given up its ability to reserve resources for its own citizens even when such resources are very scarce. The agreement specifically states that, when energy is in short supply, the U.S. will have proportional access to the diminished supply.

Further, under the agreement, present and future governments are bound to a one-price energy policy. The intention of this measure is clear. No Canadian government will be able to resurrect the National Energy Programme of the kind introduced by the Trudeau Liberals. With higher energy costs, Ontario and Quebec manufacturers will be hardest hit by the end of a two-price energy policy because they will be less competitive in the American market.

Culture

The cultural industries are supposed to be protected under the agreement. Here there is a good deal of ambiguity with respect to a number of issues. First, under the agreed rules of the final accord, tariffs will be removed on the importation of records, cassettes and other recorded material, a measure that will seriously harm Canada's recording and musical industry. Secondly, the agreement specifies that American industries cannot be deprived of their rights to benefit from general provisions of the agreement with respect to investment rights. This provision allows increased American participation in Canada's cultural industries. Throughout the negotiations, American officials argued that culture should be treated no differently from other service industries.

What the free trade deal leaves (disturbingly) vague for Canada's cultural industries is the definition of a subsidy as well as the question of whether the right of national treatment with respect to investment will apply to Canada's cultural industries. Critically, the final accord does not specifically protect the right of the Canadian film industry to have a national distribution system. Despite a statement that cultural industries will be exempt from the agreement's new rules on foreign ownership, a good deal of confusion remains on how Canada's cultural industries will survive when there is no limit on foreign ownership in rest of the economy.

Agriculture

The agreement's provisions relating to agriculture are widesweeping and will seriously affect Canada's ability to maintain control over its food supply. It provides for the elimination of import quotas on wheat, barley and oats that would apply when government aid to those farmers was the same on both sides of the border. Predictably, these changes will undermine the power of the Wheat Board to maintain orderly marketing arrangements for the sale of Canadian wheat as well as deprive Canadian farmers of a significant part of their domestic market. Why? Because U.S. farmers will be able to sell their wheat in Canada at less than half of the domestic price now fixed at $7.00 a bushel. The consequences will be immediate and wide-ranging particularly for bakers and millers who will be able to buy their wheat from farmers at lower prices, a move, observers predict, will force Canadian farmers to cut their prices.

The agreement will also affect the orderly marketing arrangements now in operation in a variety of agricultural products. While marketing boards will continue to function, Canada is moving in the direction demanded by the U.S. in agriculture, namely, eliminating subsidies to particular food growers. Agriculture is one of Canada's most important regional industries. Under the agreement, Canada is committed to harmonizing its policies with the U.S. despite major differences in climatic and other growing conditions.

Canada will allow agricultural imports from the U.S. to undercut Canadian poultry and egg producers as well as cheese, yogurt, ice cream and baked goods producers. In the Canadian food-processing industries, jobs and plants will be adversely affected by the flood of cheap American imports on the Canadian market. Canadian producers believe that removing tariffs and quotas for hogs and beef will threaten the viability of the Canadian packinghouse industry to operate in Canada for it will be forced to compete with American plants who have longer production runs and are, therefore, better positioned to make products at a cheaper-per-unit cost for the combined Canadian and U.S. market.

Manufacturing

The removal of tariffs and import quotas will also have a dramatic impact on workers in industries that are protected to some degree. Canadian tariffs are on average double their American counterpart and under the agreement Canada has accepted an accelerated rate of tariff reduction for Canadian industries.

Goods on which duties apply have been divided into three categories. Computers, fish and fur products fall into the first category and will be duty-free beginning January 1989. The second category involves about 35 percent of dutiable goods and among those items here are furniture and communications equipment. These products will be duty-free as of 1993. The third group includes domestic appliances, textiles, farm products and a broad range of manufactured goods which have been protected but will be forced to make major adjustments as of January 1998 when tariffs take another drop.

Canadian textiles, and clothing and food processing are three of Canada's largest employers and are most likely to be negatively affected by the Pact. They are also the main employers of working women whose jobs would be threatened by cheap imports. Women constitute 37 percent of the workers in the trade-sensitive industries.[4] Specifically, the Agreement allows Canada to export duty-free to the U.S. $500 to $600 million a year worth of clothing made of fabrics not produced in North America (according to the industry committee advising the federal government).[5] For the Canadian textile industry, which employs close to 100,000 mostly female labourers the trade pact will imperil both jobs and investment. With about 60 percent of the work force based in Quebec, 28 percent in Ontario, and 8 percent in Manitoba thousands of workers will be required to find new employment. The accelerated rate of tariff removal will also threaten the wine industry and brewing industry. Some 10,000 jobs are estimated to be lost, most of them in Ontario.

The Auto Pact

Despite Mulroney's promise to leave the Auto Pact out of the deal, the free trade agreement places the auto pact in jeopardy. In Canada, the big three auto makers are required to spend 60 percent of a car's production cost and 50 percent of a truck's cost on Canadian parts and labour. Under the new rules, only automotive products with 50 percent of their direct cost of processing done on this continent will have the benefit of duty-free access across the Canada-U.S. border after a ten-year phase in period. The real danger is that automobiles will move both ways across the border "with zero content in the form of parts."[6] These changes are unlikely to incite Japanese auto producers to build new plants in Ontario or Quebec since they will be able to serve the North American market from the U.S. with zero Canadian value-added.

In terms of future investment,the Canadian auto industry is in a very unfavourable situation. Under the proposed Canada-U.S. free trade deal, Canada has wrongly assumed that the Japanese yen is not as important as the American dollar and that U.S. Big Three are going to keep on investing in Canadian auto production. The reality is that new jobs and plants will come from Korean and Japanese car-makers who by, 1990, will have the capacity to assemble about 2 million cars in the United States and 450,000 in Canada.[7] The agreement excludes Japanese manufacturers from joining the Canada-U.S. Pact. The only exception is the General Motors and Suzuki joint-venture plant located in Ingersoll Ontario that will enjoy the same rights to import components duty-free from overseas.

Job Creation

Despite the deal's economic promise of bigger markets, secure exports and more jobs, free trade is unlikely to (1) create a surge new employment for those displaced and (2) to generate 350,000 new jobs, the target figure set by the Economic Council in its recent study. More realistically, massive training programs will be needed to cushion the unemployment caused by the flood of cheap imports into the Canadian market which is expected to follow as the American textile, food processing and a broad range of manufacturing industries displace Canadian products. Existing programs will not meet the demand. Already as many as three million Canadians change their jobs each year. In order to cope with the adjustment costs from free trade, the government has no coherent plan to provide the retaining, re-education and relocation aid to the more than one million workers who will be forced to look for new employment.

Trade Disputes: A Binding Disputes Mechanism?

In the area of settling existing trade disputes, Canada came away empty-handed from two years of negotiations. Canada's softwood lumber and asbestos industries remain countervailed and the Canada- U.S. agreement does not protect Canada from existing or future punitive trade laws.

Mulroney's team of negotiators wanted a binding disputes settlement mechanism to give Canadian firms unhindered access to the American market. It supposedly had to satisfy Canadians on at least four basic key points. It had to take account of federal, state and local barriers. It also had to identify areas of trade and investment policy that are, in the words of the Economic Council, "non-negotiable"[8] and the laws that were supposed to be beyond the reach of American protectionist legislation. As well, the proposed trade agreement was supposed to define clearly subsidies that are countervailable and those which under GATT rules are legitimate policies and support programs. Finally, Mulroney and Reisman promised a dispute mechanism that would not only be binding but would settle trade conflicts quickly and fairly.

The only visible concession that Canada obtained is an extra tribunal, a bi-national disputes panel, where American trade law will be applied. It does not protect improved market access nor impose real limits on American laws which work to deny market access.

In terms of its mandate to settle disputes, the proposed tribunal lacks real power because "the judicial review carries with it no fresh evaluation of the facts and a low standard of legal scrutiny."[9] For Canadian industries who are penalized under American trade law, the appeal process will not be simple, efficient nor cheap. From start to finish, the bi-national disputes panel will take just under a year to present its findings and will begin *only* after an American trade regulatory agency has found that a Canadian industry or firm has caused material injury and has in fact assessed a penalty.

Critically, this tribunal will have no power to strike down or reverse the decision of an American trade regulatory agency. It can only decide whether the final determination on dumping or countervail conforms to American law. Even if it rules in favour of a Canadian industry or firm, it is limited to issuing a declaratory statement that instructs the International Trade Commission to review a trade complaint. Under the free trade agreement, it is not even clear that the bi-national panel decisions will be final. The U.S. wants those who file complaints to have the right to challenge such decisions in the courts.

For Canadian business that had sought exemption from crude American protectionist sentiment, the final text provides no relief. There is no mandatory change for the Americans to alter existing American trade laws. In fact, the final accord does not create any new legal standards to limit American protectionist legislation. Indeed, the only sanctions offered for non-compliance of the agreement is termination which, in ordinary language means, retaliation, allowing the stronger party to take advantage of its greater strength.

American Trade Law

The most glaring deficiency of the agreement is that in the absence of an adequate standstill provision, nothing in the text prevents the U.S., if it chooses, to introduce new protectionist measures. According to Clarkson Gordon, one of Canada's leading business consultancy firms, "the free trade pact would not supercede any existing trade laws, or any future changes. Even protectionist measures which are not in the spirit of the agreement, such as the omnibus trade legislation . . . . *would have to be enforced once they become law.*"[10]

U.S. Omnibus Trade Bill: The Real Threat to Canada

Because the omnibus trade bill now before Congress will become law before the free trade agreement is signed, it is much more threatening to Canadian interests. The omnibus trade bill contains the most important revisions to American trade law of the last twenty years. It enables American industries to obtain a level of protection that existing laws have not granted them. It will do this not only by closing loopholes and tightening the definition of subsidies and anti-dumping law, but also by enhancing the ability of American authorities to take mandatory action against Canadian industries or government programs that are deemed "unjustifiably burdensome or discriminatory" to U.S. commerce. While the more controversial provisions of the bill will not likely pass into law, there is a high degree of consensus between the Congress and the Administration on its key elements. Indeed, the Senate version containing the controversial Gephart amendment passed by a two-thirds majority vote of both Houses and even if it is struck from the final version, there is little doubt that the House and Senate have the combined strength to override the President's veto.

The key changes increasing the arbitrary, ad hoc power of administrative tribunals, otherwise known as process protection, are:

Import Relief: under American law, industries are entitled to temporary relief from imports that are traded fairly but are viewed as causing injury nonetheless. Not only will the new legislation blur further the distinction between fair and unfair trade practices but the 'threat of a serious injury' is so broadly defined that industries can seek relief on the grounds that includes (a) significant unemployment or underemployment in an industry; (b) a significant level of idle capacity or, (c) the inability of an industry to operate at a reasonable level of profit. Many Canadian industries previously exempted from American trade legislation under the new legislation could be sued for damages.

Burden of Proof: In dumping cases, it is likely that U.S. companies filing complaints will now be able to win damage awards. In the new legislation the burden of proof to establish intent to injure has been shifted to foreign manufacturer. The proposed change is far-reaching largely it is directed at foreign producers who price competitively in the U.S. market.

Definition of Domestic Agricultural Industry: The Senate bill contains a key provision that will dramatically affect Canadian exporters of primary agricultural products such as pork or fish. By linking primary producers to processors it redefines radically the concept of a subsidy. It states, in effect, that the subsidized producer is part of the same industry as processors of the product. The intent here is to attack the price-stabilizing function of Canada's marketing boards which, along with Canada's agricultural system of subsidies to farmers have been largely outside the purview of American trade law.

Retaliation: Section 301 promotes unilateral action that codifies many of the protectionist practices and policies implemented by the Reagan Administration since coming to power. Contrary to conventional wisdom that retaliation breeds retaliation, Reagan's America has learned to use retaliation with little danger to itself as a "measured response to the imposition of new trade restraints." Jeffery Schott, a trade lawyer with the Institute for International Economics in Washington, D.C., argues that "in this regard, retaliation can bolster the credibility of the trading system by demonstrating that rights under trade agreements can be protected."[11] The proposed changes will allow the U.S. to judge unilaterally whether trade agreements are being followed. The bill expands the range of domestic subsidies of foreign governments that are deemed to be "unreasonable or discriminatory and a burden to U.S. commerce" as well as making it easier to calculate a subsidy and dumping margins. Both the Senate and House versions define which acts are considered actionable practices. In the Senate bill, "foreign policies or practices which deny national treatment to U.S. goods, services, or investments are deemed actionable."[12] The new measures are specifically aimed at government-owned corporations that compete with U.S. firms and that "limit foreign competition in a specific sector or specific industry" by denying them the right or the adequate opportunity to compete for purchases or sales to government.

Subsidy: Both bills seek to codify the U.S. Commerce Department's 1986 landmark ruling in the Softwood Lumber Case that fundamentally alters the definition of subsidies in U.S. trade law. Both versions include the Cabot rule that gives U.S. authority the right to test programs to see "whether there is a sufficient degree of competitive advantage" in the specific instance that "would not exist but for government action."[13] Basically this broadening of the U.S. definition of a subsidy will operate as a direct restraint on the domestic policies of governments in Canada. The change is particularly disturbing for a number of reasons. First, it gives American trade authorities the administrative power for new countervailing duties whenever they believe, as in the case of potash and softwood lumber, that Canadian market penetration has taken to large a share of the American market. Second, it is meant to shift the target of American countervail legislation from specific subsidies to public policies that are more general and would give the U.S. Congress power to veto longstanding policies of the federal and provincial governments, thereby forcing Canadian policies to conform to U.S. standards.

Both the House and Senate versions of the bill take aim at any government regulation that contains an element of discretionary administration likely to affect the competitive position of American firms and industries. For instance, a variety of Canadian export firms could be adversely affected because they receive governmental assistance for research and innovation. Chemical companies would be countervailable since they receive assistance under Canada's environmental protection laws. High-tech industries that receive governmental support for research and development would be more vulnerable to American retaliatory measures than at present. Indeed, the attempt by the U.S. government to discipline countries that use a wide range of "industrial targeting practices" creates fundamental problems for Canada's resource and industrial policies. In the words of

Murray Smith, the former research director of the C.D. Howe Institute, "this broadening of the countervailing duty law would make it"[14] next to impossible for Canada to pursue strategic trade and industrial policies. In effect, the U.S. has abrogated for itself the right to judge Canadian policies and regulations by American standards and American law. Given the existing differences between the two countries with respect to the role played by the public sector in Canada, the present U.S. position poses a direct threat to the Canadian state's role in economic life.

Given the strong support for the bill in Congress, its passage appears to be a *fait accompli*. If that is the case, while Canada is deciding whether the trade pact is a good deal or not, the U.S. Congress is already committed to changing the rules under which the Free Trade Treaty will operate. When passed, it will make Canada more vulnerable to American protectionism than ever before. For this crucial reason, the Canada-U.S. trade agreement fails to deliver what the Mulroney government regarded as essential.

The Free Trade Test: Freeing Markets by Restricting the State

In signing the agreement, the free traders have virtually closed the door on a free-standing, dynamic industrial strategy for Canada. This is the ultimate revenge of powerful groups like the Economic Council of Canada and their ally, the Business Council on National Issues, representing the top 150 Canadian corporations of which half are American multinationals. These powerful organizations have fought relentlessly *for* a policy of continentalism and *against* any kind of industrial planning to increase industrial efficiency and redistribute wealth. In their instrumentalist view of public policy, preventing the state from intervening in economic development removes one further barrier to the freer movement of goods, and thus liberates the universalization of the commodity-form.

This deep-seated, obsessive willingness to 'free the market' for capital contrasts with the need of most countries to connect development with social change. Canada — like the U.S.— does not have the sophisticated policy machinery to cope with large-scale economic restructuring. In theory, the private sector is supposed to be responsible for deciding private investment, productivity and economic growth. The public sector is charged with providing social welfare. Faced with a rapidly changing world economy, the increasing rivalry between the public and private sectors along with an absence of planning is creating severe problems for Canada as it readies itself to take the free trade test.

The most immediate problem is that in the highly unstable and unpredicable global economy of the '80s, the free trade ideal encourages the wrong kind of competitiveness: one which leaves Canada at the mercy of the market when economic growth is no longer automatic nor self-sustaining. Trade theory is blind-sided to this fact as well as to the larger reality that it is the global economy which leads and the national economy that follows. As transnational business reorganizes itself to base its policies on exploiting the world's "economic changes as opportunities", successful countries and enterprises will be those which manage, plan and target their trade. Consequently, countries such as Canada which continue to subscribe (dogmatically) to the assumptions of classical trade theory as the foundation-stone of public policy will be confronted with a grim adjustment process.

Under a free trade regime with less government regulation and a continental energy pact in place, the increased drive for markets and cost-efficiency will pit the industrial side of the economy against the resource-exporting industries. In this competitive race there will be no winners among any single region of the country.

Canadian Exports to U.S.
in 1986
in billions of dollars

	% share of exports	*value*
Motor vehicles and parts	98%	$33.4
Forest products	71	12.5
Metals and Minerals*	64	9.9
Oils and natural gas	99	6.2
Chemicals, fertilizers	66	3.6
Communications electric equip.	73	2.9
Aircraft and parts	76	1.8
Electric power	100	1.1
Wheat, other grains	7	0.3
Fish, other seafood	56	1.3
Other food products	61	2.6

source: *Statcan*

*Includes iron and steel and aluminum

Regional inequalities are bound to increase because many of Canada's regionally-based industries are badly positioned to win new markets in the U.S. while others will loose their domestic market niche in head-on competition with their American rivals.

Regional Winners and Losers

1. *Market Niches: The Hope of the Small Entrepreneur*

Canada's labour-intensive industries, constitute a key sector of business in every province, will be badly hurt by the free trade pact. These small and medium-sized operations produce primarily for the domestic market and, thus, do not have the capital, technology or the products to become internationally competitive. In large measure, they rely on a natural advantages — proximity and the sheer ability to understand their market — to find their niche next door to where their production facilities are. Under the trade pact, they would be buried under a flood of imports from much larger American competitors with lower production costs from operating in a market ten times Canada's. Compared to their Canadian counterparts, many of the American firms are highly specialized cost efficient operations, located in the cheap labour zones in the south-west United States.

2. *The Economic Logic of Rationalization*

Many of the U.S. subsidiaries operating in central Canada would be in serious jeopardy. In the past, tariffs forced American capital to invest in *fordist* assembly-line kinds of industries with fixed-production systems. These high-cost, marginal industries would eventually be phased out because American companies would realize important savings from more efficient facilities in the U.S. From a strictly economic viewpoint, it is not difficult to see the reason why many Ontario-based branch-plant producers — no less than Quebec subsidiaries — would be shutdown. One only needs imagine an American multinational that has eight production operations North American-wide, one in Canada and seven in the U.S. With tariff protection dropping to zero, this manufacturer would be forced to consolidate and rationalize his production without respect to the Canadian border.

3. *Canada's knowledge-based industries:* An Uphill Struggle

Central Canada's technologically sophisticated industries will also experience major adjustment problems. New production technologies in auto manufacturing, in metal working, machine building, electronic and electrical industries do not permit the North American market to be split into a 'Canadian' and an 'American' segment.[15] The introduction of radically new production technologies has accelerated the trend towards rationalization of manufacturing North American-wide.

Under the pact with capital unfettered to go wherever and whenever it chooses, Canada will probably not receive its fair share of investment. In the highly competitive North American environment, many of Canada's export-oriented industries need to be where they can maintain the best competitive advantage to service their *American* customers. In practice, this means Canadian business will be forced to relocate wherever labour rates are the cheapest or where new manufacturing technologies require them to be close to their market. Already this is happening. Canadian multinationals like Magna are already establishing factories in the U.S. because just-in-time parts delivery systems requires them to locate within a one hundred mile radius of the new automobile assembly plants in Kentucky. They are not alone. Machine tooling and other related industries will have to migrate to the U.S.A. if they are intent on supplying parts and services to the American automobile producers.

For those firms and industries that are located in the highly competitive export sector, an increased access to the American market will not be a source of many direct benefits such as Canadian job creation. Even though the government continues to sell the deal to the business community on the grounds that "it is necessary to maintain existing access to the U.S. market"[16], this is not the way it will work. Providing access to the U.S. market is not designed to stimulate a surge of exports to the American market. Instead Canadian business is being told by U.S. authorities that Canadians have to get into the American market with Canadian money and know-how. American authorities have drawn the obvious lessons from Canada's National Policy, a policy that used trade as an instrument of economic development in order to encourage the branch-plants to locate behind the tariff wall. This time Canadian business will be moving to the U.S. and not the reverse.

4. *Energy Exports: Western Canada's Last Chance*

Nationally the concept of access makes no more sense for Western Canada's depressed energy industries that want entry into the U.S. market. Canada's oil and gas are not high-demand items. Gas exports peaked in 1979 and since then market demand has been highly unpredicable. Even if the market firms during the next few years and exports rise, Western Canada does not have sufficient reserves of natural gas and gas to supply both the U.S. market and domestic needs. Crude oil reserves fell by 5.2 percent, with less than 35 percent of the year's production replaced by new additions. This was one of the lowest replacement rates yet experienced. Canada's gas reserves are also insufficient to meet domestic and U.S. demand.[17] By 1995, it is estimated that "gas exports to the U.S. would reach one-half of total demand (export and domestic) for Canadian gas."[18] With declining reserves, Canada could only maintain the higher level of exports by jeopardizing domestic gas supply.

The deal puts the Western provinces at high risk because it ensures the U.S. increased access to our 'surplus' resources under tight market conditions. The higher-priced U.S. market will affect Canadian gas prices which will increase to the U.S. levels. In these conditions, Western Canada would be subsidizing the export price of their resources to the U.S.

Even if new resources are discovered, there is no assurance that the deregulated gas market in Canada and the U.S. will be *comparable.*[19] Despite the stated objections of the trade pact, the trade agreement does not address the regulatory problems created by the U.S. Federal Regulatory Commission. It has ruled that certain U.S. costs of shipping gas cannot be passed along to U.S. consumers.[20] The effect of this ruling is to make Canadian imports less competitive. Another ruling states that interstate pipelines do not have to carry Canadian gas for sale in American markets. While plans are underfoot to build new pipelines into the U.S.[21], this ruling has been a blow to the industry, costing it $400 million in lost revenues. In the meantime, nothing in the final text changes either of these important ruling or binds the U.S. Energy Commission. As an independent tribunal with its own rules and procedures, it will operate outside the agreement and will give American authorities the upper-hand "to regulate our imports."[22]

Getting The Industries No One Wants

With a trade policy that specifically prevents all levels of government from linking in any way economic development to social change, Canada will be terribly disadvantaged to meet the new international economy.[23] If Canada is unable to define its competitive advantage, other countries will do it for it. Canadians then will get the industries no one wants, namely those at the bottom of the market requiring little skilled labour and even less manufacturing expertise.

Alternative Strategies: First Principles

Against this background of short-sighted business practices and subassembly specialization, alternative strategies are required to give Canadians political control over investment and trade policy. This implies looking internally to find ways to modernize and mobilize Canada's resources. The state has to be given a different direction even if the logic of capital mobility aided by low wage conditions in much of the world makes this extremely difficult. This will require a fundamental reorientation in economic policy which will aim at (a) addressing the country's structural problems; (b) re-integrating Canada into the international economic system on a new basis; and (c) striking a new balance between the benefits of global interdependence while at the same time lessening Canadian vulnerability on the international system. As a minimum, a modern economic strategy that raises the economy to a new level has to embody three strategic principles: trade diversification, co-ordinated industrial planning and multilateralism.

1. *Trade Diversification*

The most important single measure capable of redirecting economic activity is trade diversification. Reducing Canadian dependence on the U.S. market is the *sine qua non* condition for Canadian economic survival in a bitterly competitive world.[24]

With the decline of the smokestack industries such as steel, auto, textiles on both sides of the border, Canadian-American relations have entered a new phase. Both countries now have massive trade deficits in identical sectors of the economy including chemical products, machines and machine parts, textiles, consumer goods and the like that make these economic neighbours rivals in the rich but increasingly foreign-dominated North American market. Canada is no longer one of the principal suppliers of cheap, industrial goods to the U.S. In this global business environment, Canada cannot win the race to be competitive in the American market against the newly industrialized countries such as Brazil, Mexico and Korea where costs are a fraction of those paid to Canadian workers. For Canada the only realistic measure against the rising tide of U.S. protectionism and the internationalization of production is to move up-market where one is largely insulated against competition from low-wage countries. This would require Canada, however, to diversify and to adopt new export strategies not only with the EEC but also with the countries of Latin America, Africa and Asia.

2. *Planning The Economy: Managing Trade*

Canada needs a range of options to gain access to markets and to create employment. Adopting a long-range systematic economic and industrial strategy is the only way this can be done effectively. The success of this depends on coherent planning.

Ottawa has to adopt a comprehensive strategy to cope with an increasingly hostile trading system, but one based on the fact that trade should *not* lead economic development but, rather, should serve national and social objectives. Countries such as Sweden, Austria and Denmark with small domestic markets like Canada's are successful internationally because, among other reasons, they have integrated their social policy with economic policy, a development which permits rapid economic restructuring and income for the employees affected. By contrast, Canada's present policy remains largely uncoordinated and contradictory, both in its aims and its methods. It expects workers to be mobile, flexible and accommodating while demanding little from business in terms of job-creation, planning or industrial democracy. In terms of aid to industry, Ottawa's concept of strategic planning amounts to little more than greasing the market by subsidizing corporate Canada with a multitude of taxbreaks and tax subsidies.[25] It has been content to let market forces decide the priorities and direction of economic development by paying for imports of manufactured goods with Canada's abundant resources. This absence of foresight and determination prevents Canada from developing new markets and new competitive abilities. In a world which is becoming more interdependent and more integrated, Ottawa has to realize that a country's comparative advantage can be made and unmade by government policy. Until it takes a larger role in managing the economy Canada will not be able to create the kind of industrial and social development that makes it more difficult for multinational corporations to acquire control of our industries.

3. *Multilateralism*

Canada has to make multilateralism the "working centre-piece of Canadian negotiating strategy."[26] The key question is how Canadians are going to live with the world *beyond* North America. The choice is between a constructive internationalism and a narrow quasi-isolationist strategy of continental bi-lateralism. At this time, the free trade deal has tilted the balance dangerously in the direction of continentalism.

With its open economy, Canada's future well-being depends on the smooth functioning of the international trade and financial system. A top priority must be to support measures that will strengthen the fragile health of the global trading system and ensure long-term growth not simply for the industrial world but, also, for Asia, Africa and Latin America. Therefore Canada's position ought not to be based on the utopian principle that a country has a right to undisrupted markets. Instead, it must commit itself to creating an equitable world trading system. In this context, Ottawa should direct its trade policy to help counter-balance the powerful influence of the larger trading countries at the Uruguay round of GATT negotiations. In a world of intense global competition, bi-lateral agreements can only have the potential to create "new walls against the outside world." Internationally, Canada must accept its responsibility to ensure that the global economy is not choked by trade barriers that prevent the developing countries from expanding their trade.

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Notes

1. *Canada-U.S. Free Trade Agreement*, Ottawa, 1987. See in particular, the Preamble and part one: Obectives and Scope.

2. For a powerful, original analysis of the international economy and state power, see Robert Cox, *Production, Power, and World Order* Social Forces in the Making of History, New York: Columbia University Press, 1987.

3. Under Canada's Bank Act, there is a 10 percent ceiling on the amount that any single investor can own. This provision will now apply to American investors as well. However, there is nothing from stopping 10 different Americans from buying one hundred percent of the Bank of Nova Scotia.

4. For a thorough discussion of the impact of free trade on women's employment, see Marjorie Cohen, *Free Trade and the Future of Women's Employment*, Garamond Press, 1987;also consult, Ontario Government Background Paper, *The Free Trade Agreement and Women*, November 1987.

5. See *Toronto Star* November 28, 1987 for the industry's response and analysis of the Pact.

6. For the response of the auto parts manufacturers and the Canadian Auto Union, see *Toronto Star*, October 6, 1987.

7. Imported cars and made-in Canada Japanese cars that use a high proportion of foreign parts have captured a major share of the Canadian auto market. Imports accounted for almost 44 percent of all Canadian car sales in 1987. *Toronto Star*, October 7, 1987.

8. See, the Economic Council of Canada Twenty-Fourth Annual Review, *Reaching Outward*, Ottawa: 1987. See also David Crane's lucid analysis of the how the government in signing the final agreement ignored the Economic Council of Canada's own criteria of an acceptable trade deal, *Toronto Star*, October 24, 1987.

9. For a highly lucid and tough analysis of the legal aspects of the Accord, see *Dispute Settlement Mechanisms, An Analysis of the Dispute Settlement Provisions of the Canadian-U.S. Free Trade Agreement Preliminary Transcript*, prepared by Philip Slayton and John Quinn of Blake, Cassels & Graydon, Background Paper, November 4, 1987, p.23.

10. Clarkson Gordon Woods Gordon, *Canada-U.S. Free Trade Agreement*, October 23, 1987.

11. Jeffery Schott, "U.S. Trade Legislation: Vintage 1987", *International Issues*, IRPP, Ottawa: 1987.

12. Debra P. Steger, "Sections 301 and 337: Other Remedies Against Unfair Foreign Trade Practices", IRPP, op.cit.

13. Murray G. Smith, "Redefining Subsidies in U.S. Countervailing Duty Law: New Hazards for Canada," IRPP, op.cit.

14. Murray G. Smith, op.cit.

15. Jack Baranson, "What Happens to the Branch Plants?", Duncan Cameron, (ed.) *The Free Trade Papers*, Toronto: Lorimer, 1986.

16. See *Toronto Star*, Oct.6, 1987. The words are those of David Elton, president of the Canada West Foundation, a pro-free trade think tank.

17. The information is taken from a report prepared by Canadian Enerdata Ltd, private energy consultants.

18. *Natural Gas Market Report* 3:19, October 30, 1987.

19. Most of the restrictions to energy exports between the two countries were removed when the National Energy Program was dismantled by the Mulroney Government. The last restriction on natural gas trade was in fact removed before the Trade Pact was signed. Companies will no longer have to show evidence of 20 years of surplus gas in Canada before exports could take place.

20. Federal Energy Commission 256.

21. *Globe and Mail*, November 18, 1987.

22. See *Natural Gas Market Report*, 3:19 Oct. 30, 1987, a special issue analyzing the impact of free trade on Canada's energy sectors.

23. A good example of how Canada is disadvantaged is the way the major Canadian and gas producers, subsidiaries of large U.S. petroleum companies, don't complain in not having a shot at the expanding American market. This is because their U.S. parents using the latest technology have launched major new exploration programs to drill for gas in the Gulf of Mexico. Already buoyed by the results, gas from these new wells is expected to become available in a couple of years. Since much of the U.S. demand has moved from Chicago and the mid-West to the southern U.S. states, the offshore producers are expected to grab a larger share of this growing market.

24. A pioneering contribution to the subject of alternative strategies is Abraham Rotstein, *Rebuilding From Within: Remedies for Canada's Ailing Economy*, Toronto: Lorimer, 1984.

25. An excellent study of the state's role in 'greasing the wheels of industry' is Phillipe Faucher et Robert Young, "Le declin de l'industrie manufacturière et la politique industrielle au Canada", Diane Bellemare et Céline Saint-Pierre (eds.), *Les Strategies de Reprise*, Montreal: Editions Saint-Martin, 1984.

26. This section draws on the North-South Institute, *Review '85/Outlook '86, Multilateralism: Still the "First Option" for Canada*, Ottawa: January, 1986.