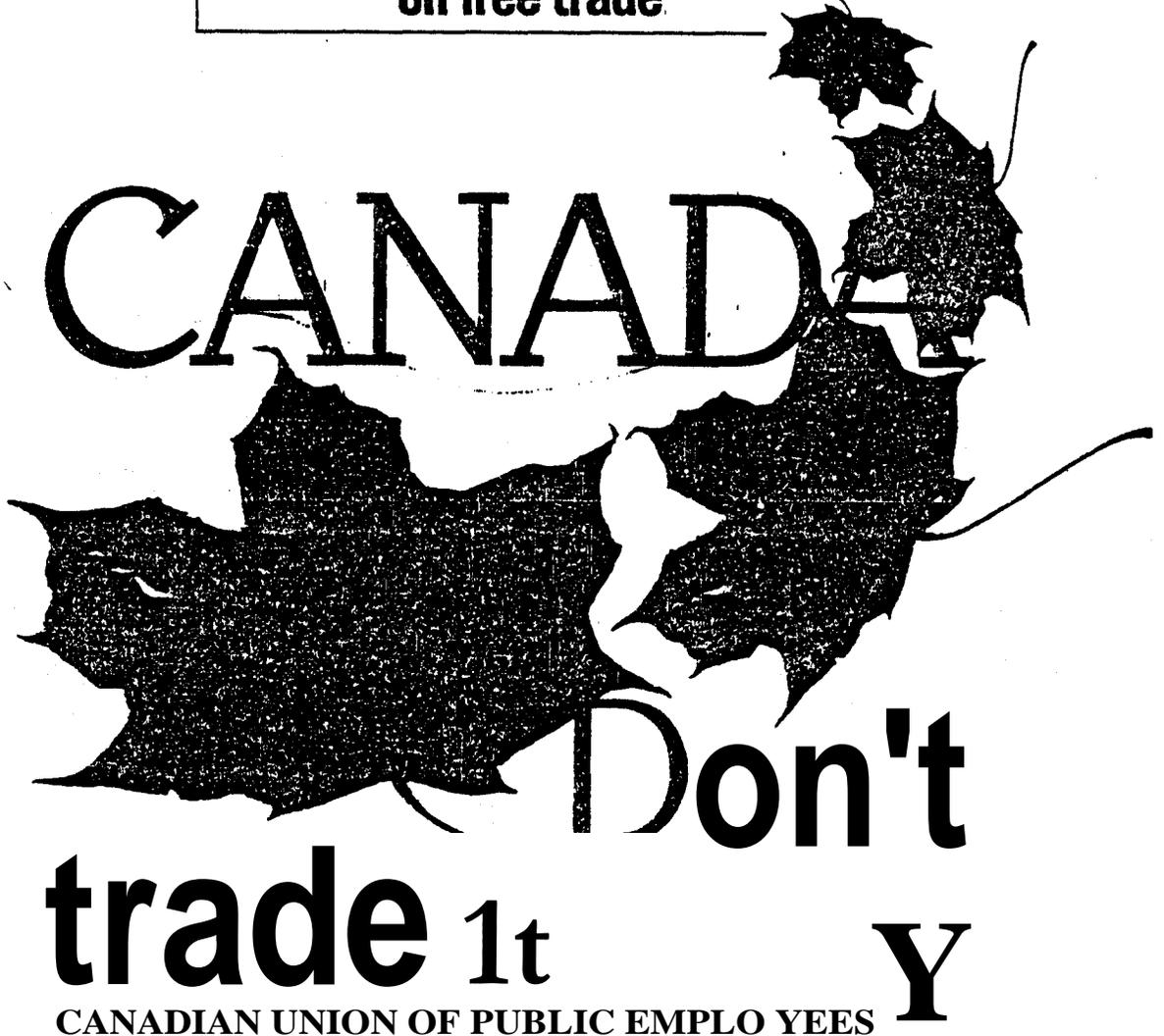


The Facts

on free trade.



CANADIAN UNION OF PUBLIC EMPLOYEES

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John Wamock
Bob White
Bruce Wilkinson

The Facts on Free Trade

Much has already been written about the Mulroney-Reagan trade deal. It has been dissected, explained and argued about at great length. Media pundits, academics, politicians, business and labour leaders have all either extolled or condemned it.

Why, then, a special issue of *The Facts* on the Canada-U.S. trade agreement? Does it contribute anything new and constructive to the debate?

We think it does. We are convinced the articles and essays that follow comprise one of the most incisive analyses of the deal that has yet been offered.

It is an analysis, of course, that those who favour the trade treaty will say is biased, since their views are not reflected here. But because all the contributors to this special issue oppose the January 2nd accord does not mean their commentaries are lacking in objectivity. On the contrary, the contributors are all highly respected and knowledgeable specialists in the various areas of the trade deal that they examine.

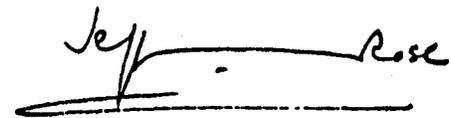
They include economists, political scientists, researchers and social activists, as well as union officials. Unlike most people, they have actually read the voluminous text of the accord. Their clause-by-clause study has confirmed their worst fears. They are appalled by the horrific implications of this deal - for Canada's culture, social programs and sovereignty, no less than for the jobs and incomes of working people.. All are threatened by this incredibly one-sided treaty.

In explaining exactly what the adverse effects will be, our authors do not engage in rhetoric or speculation. Their approach is factual and well-reasoned. Every comment and prediction is thoroughly documented.

That is why this special issue is "must" reading for everyone who is concerned about the future of Canada. Our hope is that it will prove a valuable source of information for all those Canadians who share our belief that the Mulroney-Reagan pact is a betrayal of the country we love, and who demand that a federal election be called before the legislation implementing it is enacted.

CUPE is proud to make this detailed scrutiny of the trade deal available to readers of *The Facts*. We hope it prompts the follow-up action that its contents warrant.

Yours in solidarity



Jeff Rose
National President, CUPE



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Canada: Don't Trade It Away!

By Duncan Cameron

Talking about Canada to people in Washington is usually a sobering experience. They don't know much about us. But what they don't know is also instructive. In fact, one way of judging what the free trade deal means is to talk to Americans about it.

In helping COPE produce this special issue of *The FACTS*, I did just that. A former senior official under President Reagan, no novice on Canada, someone who has written about the trade negotiations, asked me to explain the political opposition in Canada to the deal. He didn't understand it. All those demonstrations. Margaret Atwood saying those things. He said Americans don't understand it, either. So I told him about our concerns.

We want a mixed economy with an important role for the public sector, not a so-called free market economy. Free trade would tie down governments, limiting their ability to create new programs and finance existing ones.

Canadians are convinced of the value of Medicare, health services, pensions, schools, publicly funded broadcasting and universities. They have reason to be proud when they compare the quality of these services to that of American services.

Free trade means the extension of the free market. The wide open border will put additional pressure on governments to curtail public services. Canadians are opposed to this. So I told him that.

Corporate citizenship

The trade deal creates a new type of citizenship. It's reserved for corporations. They become North American citizens. Under the deal they get "national treatment" in both countries, becoming freer to operate where governments are the most compliant, and regulations the least stringent.

As governments compete for new investment, national standards will be bargained down to the lowest level existing in North America. Canadians have high standards and they want them applied equally across the country. Canadians want protection for the environment, safety in the workplace, a full-time job at a liveable wage, and economic security against misfortune. They want to vote for governments that can act in the public interest, not just the corporate interest. This deal means less *democratic control* over the social conditions that prevail in the economy. Canadians are opposed to this. So I told him that.

Then I asked him about the American attitude to the deal. He said that opposition, if any, would come from Congress. Business seemed favourable, and those

industries that were opposed, like the maritime shipping interests, had gotten themselves excluded. However, Senators and members of the House of Representatives knew that the agreement would limit US. sovereignty, the ability of Congress to make laws. They were very wary of giving up legislative power just because the President wanted to sign a deal with Canada.

So I mentioned to him that sovereignty was an issue in Canada, as well. And I wondered to myself if he understood the difference between Canada and the U.S. Who would relinquish more power under this deal, Canada or the U.S.? Not the U.S., certainly. When compared to their world-wide interests, they have little stake in Canada. True, the stake they have is very sizeable; especially, if you look at it from Canada's perspective, which we shouldn't expect them to do. But, it would be Canada that would give up more power. A lot more. Too much.

More than a trade deal

The Mulroney-Reagan pact is bigger than a trade deal. It's about ownership and management of the economy. Under this international treaty Canada concedes parliamentary authority to the private sector and to Washington. We will have less of a stake in our own national life and be more dependent on decisions made in the US. When Canadians find this out, they are going to get angry. The debate about the deal is not a referendum on the U.S. It's about what kind of *Canada* we want.

Until now people have been told by the government that free trade means lower prices and therefore more money to spend. Maybe. But prices will eventually go up as the big firms swallow the small firms. And projected consumer gains are small, anyway, no more than a few cents a day. And they may never occur.

We have reduced tariffs before and that didn't reduce prices. At best, it just slowed down the rate of price increases. And remaining tariffs are small. Amidst the inflationary period of the 1970s and 1980s we were reducing tariffs, bigger tariffs than are being reduced under this deal. That didn't stop inflation; prices still went up.

When Canadians come back from the U.S. they will still go through customs. By 1999, all the duties are supposed to be eliminated on US: made goods. But goods purchased in the US. will be checked to see if they are indeed made in the US. Japanese videos don't qualify for duty-free treatment under this free trade deal. Smuggling will still be a crime. So, all in all, the customs service will still be busy. Maybe even busier

than before, as they check to see where everything is made.

Reducing tariffs is just another form of reducing taxes. Are import taxes the ones we want to reduce? Just before the federal government introduces a general tax on consumer spending (a sales tax, really) on top of the provincial tax? Has the government told Canadians that they *will* have to pay this new tax on imports from the US. in any event?

Instead of the importer paying at the border, Canadians will pay in the stores. I haven't heard them make a big thing about it. But Canadians will pay that new tax on American goods. Even if they go to the US. and buy the goods themselves, they will still pay the tax. It won't be called a duty, but it will have the same effect.

More taxes or less services

Taxes pay for services. So, unless you don't value services, you have to have taxes. But they should be fair. A duty is a fair tax, much fairer than our new income tax which hits those who have money less hard than before. Eliminating some taxes either means less services, or more taxes on something else, probably consumption or income (it's unlikely to be on wealth). When the duties go then, rather than expecting to have more money in our pockets, we can expect to have either new taxes, or less services. The only immediate alternative is a higher government deficit.

When it started negotiating this deal, the government said it wanted secure access for Canadian goods in the American market. American protectionist laws wouldn't apply to Canada, period. That's what the prime minister told us. But the deal doesn't exempt Canada from American protectionist laws. They still apply. The prime minister signed, anyway.

Worse, under the deal, many of the industrial and regional policies Canada needs to compete in the American market and the world market are ruled out, signed away forever by treaty. What's the point of negotiating lower American tariffs if at the same time you take away your own capacity to create new firms, or help existing ones?

If the government is really concerned about access to the American market, why did it sign a deal that constrains its ability to help Canadian industry compete in American and world markets?

As well, Canada wanted enhanced access to American markets. But what Americans got in return for reducing tariffs was enhanced access to Canadian assets. Even though Canada didn't get secure access to American markets, Americans got secure access to Canadian resources. And, yes, Canada also gave up its own tariffs as part of the deal. *Canada gave up twice as much tariff protection as the US gave up.*

It doesn't have to happen

About the only good news about this deal is that it doesn't have to happen. Only the re-election of a Conservative majority government would ensure that. And that doesn't have to happen. When you read the articles that follow, you will see for yourself what makes this a bad deal for Canada.

The authors show the specific reasons why the deal has to be defeated. So spread the word. No Tories, no trade deal. *It's a bad deal for Canada.*

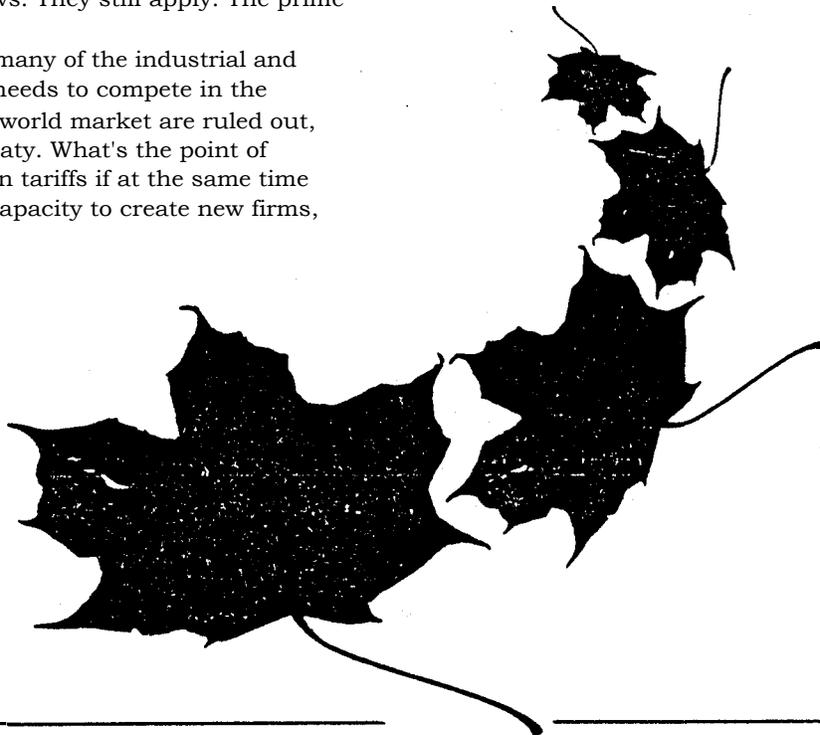
What the polls show is that, when Canadians see what they lose under this deal, they not only don't like it, they get mad. So get mad. Do something to stop the deal. There are some suggestions for action in this special issue, as well.

The purpose of this collection is to make Canadians aware of the price we could pay for so-called free trade.

It could cost us Canada.

Let's not let that happen.

Canada: don't trade it away!



Contents

PART I

A Bad Deal for Canada

9

Lots of Pain, No Gain

A "leap of faith" into the US. embrace  Jeff Rose

13

On Being Canadian

The question is: "Do we really want a country?"  Margaret Atwood

15

Jobs on the Line

The stakes for workers are intolerably high  Shirley Carr

18

Backing the Wrong Horse

Many more jobs will be lost than gained  John L. Orr

21

Corporate Colonization

In the free-traders' money game, nations don't count  Eric Kierans

25

A Constitutional Challenge

Ottawa can't force this deal on the provinces  Ian Scott

29

Economic Integration

The first step toward political affiliation to the US  Bruce Wilkinson

33

Trade Deal Threatens Environment

Julia Langer



Contents

PART 11

What Happened at the Table

35

Corporate Canada's Dream

Economic continentalism made a political reality ■ Daniel Drache

40

Gutting the Auto Pact

A surrender of safeguards in a key industry ■ Bob White

42

A Smaller Public Sector

Government programs and services face cutbacks ■ John Calvert

47

A Continental Energy Policy

We give up control of our oil and gas resources ■ John Dillon

51

Consumers Won't Benefit

The promise of a shopper's heaven is just a fairy tale ■ Riel Miller

54

A Bureaucratic Monstrosity

The Canada-US. Trade Commission may prove unworkable ■ Stephen Clarkson

57

Agricultural Concessions

Farmers and food industries lose more than they gain ■ John Warnock

60

The Fisheries Threatened

Fishing jobs and communities put at risk ■ Geoff Meggs



Contents

PART III

How the Deal Hurts

63

Americanizing Services

US. firms eager to run our institutions – for a profit ■ Majorie Cohen

68

Health Care Endangered

Medicare won't survive the stampede for profits ■ Sean Usher

72

Labour Law Erosion

Our labour relations system also faces Americanization ■ Michael Lynk

78

Labour Movement Targeted

The impact on Canadian unions would be devastating ■ Gilbert Levine

80

Downgrading Education

Americanization will hurt our school system ■ Wilfred Brown

82

What Kind of Canada?

Our culture is not protected under this deal, as promised ■ Rick Salutin

86

Provinces' Hands Tied

Canada's control of its resources would be curbed ■ Andrew Jackson

90

Regional Disparities

The deal will hurt, not help, the have-not provinces ■ Scott Sinclair

93

Industrial Policy Restricted

Canada would have little economic flexibility left ■ Hugh McKenzie

98'

"Maritimizing" Canada

Speeding up the de-industrialization of our economy ■ Michael Clow

99

How Women Would Be Victimized

A Book Review ■ Sue Vohanka



Contents

PART IV

Defeating the Trade Deal

102

The BCNI Calls the Shots

Big corporations are pulling the Canada-U.S. trade strings ■ David Langille

108

Many Companies Don't Like It

The business community is not united behind this deal ■ Jim Conrad

110

Debate Stifled in Quebec

Support for trade deal based on lack of information ■ Peter Bakvis

114

The Pro-Canada Network

Building a coast-to-coast movement to block the deal ■ Tony Clarke

116

There are alternatives!

We can build a better Canada on our own ■ Steven Langdon

118

Together We Can Win

How to prevent the deal from being implemented ■ Dennis Howlett

121

Avoiding U.S. Colonization

We must defend the better society we've created in Canada ■ Ed Finn

124

Why I Don't Like this Trade Deal

Duncan Cameron



Corporate Colonization

By Eric Klerans

Canada has always been a nation in search of a motherland - some other nation that would support it, protect it and pet it with preferences. We did not grow out of being a British colony; we were discarded in 1846 when Great Britain opened its markets to the world.

The United States, after much pleading by Canadians, agreed to a limited Reciprocity Treaty in 1854, but by 1866 they too had had enough. Ever since we have acted, not like orphans with a way to make, but like orphans who cannot get over their plight, alone and friendless in a competitive world.

Throughout our history we have lacked confidence in ourselves and in what we are and what we have. If only..., if only we had a market of 10 million, of 25 million, of 100 million. And always the "what if"..., what if the Americans would give us completely *free* access to their markets?

Generally, we have been more willing to receive than to give, and the Americans, for their part, have been more interested in taking us over than in trading with us. To them we are the greatest storehouse of natural resources in the world, and exactly what they need to shore up their increasingly fragile domination of the world economy.

Attacks on FIRA

All this was well-known before the Reagan-Mulroney summit in Quebec in March 1985. For a decade, Canadian legislation in the form of the Foreign Investment Review Agency (FIRA) had been subjected to vicious and unparalleled attacks by the American press, by American corporate associations and by Washington itself.

We believed it when they called us xenophobic and chauvinist. The simple desire to control one's own economy (is this not what a state is for?) was equated to nationalism (which is true) and nationalism was equated to xenophobia (which is false). Despite the fact that Canada ranks far ahead of other industrialized nations in the proportion of its resource and manufacturing sectors that are foreign-controlled, charges of economic chauvinism and protectionism continue unabated.

Similarly, Canada's National Energy Policy, a measure designed to preserve some ownership and control in a sector that was at one time 90% foreign-controlled, met with vitriolic attacks - "unfriendly and unreliable Canada" - by the American government and press, until it was undermined and then withdrawn by successive Canadian governments.

While the Canadian [goal is](#) the clear one of freer access to American markets, there could never have been any doubt that the primary American objective would be the right to full and free establishment of American investment and ownership in all sectors of the Canadian economy and without restriction or screening.

This they have achieved in the agreement, for there is shortly to be no control over new investments or takeovers up to \$150 million in all but the energy sector, where the US. is to share in policy-making.

In the continental arrangement now before Parliament and Congress, market efficiency will be the sole determinant of investment patterns and industrial location. Efficiency criteria will demand that each good be produced in the area offering lowest costs of production and marketing. Clearly, plants in Canada would be operating on the periphery of the huge American market and industrial location theory would certainly favour new investment at the heart of markets, not at the edges.

Relocating in the U.S.

If Canadian conglomerates want to operate in the heart of the American market - this is the object of the whole exercise - they will have to locate there. A plant in New Jersey or North Carolina will have a market of 100 million people on its doorstep.

Compare the market of a plant located in Ontario or Quebec. Construction costs and plant operating costs will be cheaper because of climate and competition. Transportation costs of raw materials in and finished products out are far lower south of the border than in Canada. The costs and availability of finance are much less in the US. than in Canada's monopolistic financial community.

The incentive to let Canadian productive capacity run down in the next decade and to reinvest in the centre of the new continental markets will be irresistible..

A similar impact of the new continental arrangements will be felt by the American corporations which established themselves in Canada because of tariffs and other barriers to trade. Not only would the American subsidiaries become even more tightly integrated with parent headquarters, but future capital investment would clearly be guided by the continentalization of markets and the consequent relocation of Canadian subsidiary production facilities to the American heartland.

Given this de-investment by American and Canadian firms, it is difficult to accept Canadian forecasts of 350,000 new jobs, a 25% increase in our standard of

living, and an accelerated rate of gross national product growth.

Open trade between our two countries will actually *decline*. As American investment takes over more of the Canadian economy, the transactions between parents and branch plants will grow, but this is not trade. These are exchanges that do not meet the test of the marketplace. When one is exchanging with oneself or with someone not at arm's length, one cannot call these in-house transfers trade.

This agreement creates a continental economy, a single locational framework of production, income and distribution. It is the reverse of free trade. At our request, we are being "*intemali ed*" in a North American sandbox. We are passing from a world of two producing national economies trading with each other to a continental integration of all factors of production (human, material and financial) and their markets within the two nations.

In return we are offered a dispute settlement mechanism. No such mechanism is worth the paper that it is written on so long as the Congress refuses to surrender any part of its authority to establish the goals, priorities and needs of the American people. While this has always been true, it is even more unthinkable at this time when they are struggling to re-establish their economic hegemony over the Western bloc.

Twenty years ago, Professor Charles Kindieberger of the Massachusetts Institute of Technology, wrote that "the nation-state is just about through as an economic unit." As Peter Drucker put it somewhat later, "Multinationals, whether corporate or communist, put economic sovereignty ahead of political nationality."

Simon Reisman supports their position when he casts all political and social concerns about the free trade agreement into the nether world of "dogma, emotion and rhetoric." Since "such lofty issues as sovereignty and independence, national and cultural integrity. ... do not lend themselves to the analysis of hard facts," he dismisses the views of those raising such questions as having no basis "in theory, logic, analysis, history or precedent."

Briefly, his argument is that *building corporate power is the modern way for a nation to go*. In such a Canada, our largest corporations must be permitted to range the world, beginning with this continentalization, as they pursue *their* growth in wealth and power. Social, political and economic goals of redistribution and employment may be an unplanned byproduct of their



success, but such goals can never be permitted to blunt corporate expansion.

A buck is a buck is a buck

Corporate efficiency enables firms to grow and expand. As they pile up assets, they reach the limits of profitable investment in their national markets. Additional investment and output at home would yield diminishing returns as supply exceeds demand. Distributing profits to shareholders would not benefit the corporation as a going concern, however much it would legitimize the concept of fair returns to property.

Reducing prices would benefit consumers and might even expand the market. The corporation might contribute more than the half-cent-of-dollar profit that it now distributes to charitable, welfare and social purposes. For the corporation, however, a buck is a buck, to be used always and to the fullest extent possible for its *own* growth, expansion and control of markets.

Growth in assets - wealth and power - is what counts for the corporation. Land and sheep were once more valuable than people. Hence the clearances. Economic integration with the U.S. will expand the assets of our largest conglomerates, hence the interterritorialization of Canada.

Today, national markets constrain corporate growth. To pursue its single goal of growth and expansion, the corporation must cross national boundaries. As it does

so, it uses the surpluses drained from its home economy to finance its expansion abroad, leaving behind a weakened nation and escaping, at the same time, political, social, and economic responsibilities. Corporations have no interest in people, in the value of politics, in the social and cultural dimensions of living. *The corporate goal is accumulation and nothing else.*

It is in the very nature of the commercial corporation, large or small, to drain a market or an environment. All private economic activity - agricultural, industrial, services - has the simple aim of drawing out surpluses and draining the value inherent in the contributions of human effort and the resources of nature.

With the corporate form, we have built the capacity to produce goods and services to unimagined levels. But we have permitted these same corporations to substitute their *own* aims of growth in wealth and power for *society's* aims of an improving standard of living for all citizens. By allowing corporations to accumulate and compound their wealth and assets continuously, we have failed to insist that what has been produced be distributed immediately to enable consumption and society's standard of living to keep pace.

An economic system does not thrive on production alone. It keeps going by spreading around what has been produced. Without a system of distribution that clears the market, "wealth accumulates and men decay." The corporation has become an end in itself and for itself.

Making ourselves colonials

The difference between colonial status and a sovereign nation lies in the control of one's own territory. Since the people of Canada are Canadians - i.e. have Canadian citizenship - the citizenship of those who own and control the lands and resources must be of paramount importance. For Canadians, to sell their land and markets out from under their own feet is to make themselves, and future generations, colonials and dependents.

Karl Polanyi's dictum has an overwhelming significance for Canadians - "What we call land is an element of nature inextricably interwoven with man's institutions. To isolate it and form a market out of it was perhaps the weirdest of all the undertakings of our ancestors."

And yet this is exactly what Canadians have done and are doing. Canada is not only "open for business," *Canada is for sale!*

The name of the game in the free trade agreement is money - not money for real investment in creating new and better goods and services, but money for takeovers, mergers and ownership of what exists; money for accumulation and the concentration of wealth and power.

In 1987 Statistics Canada reported on the Canadian

corporate economy for the year 1984 using data derived mainly from corporation income tax returns submitted to Revenue Canada. Appendix I summarizes asset, income and profit before taxes distribution between three main corporate divisions: (1) firms with assets under \$1 million, (2) firms with assets between \$1 million and \$25 million, and (3) firms with assets of \$25 million and over.

The impact of the current free trade agreement on the three groups will vary considerably and can be assessed as follows:

(1) Firms with assets less than \$1 million numbered 475,442 or 89% of the total corporate population. Their assets amounted to \$95 billion or 6.8% of total assets. This is the solidly Canadian foundation to the economy and I do not believe that there will be much direct economic impact from the agreement. They will continue to service the needs of towns, cities and regions, and their success or failure *will* depend on the general state of the economy. Their markets are almost entirely within the nation and, being least affected, they have had little to say in this debate. We could call them the stay-at-home Canadian firms.

(2) The 55,934 firms (10.4%) in the \$1425 million bracket will be the direct and palpable beneficiaries of the steps to a \$150 million asset level to be put in place before screening is introduced. Since these are mainly private firms, founder- or family-controlled with severe problems of continuity, they are generally available for sale and of sufficient size to attract foreign investors.

They will not sell to Canadians, for the simple reason that attractive Canadian companies of this size command a premium of 40%, and more from American, British, German and Japanese buyers.

While there will be huge capital gains for the owners and one-shot capital gains taxes for the government, more and more of the Canadian economy will disappear into foreign hands as a result of this agreement's open invitation to the world of money to come and buy out Canadian firms without fear of screening or meeting criteria of benefits to the economy.

Nothing new will be created or produced; there *will* be simply a change in ownership from Canadian to American investors.

(3) Clearly, the 3,316 corporations in this bracket, less than 1% of the corporate population, are the firms that have benefited most from their operations in a Canada that has provided them with political stability, a secure environment, tariff protection, east-west transportation systems, favourable tax legislation, and a host of subsidies, allowances and incentives. *These are the firms supporting and financing the campaign for the integration of the Canadian economy within an American-dominated continental system*

Canada becomes disposable

Now they want to emigrate and take their accumulations with them, not because they are being treated unfavourably or taxed heavily, but simply because they have outgrown the nation that made them great. Their immense accumulations - 81.1% of total corporate wealth in Canada - must be invested in wider markets: in continental if not in global markets. Their own interests demand that they be welcomed as American nationals and *Canada becomes disposable*.

These firms already have access to the American market. Why we should give up so much to make their road more smooth escapes me. If an American president had even thought of giving up one-hundredth of the political jurisdiction that we are throwing on the table, he would have been impeached instantly.

The slogan is at hand. *Free trade*. Only the market, we're told, can provide the efficient allocation of resources. The irony escapes them that they who have prospered behind tariff walls and the most blatant forms of government welfare and protection should now cry: *free trade above all!* And, to them, the government listens, as governments always have.

"Kentucky-fried"

66 What will free trade mean to public sector workers? It will mean a greater influx of American multinational firms that specialize in hospital and nursing home management for profit, in the operation of day care facilities for profit, in the running of prisons, schools, water and sewage treatment, fire protection, urban transit, and many other public services for profit - Kentucky-fried public services. "

Jeff Rose, President, CUPE.

The road show is assembled and the team sent out. Ex-premiers, ex-ministers of finance, of energy and resources, ex-deputy ministers of finance and other things, legal and accounting counsel to great firms. The media, in all its forms, is flooded with press releases, discussion papers, case studies of the benefits of living under the American umbrella.

Their wishes come to pass. The nation surrenders much of its capacity to administer its own affairs. As our great corporations prepare to move south, they are indifferent to what they leave behind them. In the money game, nations don't count.

We have a distinctly different way of life in Canada with different values and a greater sense of sharing and responsibility towards the disadvantaged. Over the years we have been leaders in introducing Medicare programs, Canada and Quebec Pension Plans, Old Age Security, Guaranteed Income Supplement, Family

Allowances, subsidized university education, technical training - the list is almost endless.

All this and equalization payments to the provinces will be in jeopardy, not because the U.S. will insist on their removal in whole or in part, but because *we will not be able to afford them*. Our tax rates cannot be higher than American rates and our ability to finance increasing deficits and borrowing is coming to a close. Canada will be the periphery to an American core, reducing our capacity to finance our national goals.

An unnecessary agreement

It is difficult to understand or to rationalize the desperation with which the Mulroney government has pursued these free trade arrangements. We already have free access to 85% of the American market. We are fully competitive with American industry, as an \$82 billion surplus on merchandise trade in the last five years clearly demonstrates. We are fully capable of competing in world markets, as our \$121 billion in merchandise exports in 1986 proves beyond doubt. *Canada cannot be accused of being uncompetitive, protectionist or fearful*

The principal beneficiaries of this agreement will be the less than 200 major Canadian conglomerates who have amassed such surpluses in Canadian markets, under Canadian laws and political stability, that they believe they must cross into continental and global markets to pursue their own expansion and growth..

This agreement destroys the very notion of community and the nation-state. Nations do have different sets of values, goals and environmental challenges. They must seek to pursue different monetary, commercial, tax and expenditures policies. This creates problems and becomes a burden to multinational enterprises.

The corporate giants demand that the playing fields of all economies must be the same and accuse nation-states that split up markets of being divisive and wrong and needing to be brought into line.

Political, cultural and social values, they say, cannot be permitted to set up the basis of society and to dictate the economic policies that will lead to their achievement.

So say our corporate masters and, more than anything else, this agreement proves that it is they who are in charge of Canada.



Ottawa can't impose this deal on the provinces unilaterally

A Constitutional Challenge

By Ian Scott

The free trade debate, up to now, has been framed largely in economic terms. Public discussion has been dominated, as one might expect, by economists, and trade experts, espousing the merits or condemning the economic deficiencies of the proposed agreement. As an Attorney General, I do not share this narrow conception of the issue.

Free trade is, of course, a debate about jobs and the best path to economic prosperity. But the debate is about much more than that. It is a debate about people and to whom, if anyone, they may look in the future for

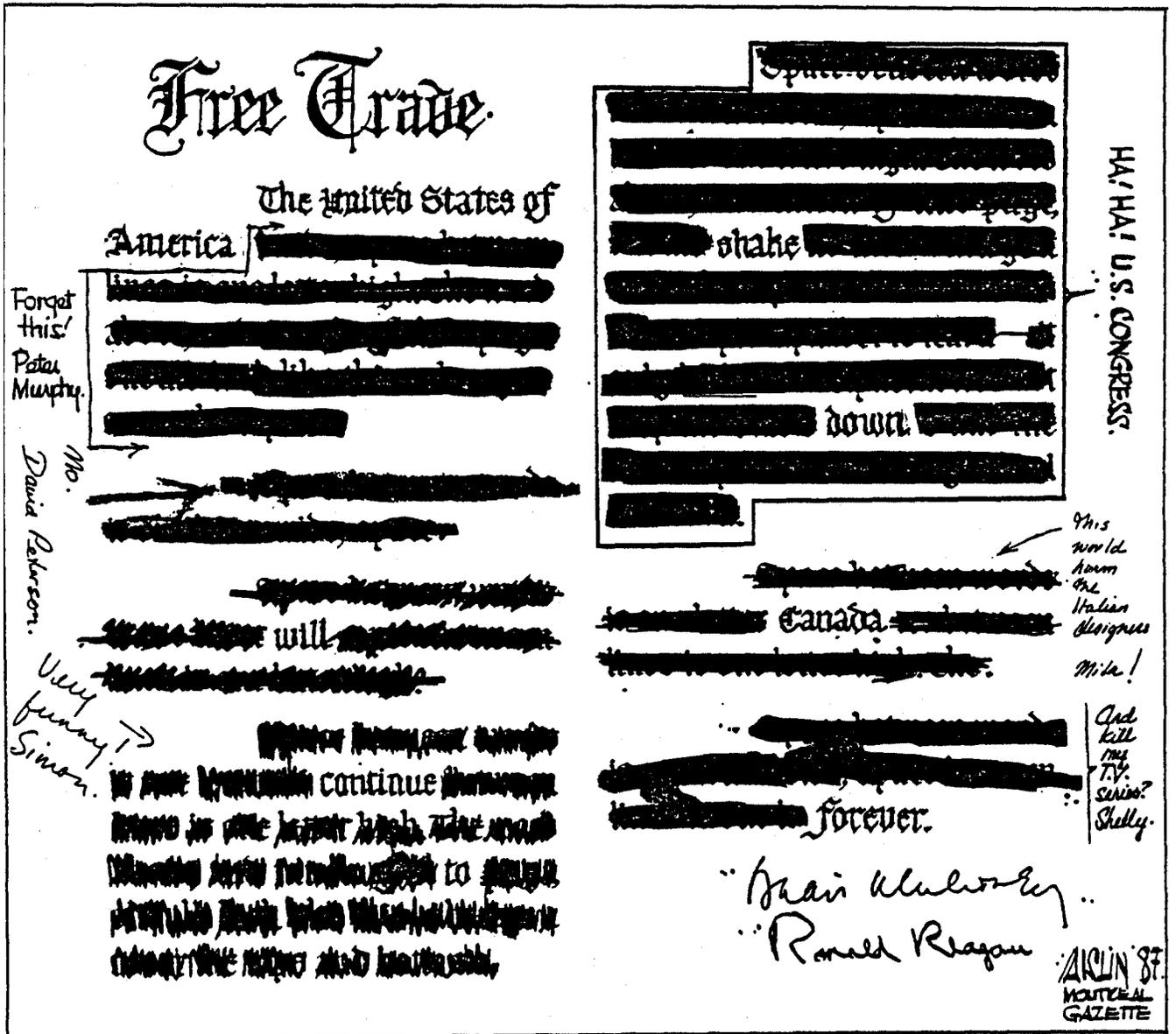
the social and economic policies they require. It is also a debate about how governments ought to behave towards one another.

A constitutional document

In this sense, I would characterize the proposed trade agreement as a constitutional document.

Consider the following-

9 Like a constitution, the scope of the trade agreement



is all-embracing. It touches on virtually all aspects of governmental activity, from economic regulation to taxation to subsidies.

- The agreement imposes new constraints on what Canadian governments can do for people in the future.
- This erosion of our ability to govern ourselves will be extremely difficult to reverse.
- The federal government has assumed the obligation to ensure that the provinces comply with the agreement. This will involve a duty on the federal government to interfere with actions taken by the provinces within their jurisdiction.

In short, whether or not the agreement amounts to a constitutional amendment in any formal sense, it represents *de facto* constitutional change - and a constitutional change of very significant magnitude.

In my view, the trade agreement purports to effect major changes in provincial powers, regardless of whether the provinces consent. Ignoring the principles of federalism, the federal government has attempted to bargain away our powers. This unilateral federal initiative violates a basic and established constitutional norm: one level of government does *not* have the power to reduce or limit the jurisdiction of the other.

Two dubious claims

The federal government's response to this objection, as I understand it, is based on two related assertions about federal power.

The first federal claim is that the agreement is "97%" within federal jurisdiction. The only provisions which are acknowledged to be within provincial legislative jurisdiction are those dealing with wine.

The second federal claim arises from and depends upon the first. Since the agreement supposedly deals with matters under federal legislative jurisdiction, the federal government claims it has the constitutional right to sign and implement the agreement unilaterally,

"We'd be swamped"

GGDon't talk to me about free trade. We'd be swamped. We have in many ways a branch-plant economy in certain important sectors. All that would happen with that kind of concept would be the boys cranking up their plants through the United States in bad times and shutting their entire branch plants in Canada. It's bad enough as it is."

Brian Mulroney, Federal Progressive Conservative leadership hopeful, 1983.

regardless of provincial objections.

Both of these claims require careful scrutiny. In fact, I submit that these two federal assertions about the agreement are insensitive, confrontational, misleading and, at worst, simply wrong.

In my view, the proposed trade agreement deals very substantially with matters falling under provincial jurisdiction. If signed and implemented, it will represent a dramatic impairment of provincial powers.

This should be a matter of profound concern, not just for provincial politicians, but for all Canadians who look to the provinces for social and economic initiatives.

In most previous constitutional discussions, what was at stake was a jurisdictional struggle between the provinces and the federal government. What these conflicts decided was the question of who could initiate policies, not what policies could be initiated. What we are faced with under this agreement is new and, I think it fair to say, unprecedented.

In this instance, the power that is being stripped from the provinces is not being transferred to the federal government. *Instead, it is being lost by both levels of government.* In the future, Canadians will be unable, in a practical sense, to call on *any* government to do any of the things prohibited by this agreement.

A loss for all Canadians

This is a serious concern because governments do not exist for their own sake. Governments exist to give expression and force to the political choices of their citizens. When provincial governments lose under this agreement, so too, in a real and important sense, do *all* Canadians who look to the provinces to defend their interests.

The assertion that the free trade agreement deals with matters which are "97%" within federal jurisdiction is one that, frankly, I have difficulty taking seriously.

First of all, the provinces are specifically referred to throughout the agreement.

Perhaps the most significant reference to the provinces is in the "extent of obligations" clause. It reads as follows:

"The parties to this agreement shall ensure that all necessary measures are taken in order to give effect to its provisions, including their observance, except as otherwise provided in the agreement, by state, provincial and local governments "

This clause means that provisions of the agreement apply to provinces, unless the provinces are specifically exempted. Provincial laws are now subject to challenge on the ground that they violate the terms of the trade agreement.

The clause also means that the federal government must *ensure* provincial compliance. This goes well

beyond its duty under the GATT (General Agreement on Tariffs and Trade) with respect to provincial compliance.

Other explicit references to the provinces appear in the definition of "national treatment" for goods, services and investment.

Potential implications

Here are some of the potential implications for provincial political communities:

- The constitution grants provinces specific responsibilities over natural resources and energy. Indeed, a special constitutional amendment in 1982 extended and clarified provincial powers in this area. The trade agreement appears to impose significant restrictions on provincial powers. For instance, provincial laws which require upgrading or processing of a natural resource in Canada prior to export may be subject to challenge as improper "export restrictions."

These powers have long served as important instruments of economic development for all provinces.

Further, it remains unclear whether provincial attempts to limit the rate of production of a resource could be limited. Thus, if a province cut back the production of a resource, such as potash, so as to raise the export price of that resource in the United States, the province might be faced with a challenge under the agreement.

- Consider the scope of the agreement with respect to services, historically an important area of provincial responsibility. This agreement covers services in agriculture and forestry, mining, construction, insurance, real estate, general commercial services, including some of the professions, as well as computers, telecommunications and tourism.

An important goal of provincial regulation in this area has been consumer protection, which sometimes takes the form of restrictions on the right of persons who are not resident in the province to carry on business here. Travel agents, for example, must be residents of Canada in order to be registered in Ontario. Other consumer protection measures restrict the amount of foreign ownership in certain companies. Collection agencies in Ontario cannot be more than 25% foreign owned.

In future, such provincial consumer protection measures will be subject to the agreement. They will be judged permissible only if they can be shown to impose restrictions "no greater than necessary" in order to protect consumers. The province will bear the burden of proving that the measures are "necessary."

- Provinces have often created comprehensive public insurance schemes, such as health and automobile insurance plans. Many Canadians believe that we should

be considering further initiatives of this type. But the investment chapter of the agreement makes creation of any future schemes subject to a requirement to provide "prompt, adequate and effective compensation" to the privately-owned companies which might be affected.

The agreement also makes future federal and provincial public insurance plans subject to challenge under the monopolies chapter. It is significant that the monopolies chapter was not part of the preliminary transcript and potentially constitutes a major infringement on the provincial right to establish owned or regulated monopolies.

- Provinces currently have the right to promote and encourage small businesses by providing tax breaks, grants, or other incentives. Some of these laws target the benefits to Canadian-owned businesses in order to maximize economic benefits for Canada. In future, such laws may be subject to challenge on the grounds that they constitute "unjustifiable discrimination" between investors.

U.S. given right to challenge

What all of these examples demonstrate is that the trade agreement impacts dramatically on provincial jurisdiction. The claim that the agreement deals with matters 97% in federal jurisdiction is clearly wrong.

The legal text contains a new provision not in the preliminary transcript. That provision allows the United States to challenge and retaliate against any existing or future provincial measure that causes "nullification or impairment" of any benefit it reasonably expected to receive under the agreement. This would include any action, such as provincial subsidies to domestic industries or regions, which could be seen as reducing the benefits of access for U.S. industries.

Not only would this broad range of provincial measures potentially be subject to challenge under the trade agreement, *but* the provinces *will not* even have the right to participate in the dispute resolution process!

The problem with the second claim - that Ottawa has the right to implement the terms of the accord unilaterally - is that it ignores the most basic principle of federalism. This principle is that one order of government should not have the power to bargain away the powers or jurisdiction of the other, without consent. Under our constitution, the federal government does *not* have the power to unilaterally reduce the jurisdiction of the provinces. I fail to see how they can gain this power simply by the device of reaching agreement with a foreign government.

This, of course, is precisely the established constitutional position in Canada. Under the Labour Conventions case, the federal government has no power to implement treaties dealing with matters falling under provincial jurisdiction. *Those parts of the treaty dealing*

with matters under provincial jurisdiction will in my view require provincial implementing legislation. Any change in that position ought not to be made in the absence of extensive review leading to national consensus.

Parallels with patriation

I see some important parallels between the current trade issue and the constitutional patriation dispute that occupied the attention of Canadians in the early 1980s.

You will recall that, in 1980, the federal government advanced a package of constitutional reforms which would have had significant impacts on areas of provincial jurisdiction. But the federal government maintained that provincial consent was not required for these amendments. The federal government argued that its reform package was a request directed to the Imperial Parliament in Great Britain. The patriation issue was defined as a matter of international relations between two sovereign governments and therefore provincial participation or approval was unnecessary.

As we all know, the Supreme Court of Canada rejected such a narrow vision of Canada and of our constitution in its historic judgment in September of 1981.

The Court said that established constitutional convention required *significant provincial consent* to the federal reform proposals. In the Court's view, in matters of constitutional reform, each level of government should exercise its legal rights in ways which respect the jurisdiction of the other.

The principle of mutual respect for the other's jurisdiction meant that, regardless of the legal rights of the federal government, convention required that it obtain the substantial consent of the provinces before proceeding. The judgment of the Supreme Court in the patriation reference was a stunning rebuke to the concept of overriding federal power.

I believe that the Court attempted to make clear a method - a constitutional ethic, if you will - that would make federalism in Canada work in the interest of all Canadians, in whatever region in this widely disparate country they may live. It was a constitutional vision in the tradition established by both Macdonald and Laurier.

How do these principles relate to the trade agreement?

Provincial interests

The provincial interests at stake in free trade are as pervasive as those which were at issue in the constitutional dispute of the early 1980s. The provinces have an important and legitimate role to play in articulating and defending those interests. And, indeed, until very recently, we were led to believe that this was the federal government's view of the matter.

"Inferiority complex"

66 We must not indulge the Mulroney government's inferiority complex. The Tories have given up on Canada and its people. They want to bring Canada into the American empire.

Those of us who still have faith in this country, and in our ability to stay free and independent, must commit ourselves fully to this historic battle. At stake is our country's future.

— Ed Finn.

This commitment was clearly expressed in a "progress report on federal-provincial relations" issued by the federal government at the First Ministers' Conference in Halifax in 1985. That report accepted the principle that the management of the federation was the "joint responsibility of the two orders of government."

"It is critical," noted the report, "that all governments arrive at some common views on key aspects of the federations long-term evolution: The federal government committed itself to ensuring respect for the respective jurisdictions of the two orders of government."

The report then applied this principle expressly to the bilateral trade negotiations with the United States.

The report stated that, even with respect to trade issues under federal jurisdiction, the federal government would approach those issues in a manner "that is broadly acceptable to provincial governments." As for trade matters under provincial jurisdiction, the government was committed to defining positions "that all provincial governments support and are ready to implement."

We supported these principles in 1985. They represented a broad national consensus, shared by all governments, as to how federalism can and must work in this country. These principles reinforced and built upon the constitutional morality, the conventions endorsed by the Supreme Court of Canada in 1981.

These principles were the basis upon which all governments participated in the consultations on free trade.

This constitutional ethic continues to make sense in 1987, for one simple and obvious reason: *Canada is a federal country*. There are two orders of government under our constitution, rather than one. If the diverse needs and interests of all Canadians in all parts of the country are to flourish, then governments must exercise restraint and promote mutual respect in their dealings with one another.



A Smaller Public Sector

By John Calvert

The Mulroney government has claimed that the trade deal will not affect Canada's ability to maintain its unique social and public programs. In fact, the deal sets the stage for the eventual dismantling of much of our public sector and for the Americanization of what remains of it.

To understand why the deal will so adversely affect Canada's public sector, it is necessary to examine the differences between Canadian and U.S. public programs and government services.

The most important difference is relative size. The size of the public sector in the U.S., in relation to its economy, is approximately two-thirds the size of our public sector in relation to the Canadian economy. Government spending in the U.S., according to OECD figures for 1985, accounts for 36.7% of gross national expenditure, while in Canada, the figure is 47%. To put it another way, our public sector is between one-quarter and one-third larger.

To the extent that the deal results in greater integration of the two economies, the logic is for our public sector gradually to be reduced to the size of the U.S. public sector. Theoretically of course, the U.S. public sector might also be expanded to harmonize with ours. But the fact that the U.S. economy is twelve times the size of ours makes this highly improbable, as does President Reagan's continuing cuts in public programs.

Private versus public

A second major difference is that in the U.S. many more services are provided by the private sector than is the case in Canada. The most obvious area where this difference is revealed is in health care, where the U.S. system provides about 58% of service through the private sector and only 42% through the public.

In contrast, Canada's health care system is approximately 75% publicly provided and only 25% supplied by the private sector.

However, the differences are not restricted to health care. In the U.S. municipal sector, services such as garbage collection, road and street maintenance, parks and recreational services, planning services and a wide range of other activities are carried out predominantly through private contractors rather than by public employees.

In the educational field, the U.S. has a much larger private school system, largely because the rich do not want to send their children to the public-supported school system because they feel its standards are inadequate.

At the university level, a large number of colleges and universities are privately-funded and open only to those students who can pay the exorbitant fees. Thus the differences between Canada and the U.S. public institutions are even greater than the size differential suggests.

Reducing inequality

A third difference is that public programs in Canada play a major role in reducing inequality by establishing national standards of public services, accessible to all, regardless of ability to pay.

Indirectly, our nationally supported system of health care, post-secondary education and social welfare services also plays a major role in addressing regional disparities - a role far larger than regional development grants themselves. (Federal government spending on national social programs is approximately five times larger than total federal spending on regional development programs.)

Moreover, expenditures on health care, social services, education and transfer payments such as old age pensions are relatively evenly spread throughout the country, regardless of whether a province is wealthy or poor. They provide services and employment in areas which often have few other economic opportunities for their residents. In addition, we have a nationally-funded system of regional development assistance which channels money to projects in regions of high unemployment.

In the U.S., the system of regional development assistance is quite different. Aside from some government transfers, it is the spending of the Department of Defence which accounts for the major regional development support money. Defence expenditures, which account for a far larger share of G.N.E. in the U.S. than in Canada, act as the major regional development subsidy system.

The trade deal does not affect existing defence procurement arrangements on either side of the border. In other words, it does not affect the U.S. system of regional subsidies. It does, however, have a major and adverse impact on the publicly-funded Canadian system of national programs and regional subsidies.

Crown corporations

A fourth area where the role of the public sector differs substantially between Canada and the U.S. is with respect to Crown corporations and public enterprises. Canada has traditionally used public enterprises to

promote national and provincial development.

This has been in part because it was clear that the private sector would not, or could not, develop key economic sectors such as transport, hydroelectric power and certain key resources such as potash.

While reliance on public enterprise has had its shortcomings, primarily because too often public enterprises were used to subsidize the private sector, the fact remains that in many areas of the economy and in many provinces, public enterprise was the only way to promote economic development.

(Those who need a short lesson in the relative benefits of a free market approach compared with public intervention need only compare Saskatchewan, with its long history of public intervention in the economy, with North Dakota which is no less well-endowed with natural resources. Saskatchewan has a significant amount of manufacturing and processing of resources, agricultural products and light industry, while North Dakota, where the free market has prevailed, has a relatively small manufacturing sector and a far less diversified economy.)

Economic integration

The Mulroney-Reagan deal is committed to harmonization of the two economies. The concept of harmonization is fundamental to understanding why the deal will have such a negative effect both on the Canadian economy and, more specifically, on the public sector.

Harmonization will mean the creation of an economic and business climate in Canada which is broadly similar to that in the US.

It will mean that all aspects of the environment in which business operates will have to be equally favourable in Canada if businesses in Canada are to compete successfully. In fact, given the lower population density, greater distances from major markets, higher transport costs and more hostile climate, firms in Canada will have to have a significantly more favourable business climate to remain competitive.

To create and maintain such a climate, Canada will have to establish tax and regulatory policies which are similar to those in the US. Otherwise Canadian businesses - and subsidiaries of US. multinationals - will simply move south.

The establishment of a similar tax system will result in a major reduction of government revenues. Historically, Canadians have chosen to spend more on public services and pay a correspondingly greater share of their incomes in taxes. This explains, in part, why our public sector is so much larger, proportionately, than that of the US.

However, the trade deal will set in motion such powerful economic forces for reducing corporate and personal income taxes that it will be impossible for governments to continue to afford a pattern of social

expenditures which differs sharply from that of the US.

The logic of this is inescapable - and it explains in part why the corporate sector is so enthusiastic about the deal. For the deal allows the business community to implement substantial further cuts in public programs without having these issues discussed in the political arena and voted on by ordinary Canadians.

After the deal is implemented, it will not matter whether Canadians want to maintain the current level of public services. The economic forces it will unleash will be so strong that major cuts will be inevitable. Thus business interests will achieve through the back-door of the trade deal the social concessions that Canadians have resisted through the democratic process.

Regressive tax policies

Not only will harmonization of Canadian tax rates with those in the U.S. result in the adoption of a US: style tax system, sharp reductions in government revenues, and an erosion in the ability of governments in Canada to maintain a tax system suitable to Canadian needs: *it will also force us to adopt all the regressive elements of the US tax system as well*

This has already been happening under the Tories' proposals for "tax reform." In anticipation of implementation of the deal, Finance Minister Michael Wilson has already adopted many of Reagan's corporate and personal tax changes. The thrust of "Reaganomics" has been to reduce taxes on the rich and on business.

The result has been to increase social and economic inequality substantially since Reagan's election. Regardless of whether Canadians favour or oppose this approach, the trade deal will exert overwhelming pressure to harmonize our tax system with the socially divisive tax changes made in the U.S.

The role of government

In addition to reducing the size of government and transforming our tax system, the trade deal will also change the *role* of government in the economy. The deal explicitly commits the two governments to expanding the areas in their economies in which market principles have full scope to operate, free from government interference or regulation.

It commits Canada permanently to a neoconservative economic program in which the role of government is sharply reduced and the role of the business sector is expanded.

The entrenchment of market principles will hamstring future governments at all levels in their efforts to manage our economy. At the same time, it will also restrict the scope for democratic decision-making about the kind of economic policies Canadians want. This is because the market, not democratically elected governments, will now have much greater influence over such decisions.

A separate chapter of the treaty deals with the area of government procurement. It commits Canada to treat U.S. firms on the same basis as Canadian firms with regard to a wide range of purchasing and supply decisions. It reduces the amount of the contracts which will be open to competitive tendering by U.S. firms from the current rule under the international GATT agreement of \$171,000 (US.) to \$25,000 (US.). This will open up approximately \$600 million in federal government purchases to U.S. contractors. (A detailed list of the federal government departments and agencies which will be required to follow the new rules is included in the agreement.)

Under another section, the federal government has agreed to ensure that the treaty will be applied at the provincial and municipal levels. The situation of Crown corporations is not explicitly dealt with, but the logic of the deal is that it will include them in the future as well.

Total purchases by all levels of government, including Crown corporations, during 1983 amounted to \$71.1 billion. By any standards, this is a large expenditure. Table I provides a more detailed breakdown of these procurement expenditures by level of government.

TABLE I

Government Procurement Expenditures (1983)		
Government Category	\$ Billions	Per Cent of Total
Federal Government	&6	12.1
Provincial/Territorial Governments	14.5	20.4
Local Governments	9.1	12.8
Hospitals	3.8	5.3
Universities	1.3	1.9
Fed. Govt. Enterprises	16.1	22.6
Prov Govt. Enterprises	13.9	19.6
Local Govt. Enterprises	3.8	5.3
TOTAL	71.1	100.0
Department of Supply and Services		

The most striking observation from a recent federal Department of Supply and Services analysis of government purchasing in 1983 is that \$34.6 billion, or 48.7% of the total spent by all governments, went to the purchase of services. The relevant data are shown in Table 11.

Of even greater interest is the fact that the overwhelming proportion of services are currently being provided by domestic suppliers. While services amounted to almost one-half of all government procurement, only 4.3% of these were imported. In contrast, approximately 33.4% of manufactured goods bought by governments were imported.

In light of these figures, the significance to the U.S. of opening up the government services purchase sector is

TABLE II

Government Procurement Expenditures By Sector (1983)		
	Amount (\$ Billions)	Per Cent of Total
Industrial Sectors		
Service Industry	34.6	48.7
Manufacturing Industry	263	37.0
Primary Industry	102	143
TOTAL	71.1	100.0
Department of Supply and Services		

clear. The procurement chapter of the agreement initially guarantees U.S. firms open access to the procurement of goods in the federal government's 12.1% share of this purchasing. However, under the right of national treatment section of the deal and the commitments to open up services, it can be argued that the provincial, local and hospital sectors, as well as Crown corporations, will also be included.

If this proves to be true, the federal government's figure that the agreement opens up only an additional \$600 million of goods procurement expenditures to U.S. firms is highly misleading. The *real* amount could be as much as eight times higher, in respect of goods purchased if other levels of government are included, and double that again with the inclusion of services.

Two further points emerge from this section of the deal. First, to the extent that U.S. firms successfully expand their role as suppliers of goods and services to governments in Canada, *Canadian jobs will be exported*.

Second, a major penetration of our government purchase of services sector by U.S. companies would lead to a sharp increase in imports, with a corresponding negative impact on our balance of payments. Neither development is beneficial to Canadians.

Social objectives undermined

The significance of the section of the deal on government purchasing is that it seriously restricts the ability of governments in Canada to use their purchasing power to promote Canadian social and economic goals. Policies to encourage local sourcing and production, regional development, domestic research, and the promotion of strategic industries will be curtailed.

The use of purchasing policy to foster any social objective which conflicts with the market will no longer be allowed.

To enable U.S. firms to enforce this policy a new review body has been established to deal with complaints by companies that feel the tendering process has not been fair. This body will have the power to recommend changes in procurement practices

by governments.

While the procurement section of the agreement applies at present to the purchase of goods, it requires little imagination to see that it can easily be expanded to apply to contract services purchased by governments.

The distinction between goods and services in many areas is not at all clear, in any event. When looked at in conjunction with other sections of the agreement, it is apparent that this chapter lays the basis for the establishment, during the forthcoming negotiations, of new rules requiring compulsory tendering of a wide range of services which are currently provided "in house" by governments.

Public services included

Turning to the area of services themselves, the treaty grants access to almost all of our service sector to US firms. (A list of the specific service industries to which the deal applies is provided in the article by Marjorie Cohen elsewhere in this issue.)

In the area of public services, the deal appears, at first sight, to be much more limited in its application. This is largely illusory. For Mulroney has pulled a Trojan Horse into this sector by granting US firms the right to *manage* these public services. (A full listing of the services affected by the deal may be found elsewhere in this issue.)

The provision which permits US firms the right to manage public services such as hospitals, nursing homes, homes for the aged, ambulance services, health clinics and non-university post-secondary educational institutions, such as industrial and arts colleges, has profound implications. For it will quickly lead to the adoption of the commercial principles and practices which are customary in the U.S., where these management firms now operate.

In particular, privatization, speed-ups, staff reductions, union busting, and other practices prevalent in American public services will be encouraged by the deal under the guise of fostering freer competition.

Indeed, if one intended to transform our public services to the US model, one could find no better mechanism for doing so than to allow U.S. firms to take over their management. In short, the agreement opens the door to the Americanization of the way in which we provide our public services.

Market priorities dominate

The commitment expressed in the agreement that both governments will work towards expanding the role of market forces throughout the service sector means that public services which are not currently listed in the services chapter of the agreement, such as day care, primary and secondary education, and municipal services, are not necessarily protected.

Under other sections of the treaty, there are already

provisions for limiting "public monopolies," and granting equal treatment to U.S. firms in respect of contracting work given out by the public sector.

Moreover, the fact that certain public services are not listed in the services' management chapter of the treaty is no guarantee that they will not be added in the near future. Rather, there is every reason to believe that they

Our schools may suffer, too

Government funding of education will be weakened if Canadian firms or the US government demand that taxes be lowered and brought into line with those in the United States.

That's the considered view of the Ontario English Catholic Teachers' Federation.

"This deal doesn't mention education," said federation president Jim Cooney, "but it will be profoundly affected in funding, in content, in labour laws, and in the negative effects of dislocation on children.

"In education, the greatest long-term threat would come from that pressure to keep the costs of government in Canada competitive in a continental marketplace."

Cooney pointed out that Canada devotes a higher percentage of national resources to education than the US - 53% of personal income to elementary and secondary education in 1984 compared to 3.7/16 in the US.

The average amount of spending per pupil is also higher in Canada - \$4,377 (\$3,420 U.S.) between 1983 and 1986, compared to \$4,094 (\$3,199 U.S.) south of the border.

"Another major consequence for education," Cooney added, "could be the loss of distinctive Canadian learning material and an erosion of bilingualism."

will be brought in, since, as we noted earlier, the agreement commits us to a five-to-seven-year period of negotiations to expand the application of the deal and to resolve the question of which public services are to be considered unfair subsidies. We are merely at the beginning, not the end, of the process of opening up our public sector to market forces.

Future of public sector

if the impact of the deal on public programs in the near future will be negative, what about the longer term? The answer is even more of a concern. As the Canadian economy is further integrated into the U.S. economy, there will be growing pressure from business interests to ensure that Canada does not initiate new programs which may conflict with U.S. practice.

This means that proposals for expanding existing services or introducing new programs will be stifled. Public auto insurance, for example, would be extremely

difficult to introduce in those provinces which do not now have it because the treaty commits Canada to compensating US. insurance firms which may suffer a loss because of the establishment of public monopolies.

The effect of compensating these firms would be sufficiently great that it would negate entirely the benefits to Canadians of new public programs.

This section of the deal is nothing short of outrageous. For it ensures that private companies would stand to gain the entire savings made through the introduction of a more efficient public program. Indeed, the extent of compensation would be directly proportional to the savings generated by such a program.

As the scope of the agreement expands, there will be enormous pressure on Canada to reduce or eliminate all programs which the US. views as subsidies. The agreement provides no definition of a subsidy, but rather says that this will be the subject of negotiations over the next few years. However, in one case concerning the Maritimes fisheries, the US. identified over 50 different programs it, believed constituted unfair subsidies.

At the same time, the treaty's commitment to expanding the role of the market in the service sector (as distinct from public procurement) will create yet another pressure to entrench compulsory tendering

practices in the provision of services throughout Canada's public sector.

Employment undermined

The push for harmonization and integration of the two economies will also affect public sector labour relations fundamentally. The "Americanization" of Canadian labour laws has already been a major factor in the enactment of regressive public sector labour laws here in Canada. It is not accidental that the Vander Zalm, Devines and Gettys who have led the attack on labour and on the public sector look to the US. for models of how to run their provinces.

This tendency to adopt US. models will accelerate as Canadian government revenues are squeezed and business presses to cut wage costs throughout the economy in its misguided efforts to force Canadian workers to become more "competitive." Reductions in the real wages of public sector workers will be *the* major way that governments will deal with their declining revenues while still attempting to retain some semblance of service provision.

Importing U.S. failures

The bottom line on the Mulroney-Reagan deal for the public sector is that the U.S. is hardly a model for Canadians to follow in the reorganization of our public sector. (indeed, with the crash of the U.S. dollar and the failure of "Reaganomics;" it is clear it is no recipe for the rest of our economy, either!)

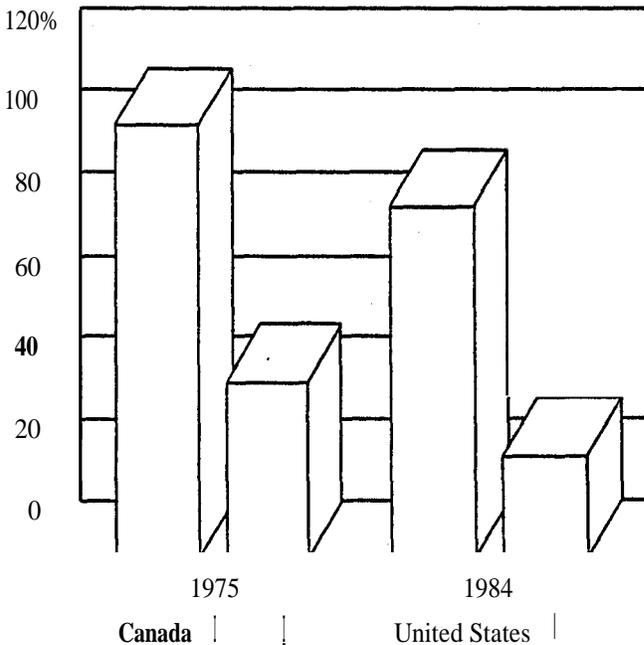
While many business interests - both Canadian and multinational - are jubilant about the deal because it will force us to adopt a US: style system of public services, the reality is that, for the vast majority of Canadians, this development will constitute an enormous - and permanent - step backwards.

Our system, despite its many faults and despite a virulent attack from the right over the past decade, has demonstrated over and over again that public provision of services works more fairly and more efficiently than a market-based system.

The market has failed to provide large numbers of US. citizens with adequate health care, adequate social services, adequate primary and secondary education and adequate municipal services.

The entrenchment of market principles in our public sector will import that failure into Canada and undermine much of what we have built in this country in the post-war period.

Unemployment Insurance Recipients as a Proportion of Unemployed Workers, Canada and United States, 1975 and 1984



Measured by dividing total benefit weeks paid by 52 times the average number of unemployed workers.

Source Based on O. Ashenfelter and D. Card. "Why have unemployment rates in Canada and the United States diverged?" *Economko* 53, no. 210 (Supplement, 19M): S184.8.5.



We give up control of our Oil and gas resources

A Continental Energy Policy

By John Dillon

Reagan administration officials have declared that the energy section is a major prize in the bilateral trade agreement. Few Canadians even knew that energy was on the bargaining table. The continental market established by the deal covers almost every kind of energy product: oil, natural gas, coal, and their derivatives, as well as electricity and uranium.

Campaigning in Calgary to sell the accord, Prime Minister Mulroney claimed that it would result in a wave of prosperity for the petroleum industry.

The facts, however, point in the opposite [direction](#). It was the Mulroney government's policy of adhering to falling world oil prices, *not lack of access to markets*, that caused the most recent recession in the Canadian oil industry. This policy is enshrined in the new agreement.

"Leap of faith"

Shortly after its election, the Mulroney government issued a document entitled *A New Direction for Canada*. This document called for a "renewed faith in the functioning of the energy marketplace." Ten days later Royal Commissioner Donald Macdonald issued his famous call for a "leap of faith" into free trade with the United States. That faith in free markets has already betrayed Canada.

On Dec. 10, 1984, Mulroney told an audience of 1,500 business executives in New York about his faith in markets. He said that the Liberals' National Energy Program was next on his government's "hit list," after dismantling the Foreign Investment Review Agency. His finance and energy ministers invited the corporate leaders to write their own ticket. Pat Carney, at the time minister of energy, said that the question put to the corporations was simple: "What is the option that will get you off your ass?"

When the consultations were finished, the result was a policy the editor of *The Investor's Digest* dubbed "A Private Enterprise Energy Program." The essential elements of the new deal, announced in March of 1985, included:

- world market prices for oil;
- phasing-out of the petroleum and gas revenue tax;
- replacement of the Petroleum Incentive Program grants with tax incentives; and
- elimination of volume and price restrictions on oil exports.

The executive director of the Canadian Petroleum Association declared that the Mulroney energy policy was "virtually identical" to that demanded by his lobby group, representing the largest energy companies. The Jan. 2 accord will make these policies permanent.

If the accord is ratified, Canada will lose the right to use minimum export prices, taxes on exports, or export quotas as instruments of energy policy. The National Energy Board's power to regulate the industry will be seriously weakened.

Rising profits

Even before the bilateral trade agreement was initialled, the regulatory powers of the NEB were being eroded by rulings favouring the export of larger quantities of our non-renewable hydrocarbons.

During 1984, exports of crude petroleum grew to about one-quarter of Canadian oil production. During that same year, the profits of 115 oil companies operating in Canada rose by 141% to \$3.7 billion.

The volume of Canadian crude oil exports totalled almost 30% of Canadian production in 1985, and rose to 37% in 1986 as corporations sought to compensate for falling prices by increasing exports. During 1986, oil fetched around US\$14 a barrel in the U.S. market. The cost of replacing each barrel with more expensive frontier resources was estimated at US\$24-\$28.

But these increased levels of exports did *not* bring prosperity to the oil producing provinces. The Mulroney government had promised that between 100,000 and 300,000 new jobs would be created by 1990 in energy projects. Instead the policy of moving to world petroleum prices backfired. World oil prices fell from US\$32 a barrel in November of 1985 to around US\$13 a barrel in March of 1986, the first anniversary of the Mulroney energy policy. Exploration declined, and there were massive layoffs in the Western Canadian oil industry.

As low world oil prices persisted into 1986, smaller energy companies were hard hit financially. Their larger cousins began to pick up oil and gas properties at fire-sale prices. Companies that hired acquisitions experts instead of geologists did well.

The *Financial Post* wrote about the "Americanization" of the Canadian oil industry as "US-owned multi-nationals... cash in hand [are] on the prowl for oil reserves, the value of which has fallen dramatically."

Government interpreters of the trade deal have claimed that "Canada has no obligation to supply energy to the US." This claim is a shoddy play on words. In fact, the deal concedes to private energy corporations

operating in Canada - including subsidiaries of US: based energy companies - the right to sell in US. markets as much or as little of our non-renewable energy resources as they choose.

Canadian governments, federal and provincial, will have little or no control over the process. Based upon past behaviour, and the statements of corporate officials, there is no doubt that the companies intend to export as much and as quickly as possible.

Scant comfort

There are two constraints on this corporate free-for-all. *First*, there is the issue of national security. *Second*, in periods of shortage, if and when such shortages are declared by the Canadian government, energy companies may export no more than the same proportion of our energy supplies as they had exported over a recent three year period.

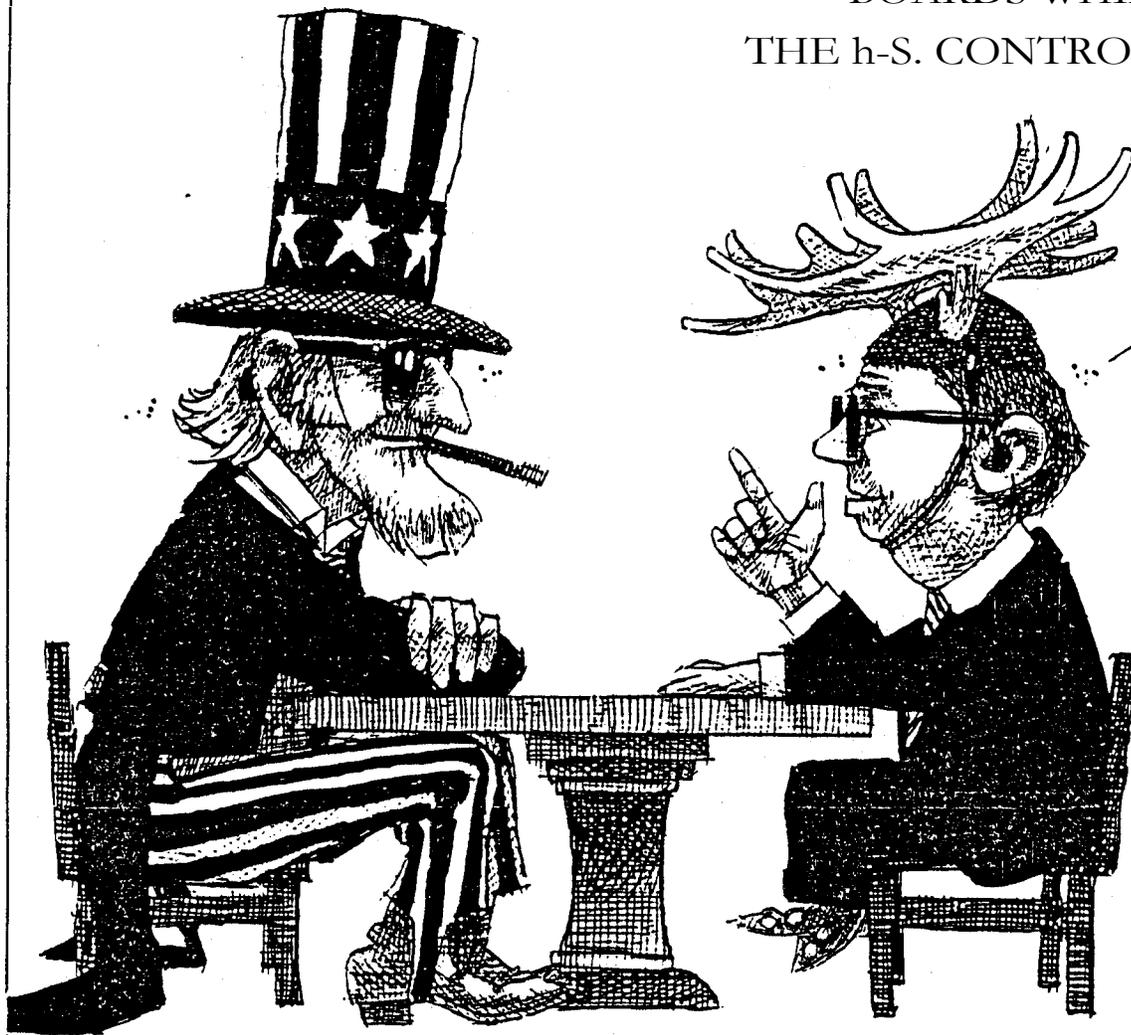
Such a limit will be scant comfort, as we watch the last of our low-cost oil and gas drain away.

The *Natural Gas Market Report*, an industry newsletter, uses National Energy Board (NEB) projections for supply, domestic demand and exports, to show that the proportional sharing requirement of the trade deal could cause a shortfall of natural gas within Canada.

The report examines a hypothetical case in which the proportional sharing clause for natural gas is invoked in 1995, and 1990 levels are used to determine the cap on the amount of gas which could then be exported to the U.S.

Under the NEB's high-price scenario, the result would

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be a 1995 supply shortfall, relative to Canadian needs, of 165 billion cubic feet (Bcf). Using the NEB's low-price scenario results in an even larger shortfall of 500 Bcf, equivalent to about one-fifth of the projected Canadian demand for 1995. The newsletter goes on to say.

"What has the natural gas industry gained? The popular answer is unrestricted access to the US market. however, the real answer is nothing... Access to the U.S.S market was already more or less assured because of market conditions..."

"Presumably, once the bilateral trade agreement takes effect, the federal government will be forced to abandon its present gas price policy which ensures that Canadian gas will not be exported at prices less than gas sold domestically... Canadians, in effect, could be subsidizing the export of gas to the US in the long term."

Regulatory measures

Certain powers of the NEB have been "grandfathered" - that is, allowed to continue, under the trade deal. At the same time, any NEB initiative may be blocked by the use of Article 905, which gives the U.S. the right to initiate consultations concerning any action undertaken by the NEB that it deems to be inconsistent with the agreement.

The Mulroney government has already undermined significantly the powers of the NEB. For example, Canada has had restrictions on the export of natural gas since 1907. Between 1959 and 1986, natural gas producers could not export to the U.S. unless they had a 25-year supply of gas available for sale in Canada.

This "surplus test" was first reduced to 15 years and then eliminated altogether by the Mulroney government. Thanks to this unqualified faith in transnational private enterprise, if the trade accord is ratified, Canadian governments will have lost the power to assure adequate domestic energy supplies before exports are sanctioned.

It is also not surprising that under the foreign investment rules contained in the agreement, Canada may not discriminate in favour of Canadian energy companies in any future incentive programs.

The deal does allow restrictions on energy exports or imports if these are deemed necessary in order to supply the military in peacetime, or in response to "a situation of armed conflict." Nevertheless, it appears that Canada's ability to restrict the export of uranium to the United States is limited by a clause which gives the US. the right to "respond to direct threats of disruption in the supply of nuclear materials for defense purposes"

Uranium trade is deregulated, so that private corporations may sell uranium on a continental market with few government controls. Canada can no longer require that uranium be upgraded to the maximum

extent possible prior to export, and the U.S. exempts Canada from a law prohibiting the importing of enriched uranium.

The deal gives Canada access to 50,000 barrels a day of Alaskan crude oil, provided that the oil is shipped to Canada from a suitable location within the lower 48 states. This latter provision is another concession to the U.S. shipping industry, which won changes to the preliminary transcript of the agreement to protect its monopoly over U.S. coastal shipping.

The access to Alaskan oil is at present meaningless, as no Canadian refinery has shown interest in importing it.

*"We've asked every refiner No one wants it," an official of Canada's Department of Energy, Mines and Resources told the *Globe and Mail* "The Vancouver refineries are not geared to run heavy crude," the official added. "Why should they buy and run heavy crude when they can get light crude from Western Canada?"*

"Consumers' cartel"

The deal gives priority to the International Energy Program (IEP) in the event that there is a conflict between clauses of the FTA and the IEP

The IEP was established in 1974 on the initiative of U.S. Secretary of State Henry Kissinger as a "consumers' cartel," ostensibly to counter the power of the Organization of Petroleum Exporting Countries.

Like the bilateral elements of the FTA, the IEP has a plan for sharing oil supplies among member nations. This plan comes into effect whenever there is a reduction in a member country's oil supplies amounting to 7% or more of its average daily consumption.

In such an event, the International Energy Agency, which administers the IEP, would assign to a group of transnational oil companies, headed by Exxon, the role of allocating scarce oil supplies among member nations "in accordance with historical supply patterns:"

Under these conditions, there would be no question of Canada (even Canadian-based corporations) controlling the disposition of Canadian energy resources. Making the IEP part of the deal would bind Canada much more surely than is now the case.

"Least cost alternative"

In the deal, Canada has agreed as well to eliminate a key price test which the NEB now applies on the export of energy. It is called the "least cost alternative test." It requires that energy exports be sold at a price no lower than that which customers would pay if they had to buy from an alternative supplier.

The aim of this test is to ensure that Canadian export prices are competitive but not cut-rate, so that the best possible return is secured from a given foreign sale.

It was originally adopted in 1967 when Westcoast

Transmission Company applied to sell gas to a US importer that was in a position to bargain for a particularly low price because it knew that the Canadian company had few alternate markets. In 1970 the NEB extended the test to cover electricity exports as well.

When the NEB held hearings in 1986 to reconsider its policy on price tests, every major provincial hydro utility except the New Brunswick Electric Power Commission wanted this test dropped. They argued

"Even greater access"

66 We are at a loss to understand how a government which has the interests of Canadians at heart would enter into an arrangement with a foreign power which would provide that power even greater access to the diminishing supplies of these essential (oil and gas) commodities."

- The Consumers' Association of Canada.

that it is difficult to obtain information on the prices of alternatives available to potential customers.

In reality, the provincial utilities think like their privately-owned corporate cousins: they want the test dropped because it limits their ability to compete aggressively for markets in the US.

US interests have come to view the test as an unfair trading practice resulting in higher import prices. Removal may also result in Canadian utilities engaging in price competition with each other in attempts to gain larger shares of U.S. markets.

In the forefront of the utilities' campaign to undermine the regulatory powers of the NEB have been the Quebec provincial government and specifically Hydro Quebec. This utility has staked its multi-billion dollar corporate future on winning large-scale US markets. It sees the least cost alternative test as an obstacle in its path and is delighted at its exclusion from the Mulroney trade deal.

Unwelcome constraints

The Bourassa government sees other unwelcome NEB constraints being swept away by the accord. Hydro Quebec recently suffered a setback when the NEB rejected its application to sell \$3 billion worth of power to the New England Power Pool.

The utility had failed, the NEB ruled, to prove that the electricity was surplus to foreseeable Canadian needs. The NEB found that Hydro Quebec had not offered the electricity first to other provinces before selling it to the New England Power Pool. Giving preference to domestic energy markets is prohibited under the trade deal.

Removal of the third price test is entirely consistent

with the Mulroney energy policy. When Energy Minister Marcel Masse promised that he would announce "during the winter" of 1987-88 a new government policy for deregulating electricity sales, he declared: "We believe as a government that the market is the best protector for the consumer."

However, if a new wave of energy mega-projects, such as another James Bay hydro development, result from the trade deal, it is the Canadian public who will end up paying the highest price.

Such capital-intensive investments create relatively few jobs at great costs to other economic and social programs. They assault our environment and the aboriginal rights of native nations, while denying us the opportunity for a secure energy future based on conservation and the development of renewable sources of energy.

Canada's burden of international debt would also increase. Massive energy exports invariably become essential in order to earn foreign exchange to pay the debts incurred to finance construction. Mega-projects also discourage diversification of resource-dependent regions like Western Canada by reducing the investment capital available for diversification projects.

Alternative policy

Fortunately, we do have an alternative to the continental energy policy that would result from ratifying the Mulroney trade deal. A national self-reliant energy policy would involve stable, made-in-Canada energy prices which - unlike the world prices of the trade deal - would be adequate to sustain a prosperous domestic energy industry.

We need to limit exports in order to conserve our non-renewable supplies of light oil and natural gas, and to reduce our dependence on imports into Eastern Canada.

Public ownership and control over the surpluses generated by the sale of non-renewable energy resources is needed to direct reinvestment into conservation programs, the development of renewable energy sources, and regional diversification.

Only by reversing the disastrous policies of deregulation and continental integration can we secure our energy future. This is as true for the provinces of western Canada, which have suffered an economic depression under Mulroney's corporate energy program, as for the rest of the country.

By defeating the Mulroney-Reagan trade agreement, ! we can begin to secure our common energy future.



The promise of a shoppers' heaven is just a fairy tale **N**

Consumers Won't Benefit

By Riel Miller

One bright morning in 1989, our Canadian hero, Dudley Shop-Rite, gets into his car and scoots across the border to the United States - the land of shopping opportunity.

He pulls into the Megabucks Deep Discount Emporium. Quick as a flash, the trunk is filled with a video cassette recorder, a new stereo, a refrigerator, a fancy three-piece suit, and three cases of beer in cans.

Dudley Shop-Rite jumps back into his car and heads for home. Driving along, he ponders the plight of all those poor border guards who are out of work since the Mulroney trade deal eliminated Canada Customs.

Waking from his idle day-dreams, Dudley is astonished to find a six-hour lineup at the border. By midnight he's face to face with Canada Customs. In a jiffy his haul is laid out for inspection. The new and *bigger* team of customs officers divide up Dudley's loot into two piles: one for goods made in the United States, the other for goods made in other countries.

Then they divide the American items into those that are at least 50% "Made in the USA", and those that are less than 50%. Finally, they separate the alcoholic beverages.

Dudley is shocked. He insists that the stereo is at least 50% "Made in the USA" But the guards, after checking with the manufacturer in California, inform Dudley that only the final packaging and labeling is of American origin. The components came from the Orient and were assembled in Mexico. Sorry, no duty-free status on items from outside of what the border guards glibly call "fortress North America"

A helpful Canada Customs official hands Dudley a bulky copy of *The Rules of Origin Guidelines*. Maybe next time he'll find something that qualifies under the rules.

At last every item is in the proper category. Now it's time to add up the duties and taxes. First they calculate the sales taxes which still apply to all goods purchased abroad (currently the federal sales tax is 12% and going up with the new tax reforms).

Then duty is charged on all the items not made in the USA, like the VCR, the stereo and the designer suit.

On the refrigerator Dudley has to pay \$56.25 duty, a big \$6.25 saving over the \$62.50 duty he would have paid in 1988!

Lastly, the beer brewed in Milwaukee still faces the stiff Canadian taxes on liquor and beer.

As a rose-coloured dawn gilds the sky, Dudley pulls into his driveway. Home at last, he can calculate the cost of his trip to consumer heaven. First, buying with American dollars cost an extra 30%. Next, add on at least 15% for taxes and duties. Finally, there's the cost of gas and travel.

Shaking his head in disbelief, Dudley Shop-Rite realizes that he actually *lost* money on the deal! *It's still cheaper at the corner store than south of the border*

No shoppers' heaven

Slowly Dudley's disbelief turns to anger. He was sure that someone had said that Canada Customs was packing up and moving to the Mexican border. Maybe Dudley heard Trade Minister Pat Carney when she said that free trade means that you "can bring anything you wanted back from the US. without paying duty."

Poor Dudley didn't hear the Ministry official who hastened to explain that "there is certainly a widespread misconception that free trade means you will be able to bring anything into Canada free - that just isn't the case!"

Instead of going to shoppers' heaven, Dudley Shop-Rite became a victim of Pat Carney's Consumer Fairy Tale.

Canadians who are eagerly anticipating the day when they can bring back items purchased in the United States unimpeded by tariffs or customs procedures have misunderstood the nature of this agreement. If anything, the effort to distinguish between American goods and those from outside fortress North America will mean *longer and more complicated* assessments of duties payable.

In addition, it should be clear to all Canadians that provincial and federal sales taxes will still apply. These taxes, along with the lower value of the Canadian dollar, mean that *few if any goods will be much cheaper under this trade agreement*.

Consumer gains will be quite marginal, especially if we take into account the fact that close to 80% of the goods traded between Canada and the United States are already tariff free and that most remaining tariffs will be phased out over a ten-year period.

During this ten-year span there may be some small savings due to tariff reductions on specific goods. Estimates by the Manitoba government indicate that, on average, Canadians *might* save \$20 per person per year over the period 1989 to 1999. These estimates don't take into account inflation or taxes, or the fact that companies rarely reduce prices. The savings could be even less.

*This tariff is calculated on the basis of a \$500 refrigerator. In 1988 the tariff on appliances brought into Canada was 125%. Assuming that the reduction in this tariff category is phased in over ten years (see the Tariff Schedule Book of the ETA), the reduction in the first year is 1.25 points, i.e., a duty of 11.25%.

More fairy tales

In a small pamphlet issued by International Trade Minister Pat Carney, Canadians are told that "the new Free Trade Agreement with the US. is a good deal for consumers. For every Canadian it will mean: lower prices, more choice, and high disposable incomes."

On every count, this is false advertising.

Prices are *not* going to fall. Consumer choices are likely to be reduced as Canadian firms go out of business. And, when it comes to income, it is hard to believe that wages will be any higher for a Canadian worker who is either unemployed or trying to compete with the no-minimum-wage States of the American south.

Inflation next year is universally expected, even by the Mulroney government, to be in the 4-to-6% range.

"Simplistic and naive"

66 Bilateral free trade with the United States is simplistic and naive. It would only serve to further diminish our ability to compete internationally. "

■ Michael Wilson, 1983.

That means higher, not lower, prices. Furthermore, as the *Ontario Economic Outlook*, issued by the Minister of Treasury and Economics in December 1987, points out: "The relatively low average level of existing Canada-US. tariffs, the relatively modest amount of Canada-US. trade affected by tariffs, and the 10-year phased-in nature of the changes, imply that the overall impact in the forecast period to 1991 is likely to be *very small.*"

Even the Consumers' Association of Canada admits that "prices will probably not drop at all, but will simply not rise as much as they otherwise would:'

It's just common sense. Canadian consumers recall the behaviour of prices over the past decade when the last round of tariff reductions were taking place (the Tokyo Round sponsored by GATT). At a time when tariffs on industrial goods imported into the developed nations were cut by an average of 35%, inflation moved *up* over 10%. Prices went up, not down.

The gradual reduction of tariffs on a narrow range of goods over a nine-year period (1979 to 1987) did not translate into lower prices. A combination of forces, such as general inflation, price rigidity, and increasing sales taxes, all added up to overwhelm the influence of the significant Tokyo Round tariff reductions.

Price rigidity

Most consumers are only too familiar with what economists call price rigidity. Sure, every now and then costs do fall, but prices don't. Sometimes costs are

reduced because of changes in world commodity prices. Such as less expensive oil. Other times an industry may benefit from a tax cut or a tariff reduction.

But these lower costs are very rarely translated into price cuts. Instead, the producer or retailer manages to push up profit margins a notch or two.

The prospect of major price cuts as a result of the Jan. 2 trade deal is an illusion. There is little reason to believe that the reduced tariffs will be reflected in reduced prices. Instead, most companies will just pocket the difference without the consumer being any wiser or richer.

In Canada there is a greater tendency for companies to keep prices high when costs are falling, because of the extent of foreign ownership of our economy. Detailed studies of pricing behaviour in Canada provide clear evidence that foreign-owned firms are even less likely to lower prices than Canadian owned firms.

American firms operating on both sides of the border in highly concentrated industries have little incentive to cut prices in Canada. Consumers are going to see *fewer* price cuts, now that the Mulroney trade deal allows almost unlimited foreign ownership of the Canadian economy.

Even when looking at specific goods, there is little to expect in the way of savings. Take, for example, the Canadian Auto Workers' analysis of the price differential between an American and a Canadian used car.

At first glance, a used car might seem cheaper across the border. For instance, a used car with a sticker price of \$7,000 in St. Catharines is selling for \$4,800 in Buffalo. This looks like a big savings, but a quick calculation shows otherwise.

First, add on the exchange rate differential, which brings the price in Buffalo to \$6,400 (\$1 Canadian = .75¢ US.). Next, there is the 12% Canadian federal sales tax. This adds another \$768 dollars.

In total, the cost of buying the used car in Buffalo is \$7,168 as opposed to \$7,000 in Canada. *By going to the US. a Canadian consumer loses \$168.*

When it comes to the alleged consumer gains from this trade deal, Canadians should ask themselves if they would buy a used car from Brian Mulroney.

Greater choices?

Promoters of the trade deal live in an imaginary world where the choice of ten different coffee-makers means ten different suppliers. But Canadian consumers know that the choice of ten different coffee-makers really comes from only two or three suppliers, each of which is a big multinational corporation.

The argument that tariff reductions will increase the choices available to consumers fails to take into account the nature of today's economy. As production on a global scale expands, so too does the grip of a few gigantic multinational corporations.

Small Canadian suppliers, where they do exist today,

will be hurt by a trade deal that allows the big international companies to capture the market. As a result, the choices available to Canadian consumers will be *reduced*, not enlarged.

Supporters of the trade deal want to argue two contradictory positions: First, that the reduction of tariffs leads to greater competition; and second, that competition leads to greater product diversity.

But competition in the *real* world means that small local firms go out of business. Those that do survive do not expand their product line. Instead, companies specialize by cutting back on all items except the one where they hope to keep ahead of the multinationals.

Only in an imaginary textbook world, where time can flow backward and the "perfect" market is composed of a multitude of small firms, does competition spur product diversity. *In the real world, consumers face fewer choices from fewer companies.*

Finally, even in those areas where there are many suppliers, only a handful are from the United States. How can a trade deal which only applies to goods which are 50% "Made in the U.S.A" be seen as increasing the choice of goods from Japan, Europe or the developing world?

Once again the promoters of the trade deal are misleading the Canadian people with fairy tales.

Disposable income

Disposable income moves up or down, depending on two basic factors: prices and wage levels. This means that the only way for disposable income to increase is if prices increase at a slower pace than wages, or wages increase at a faster pace than prices.

Nobody expects prices to start dropping, so the real question is whether or not wages will suddenly begin to increase faster than prices. If the past decade is any indication, the prospects don't look very promising.

On average, the pay cheques of Canadian workers have not kept up with inflation. As a result, the average weekly pay packet, measured in constant 1981 dollars, has fallen from \$332 in 1979 to \$325 in 1986. Projections for 1987 estimate that workers' purchasing power will have declined by another 2.2%. Disposable income is not growing; it's *shrinking*.

The trade deal will, if anything, worsen an already bad situation. Wages will be undermined in two major ways.

The first has little to do with trade or tariffs, but has a lot to do with this deal. Mulroney has given up the tools which Canadian governments have used in the past to boost productivity and income levels. (*See the article on industrial policy for more detail*)

If this deal goes through, Canadians will no longer be able to use energy policy or Crown corporations or industrial incentives to spur investment in Canada. Without investment, the economy will continue to slow down, pulling income down even further.

The second way in which the trade deal will hurt weekly pay cheques is by throwing close to 500,000 workers out of their jobs and forcing those who manage to hang on to compete with non-union low-paid workers in the American south.

Even the Mulroney government admits that job losses will cost Canadians millions of dollars. New jobs, as anyone who has to look for one knows, pay less on average than jobs left behind. Once again, there is *less* disposable income, not more.



The upshot is that Mulroney's trade deal is no bargain. Consumers, as well as workers and many domestic business firms, will pay a high price in continuing inflation, lost jobs and bankruptcy.

The case in favour of the trade deal depends, as even its supporters admit, on a leap of faith. It is a leap that neither consumers nor workers can afford.

It's a leap that *Canada* can't afford.



<u>AGAINST FREETRADE</u>	<u>FOR-FREETRADE</u>
-RAY.	-ANDREW.
-LIBERAL LEFT.	-TORY
-PROFESSIONAL.	-BUSINESSMEN.
-ETHNIC BACKGROUND.	-WASP
-MASTERCARD.	-AMERICAN EXPRESS.
-MAZDA.	-BUICK.
-C.B.C.	-C.Ty
-MACLEAN %3.	-FINANCIAL POST.
-E.XPOS.	-BLUE JAYS.
-SCOTCH or 1YINE(hNiTk1.	- RYE ANDDIET PEIVS1.
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ALAN ST. MONTREAL GAZETTE.

A Bureaucratic Monstrosity

By Stephen Clarkson

Trade liberalization doesn't just happen at the signing of a treaty. The partners who sign a deal have to change domestic laws so that their bureaucracies can implement the agreement and their courts can accept its provisions as the law of the land.

The provinces, states, municipalities and corporations are also supposed to change the way they behave.

But what if this doesn't happen? What if the legislature in one country passes laws that violate the agreement by introducing protectionist barriers which damage its partner? What if the courts in one country pay more heed to their own laws and precedents than to the international treaty and thus favour their businesses at the expense of the partner's?

To deal with this kind of violation, an agency must be established to act as judge and watchdog. These are typically supranational, meaning that they act at a level above that of the governments which agree to implement their judgments. To be effective, these institutional umpires must have a degree of autonomy from their governments.

A perplexing conundrum

Because the aim of trade agreements is to integrate the partners' economies more closely, many problems are bound to crop up as trading activities become intimately interconnected. For example, if the rules on bilingual labelling differ, businesspeople will complain about being caught between different standards. Whenever discrepancies in social programs, environmental and labour regulations, taxation burdens and administrative customs give business of one nationality cause to cry foul about the practices in the other country, a mediator will be needed to work at resolving problems.

To deal with unresolved problems, which are bound to crop up, an agency is needed to act as mediator. This agency will start making new policy for the two countries as it tackles problems unforeseen by the actual treaty.

The Mulroney-Reagan trade agreement proposes to establish machinery as umpire and negotiator that is both a radical innovation and a perplexing conundrum.

We are told there will be a new bureaucratic structure called the Canada-United States Trade Commission (Let's call it CUSTER) It will have heavy responsibilities, but its structure has been kept a mystery. Judging from the few hints contained in the fine print of the document, CUSTER may be paralyzed from birth.

Instead of making the Canadian-American trading

relationship more secure and serene, CUSTER could make it more uncertain and conflictual.

Wide-ranging duties

As defined in the fine print of the Mulroney-Reagan agreement, CUSTER's wide-ranging responsibilities include:

- Arranging annual meetings at the ministerial level to monitor the agreement.
- Establishing rosters of panelists eligible and qualified to rule on disputes.
- Selecting the panelists for each dispute panel.
- Deciding to accept or reject each dispute panel's final report.
- Dealing with complaints arising in any area of the agreement.

CUSTER will likely be responsible for much more than this judge-and-watchdog role. With its growing expertise on Canadian-American trade, it will have to be involved with - the five-to-seven-year-long negotiations that are being proposed to rewrite the laws governing Canadian-American trade.

This mainly involves the tricky problem of defining what kinds of government programs - such as regional development grants, research and development policies, pollution control programs, unemployment insurance, income security and health insurance - are considered "subsidies." They could become targets for US. trade protectionism.

There are other areas of unfinished business that may end up in CUSTER's lap. The United States has won a blank cheque (the "notwithstanding" clause in Article 2005) that lets it retaliate or seek compensation for unspecified losses that Canadian cultural policies may cause US. business.

If the US. exercises this right and some Canadians complain, CUSTER will presumably be called in to pass judgment on whether this action is fair or foul. Since the agreement includes a continual broadening of its provisions - including more services, reducing barriers to agricultural trade, harmonizing industrial policies and product standards - CUSTER's activities will get broader in scope the longer this deal stays in place. CUSTER's performance will be crucial to the success of the deal and to Canada's interests.

What is CUSTER?

So just exactly what will CUSTER look like? How will it work?

The fine print doesn't say much; and the document itself only gives us five clues:

- CUSTER "shall be composed of representatives of both parties."
- CUSTER "shall convene at least once a year in regular session to review the functioning of this agreement:'
- CUSTER's regular sessions "shall be held alternately in the two countries:'
- CUSTER shall "establish its (own) rules and procedures."

*'All decisions of the Commission shall be taken by consensus:'

These clues tell us a lot about CUSTER's "personality."

If it's to be staffed by "representatives" of the two governments, then CUSTER is not going to be an autonomous umpire insulated from political pressures.

CUSTER will not be a supranational body run by career bureaucrats who are independent of either country, as is the Common Market's European Commission. CUSTER is going to be a binational institution.

This may please some people, since neither partner is formally giving up sovereignty to a supranational authority. But if being binational is another way of saying it will have a split personality, we may have an important institution so torn by internal conflict that it can't work.

Take the simple question of who will pay for and pension off these pipers. If CUSTER's personnel are like other bureaucrats, they will owe their jobs, their salaries and their prospects for promotion and retirement to the politicians in Ottawa and Washington who hired there and who, presumably, will still be able to fire them.

Difficult to make decisions

This will make it just as difficult for the Canadian representatives to make decisions that differ from Ottawa's wishes as it will for American representatives to act in defiance of Washington's interests.

Far from being a body acting as umpire removed from the competing teams, it is going to be made up of members *of* the teams.

With its far greater power, the American team will have an implicit veto over CUSTER's decisions. Either the Canadian side will have to agree with their American counterparts or they will be locked in a stalemate.

If CUSTER "convenes" periodically, this implies it is not to be a permanent body but rather a grouping of "representatives" who come together on an *ad hoc* basis. Such an impermanent institution would not be

capable of shouldering the heavy responsibilities it has been assigned.

If it holds meetings alternately in the two countries, then CUSTER will be a character with two addresses and two headquarters, like the International Joint Commission. This confirms that it is binational, with no supranational personnel to do the technical research needed to decide the conflictual issues that will come before it.

There will be no common secretariat to keep the files, prepare agendas for meetings, and follow up on decisions. Instead, each side will do its own administration. This works well enough for the International Joint Commission, which avoids highly contentious issues. But for CUSTER, which must deal with conflict, this separation of administrations could generate even more conflict when there is disagreement between the two agencies.

How much power?

If it is to determine its own rules and procedures, CUSTER would then become a self-governing institution. Does such considerable autonomy mean CUSTER can decide its Canadian representatives won't be accountable to Parliament through the minister for international trade, or answerable to questions posed by the Auditor General? Can it vote its own budget? Can it levy its own fees to pay for its costs? Surely not! These ambiguities should be clarified.

If CUSTER makes all decisions by consensus, how will it be able to cope with trade conflicts between Canada and the United States?

If conflict levels are low, it's conceivable that the two countries' representatives on CUSTER could operate by consensus. But if conflict levels are high, due to continuing American protectionism - and the threat of US. protectionism is the reason for the deal in the first place - it is hard to see how CUSTER would not be quickly paralyzed whenever there is disagreement between the representatives.

US. pressure on Canada to change social programs it considers to be a subsidy would also set CUSTER up for dissension, unless the Canadian government instructs its representatives to cave in to the American position.

Unless Canada continues to acquiesce, continuing high levels of US. protectionism may put CUSTER in continual stalemate. After all, it has to pass judgment on the dispute panels' reports, some of which will uphold or denounce an American regulatory decision

If a regulatory agency's decision were upheld, the aggrieved Canadian exporter would probably press the Canadian representatives in CUSTER to reject the report. If it were remanded, the aggrieved American business would press the American participants in CUSTER to reject it.

Which side will prevail in the event of a disagreement: the party with the best argument, or the party with the most muscle? We know nothing about this central question. Simon Reisman and Peter Murphy

were so busy outfoxing each other that neither gave these basic problems any serious thought. It shows. As a result, CUSTER's first stand could well be its last.

Conceived in contradiction

Clearly, the question of the umpire for the Canadian-American free trade agreement has been conceived in contradiction. It will be hamstrung from the first controversial issue it has to handle.

CUSTER's clout appears to be entirely based on moral suasion. Although Article 1806 talks of "binding arbitration" should consultations not resolve a dispute, it does acknowledge that one side might "fail to implement" the allegedly binding panel's finding.

If this occurs and if CUSTER can't make up its mind on one of its dispute panel's final reports, Article 1807 indicates that a "party" which "considers that its fundamental rights... or benefits" under this agreement "would be impaired by the implementation or maintenance of the measure at issue" will be "free to suspend the application to the other party of *benefits of equivalent effect*" until the issue is resolved.

Translated, this legalese means that, if CUSTER doesn't come up with a mutually satisfactory solution to a dispute, the side which feels itself to be injured can retaliate.

The agreement doesn't specify who would decide what retaliation would be justified, or how "equivalent effect" would be calculated. Obviously these would be highly contentious decisions to make. The agreement is an elaborate effort to take Canadian-American trade tensions out of politics, but it could easily achieve the opposite: accentuate political tensions by creating dangerously strained situations.

The shift from moral suasion to retaliation has a second implication. Since the idea of retaliation means taking action - presumably in any area of the agreement - that has "equivalent effect," disputes in one area of the trading relationship could legitimately be linked to other areas of the countries' trade.

Legitimate use of linkage raises the probability of trade between the two countries in one area being disrupted or held hostage by retaliatory actions due to a dispute remaining unresolved in another.

The agreement's blaring silence about the codes and customs of the GATT (General Agreement on Tariffs and Trade) implies that four decades of slow, hard-won progress in this multilateral trade body has been set aside.

U.S. holds the axe

Although the deal was supposed to produce greater predictability it could produce more uncertainty. This would generate the antithesis of a predictable environment for investment and would push Canadian businesses to

relocate south of the border where the environment would be less subject to unwarranted disruption.

Uncertainty is further increased by the document's emphasis on abrogation. There is a possibility of terminating the agreement on 60 days' notice in the case of unresolved countervail or anti-dumping actions and on six months' notice in the case of failure to work out a substitute system for countervail.

Canada, as the weaker, more dependent and vulnerable trading partner, would need the protection of a much longer abrogation period than would the United States. Without a significant shield, even the possibility of abrogation may undermine the confidence needed for investment in Canada rather than in the United States. A longer period is needed to give the Canadian government time to begin extricating itself from this integrated relationship should relations get unbearably strained.

In the light of this standard, a short abrogation period gives the United States an enormous axe to hold over Canada's head when it comes to resolving disputes that CUSTER or other dispute settlement mechanisms have failed to settle.

Bureaucratic monstrosity

CUSTER is unworkable and its procedures promise to be destabilizing. It represents a radical departure from the norms of the Canadian-American relationship, which have shied away from institutionalization in order to deal with conflicts on an *ad hoc*, case-by-case basis.

What is now an institutional mystery on paper would become a bureaucratic monstrosity in practice.

In 1876 the American general, George Custer, precipitated his own demise in a foolhardy attempt to wipe out a band of Sioux Indians. He succeeded in getting himself, along with all his men, wiped out instead.

His homonym is the product of an equivalent attempt to provide a final solution to an ineradicable problem - in this case, managing conflict in the Canadian-American relationship.

A schizophrenic umpire designed to be kept under strict control by the two opposing teams, this latter-day CUSTER seems to have been set up for the equally impossible task of taking on overwhelming odds. As a result, CUSTER jeopardizes the Mulroney trade deal's chances of surviving much beyond birth.



Americanizing Services

The Mulroney government hails the trade agreement's rules on services as a "trail-blazing effort" which is unique in international trade agreements. This agreement "provides, for the first time, a set of disciplines covering a large number of service sectors" and will ensure that we will have "open and competitive trade in services." Aren't we lucky?

Well, no. No other nation, ever before, has wanted an agreement like this. No other nation, that is, except the United States. The pattern has been for countries vehemently to resist US. penetration of their service markets.

Trade in services is extremely important to the US. because it is the only major sector which manages to generate a trade surplus. The problem for American firms, however, is that while improved transportation and communications facilities have rapidly escalated the ability to provide services internationally, countries have begun to restrict the accessibility of their markets through non-tariff trade barriers.

They do this because they want to be able to protect their own industries and to maintain control over their own economies. U.S. service industries are among the largest and most powerful in the world, accounting for about one-fourth of the entire world trade in services. In some industries US. firms are truly dominant: in data processing, for example, American firms account for 80% of world trade.

Fastest growing sector

For most countries, even poor and underdeveloped ones, the service sector is the fastest growing area and accounts for the major portion of the income and jobs of the nation. The prospect of large international service firms, which have no particular loyalty to a country, dominating specific industries which are crucial to economic development is extremely threatening.

This is particularly true in industries such as banking, insurance, investment, telecommunications, transportation, culture and the whole area of social services. As a result, vulnerable countries have tended to band together when new rules on international trade have been negotiated to ensure protection of their service sectors.

Within the General Agreement on Tariffs and Trade (GATT), the US. has repeatedly tried to negotiate trade in service and its inclusion is the priority issue for the U.S. in the upcoming Uruguay Round. But even from the initial preparatory conference in 1946, developing countries, led by Brazil and India, have successfully resisted US. encroachments in this area.

Unfortunately, Canada has been relatively uncon-

cerned about the incursions of American service industries into our domestic market. For example, the Macdonald Commission, which provided 72 volumes of research to support its conclusion that comprehensive free trade with the U.S. would be good for Canadian industry, did not examine the effect of free trade on a single service industry.

The Commission's report conceded that free trade in services would provide great advantages for the U.S., but reasoned that gaining access to Canada's service market would be an incentive for the US. to 'offer guarantees of improved access for goods exported from Canada.'

Not a good trade-off

The trade-off has not been a good one for Canada. It is highly unlikely that Canadian exports have gained "enhanced access" to U.S. markets. But even if Canada had managed improved access for exported goods, the reasoning behind the bargaining would have been faulty because services account for about two-thirds of the income of our country and about 70% of our jobs. Putting these industries at risk because of possible gains in the goods-producing sectors has been a bad strategy.

In the trade agreement the US. has received extraordinary concessions from Canada in the area of services. In 296 service industries Canada will permit U.S. firms not only the right to establish in Canada, but also *the right to be treated as Canadian firms, whether they are located in the country or not.*

The right to national treatment for firms located outside the country will result in job losses in Canada. The right for US. service firms to locate in the country will depress the wages and working conditions of workers in these industries. It will also severely affect the quality, accessibility, and universality of our social services.

-Social services--

The government repeatedly stated that social services were "not on the table" in the free trade negotiations. In the explanatory preface to the agreement's chapter on services, it continues to maintain that government-provided services such as health, education and social services are excluded. The best one can say about this claim is that it is extremely misleading.

Social services most definitely *have* been included in the agreement, but their inclusion has been hidden from public scrutiny because they have not been listed by

name. Rather, they have been listed as code numbers from the Standard Industrial Classification list. The *management* of all health and most social services is listed. This includes the management of all hospitals, including general hospitals, mental hospitals, and children's hospitals; the management of other institutional services, such as homes for the physically handicapped and disabled, homes for disturbed children, and homes for single mothers; and the management of non-institutional health services, such as ambulance services, rehabilitation clinics, and public health clinics. The management of these services means just what one would think, according to Canada's Trade Negotiating Office - running hospitals, running homes for children, running ambulance services.

Strictly speaking, the government's assertion that the agreement applies only to commercial services is correct. If a hospital decides that it does not want private management, there is nothing in the agreement itself which will require it to open its doors to US management firms. However, there are compelling forces which can make this happen. The not-so-hidden agenda of the Mulroney government has been to

privatize many services now in the public sector.

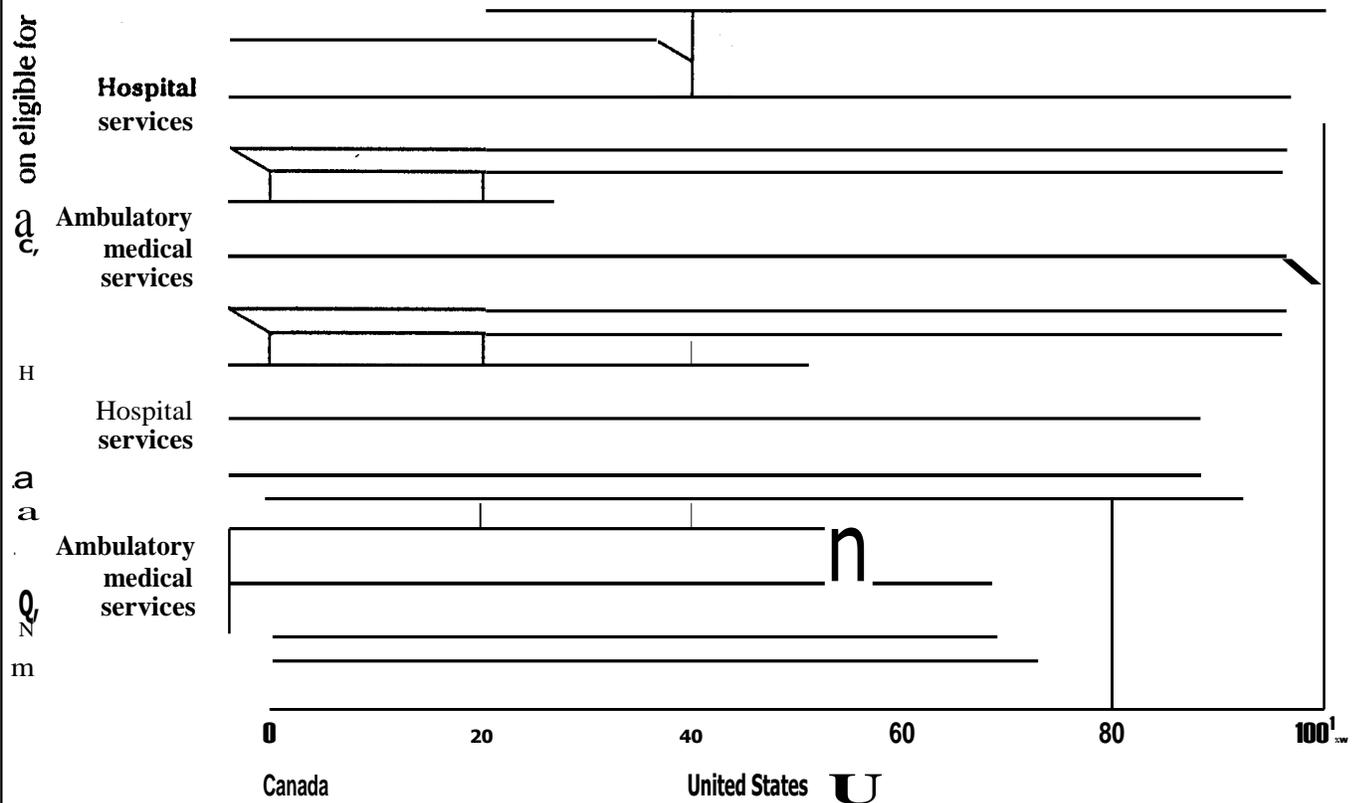
This is occurring in a number of ways and is not strictly limited to selling off the entire service. The contracting-out of management services can be a very effective way of limiting the spending on social services. As hospital boards are faced with stricter budget constraints, the prospect of cheaper management through private channels will certainly be attractive.

Cost-cutting measures

When the management of a hospital is run for profit, there will be strong incentives to cut costs, and it will be easy to do, since the budget will be under management control. This will affect both the delivery of the service and the labour conditions in the hospital.

A few hospitals in Canada are already run by private U.S. management companies. In these hospitals US type patient classification systems have been introduced as cost-cutting measures. These systems involve categorizing patients on a day-by-day basis according to their illness, feeding the information into a computer program which indicates the type and amount of nursing

Population Eligible for Publicly Funded Hospital and Medical Services, and Proportion of Medical Expenditures Covered by Public Funds, Canada and United States, 1983



Source Based on OECD, *Measuring Health Care*.

care necessary, and then calling on the labour force to meet the programmed need.

The effect on the nursing labour force can be devastating. In hospitals where this system has been used, the full-time regular nursing force has been reduced to a minimum, while the majority of nurses are on call, with their work being confined to a part-time and irregular basis. Nursing costs are the largest proportion of hospital expenses, so circumventing the necessity to have a large full-time nursing staff greatly reduces the administrative costs of the hospitals. With these schemes the quality of health care will certainly deteriorate, since nurses can have little discretion to give patients the care they feel is necessary. The amount of time they are allowed to spend on each patient is predetermined by a set program based on what makes sense financially in the US.

The attractiveness of the trade agreement to U.S. firms specializing in health care management is evident by their behaviour immediately after the principles of the agreement were announced in October. In Alberta, which already has one hospital under private management, a U.S. sales team quickly visited the province's hospitals to encourage more hospitals to follow this route.

Thick edge of the wedge

During the negotiating process, women's groups and child care associations were worried that day care would be included in the agreement. The government responded by saying that this was absurd, since child care was not a service which could be traded. Donald Macdonald, for example, when testifying before a parliamentary committee on free trade, asked: 'Are we going to have to bus our children to Cleveland to go to school?'

The idea of transporting children across borders seems ridiculous. But transborder trade is not the only feature of trade in services in this agreement. The right to establish in a country and to be given the same treatment as any domestic firm is critical in order to be able to provide the service.

The inclusion of child care could give "for profit" US. firms a decided advantage in this country. The most serious threat would be their ability to claim access to public funds on an equal basis with other non-government, non-profit child care services, as a right of the agreement.

Just exactly how child care services will be treated under the agreement is not straightforward. Considerable ambiguity exists about what U.S. firms will be able to demand as their rights. Child care has *not* been included in the list of service industries covered by the agreement. This does not mean however, that they are excluded from the agreement and are therefore safe, since they *are* covered in the chapter on investment.

The chapter on investment gives all service firms, whether or not they have been named in the agreement,

the right to establish in Canada, the right to acquire businesses here, and the right to national treatment. Because child care services have not been named in the section on services, it would appear that U.S. firms would not be able to claim a right to access to public funds (even though they often now have this right in practice.) One interpretation of the agreement, then, would be that US. child care operators in Canada have been given no more rights than they already have, and specifically that they would not have a *right* to government money.

However, another interpretation by legal experts indicates that the issue of US. service firms' access to government subsidies is open to argument. The provision of right of establishment under the investors section can mean it would not be possible for any government to discriminate against a U.S. firm if, for example, it gave capital grants for new day care centres. Another pertinent clause is Article 2011. This clause says that if a firm feels any measure adversely affects the operation of its business, which could reasonably expect from establishing here, then the firm will be able to complain about the practice, and ultimately insist that the issue be settled through the disputes settlement mechanism.

What all this means is that the exact status of services not specifically named in the agreement (e.g., child care) will only be resolved through invoking the disputes settlement mechanism.

There is another issue to be concerned about. Of all the health and social service industries which have been

"The true potential"

GG The Canadian dream is to realize the true potential of this nation - to express a separate and distinct character and identity., Free trade with the United States is unnatural because free trade will reduce our differences, and that is the antithesis of what Canada has been trying to do since Confederation. 99

- Martin Goldfarb, President, Goldfarb Consultants.

included in the chapter on services, only one group is excluded - the group which lists child day care and nursery school services. The management of every other social service, before and after this heading in the list of the Standard Industrial Classification code; is included. Undoubtedly child care services have been excluded

because of pressure from interested groups. But it is unlikely that child care will be exempt from this section for long. The agreement clearly states the intention to extend the provisions as soon as possible to include "additional services and (to identify) further opportunities for increasing access to each other's service markets."

The thick edge of the wedge has been firmly put in

place. The most crucial principles of free trade in services have been established, and it will be a relatively simple matter for the list of services covered to be extended quickly and quietly. This intention is expressly stated in the agreement itself, and when invoked will leave no ambiguity regarding services like child care.

Rules on monopolies

The new rules on monopolies will make it almost impossible for any government in Canada to extend public provision of services to those which are now in the private sector. The "discipline" on monopolies is a feature of free trade which has been effectively buried by the Mulroney government.

Although the US. government featured this as an important item when the principles of the agreement were announced in early October, it was not mentioned in the Canadian summary of what had been agreed to. And for good reason. *This provision will have the effect of prohibiting further government involvement in the private sector.*

The agreement [Article 2010] formally recognizes the right of governments to establish or maintain monopolies. However, it states that when any new monopolies are created, the U.S. must be notified before this is done and must be consulted so that harm is not done to U.S. firms.

Another section of the agreement relating to investments [Article 1605] requires that any government measure which is tantamount to an expropriation of an investment must provide for "prompt, adequate and effective compensation:"

The effect of these articles will be far-reaching. Establishing public auto insurance or dental care, for example, would have to overcome two giant barriers. First US. approval would be necessary since US. insurance firms would be affected. Then US. firms that would lose Canadian business would have to be compensated for their losses. This cost would likely be prohibitive, and it is a safe bet that no province would even entertain the possibility of attempting such an expensive and complex venture.

Access to subsidies

The agreement explicitly says that service firms will not be given access to government subsidies as a right of the agreement. This appears to be clear and straight-



forward. It would appear, then, that one fear is laid to rest. This fear is that private US. nursing home operators or day care operators (when they are included) would have access, on the same basis as any other non-government agency, to government funding when it is provided.

Unfortunately, the protection for support of non-profit organizations which provide services is not as secure as it seems. The important issue here is what constitutes the definition of a subsidy. When the government provides nursing home operators money for a patient's space, this is considered a fee for a service, not a subsidy. There is nothing in the agreement which specifically states that governments will have a right to give preference to non-profit agencies when it provides a fee for service.

Education is one area which has received no attention in the discussion of the effect of free trade, primarily because few anticipated the inclusion of non-university post-secondary education in the agreement. Granting U.S. educational firms rights of national and provincial treatment will be a strong incentive to encourage more private U.S. education in Canada. This will be true particularly in the training institutes which will have access to government funds through programs like Canadian Job Strategy. This program is designed to encourage private participation in job training and gives financial incentives for private organizations to initiate training programs.

With the trade agreement, U.S. firms will have equal access to government funding. Ultimately, the com-

bined efforts of free trade and government programs which encourage privatization will increasingly privatize certain sections of our educational system. Public institutions, such as community colleges, will more and more find themselves competing with private firms for government funding.

The trade agreement has not removed the most serious threat to social services in Canada - the U.S. right to continue to use its anti-dumping and countervailing duty laws to challenge various aspects of our social services as unfair subsidies to business. The agreement has put us in an even more precarious position.

"Passed under pressure"

KBill C-22 (drug patent legislation) was passed under pressure from Reagan and the multinational drug companies. It was the first example of where Canada - in a case where it was clearly superior - was driven down to the lowest US. common denominator..."

- Ralph Nader, US. Consumer Advocate.

The whole purported purpose of entering into a free trade agreement was to prevent U.S. firms from claiming various government programs as unfair subsidies. This was not achieved. What Canada has agreed to instead is to continue to allow U.S. firms to challenge any programs they feel put them at a trade disadvantage.

Our social programs will now be in even more jeopardy as our economy is more closely tied to the US. That is, as trade with the US. becomes even more critical to the success of our industries, we will be more susceptible to U.S. complaints of unfair government practices.

This agreement has not sorted out the whole complicated issue of what is a subsidy. Rather, it stipulates that during the next five to seven years the negotiations will continue so that new rules about what constitutes a subsidy and how they can be used will be established. Because Canada has already given away so much in this round of negotiations, we are entering the next phase at a great disadvantage. It is highly unlikely that Canada will emerge from this next round without damage to our social programs.

Trade in services

A great many commercial services can be provided to Canadians from firms which are located in the US. The trade agreement no longer permits governments in Canada to institute any measures that would treat US. firms in any of the 296 service industries covered by the agreement differently from Canadian firms, *even if they are not located in this country.*

This will certainly have an impact on the level of employment in many industries in Canada. For

example, free trade in agricultural services will mean that firms will not have to establish in Canada in order to provide seasonal services. The agreement will permit US. firms that provide services such as harvesting, baling, threshing, crop-dusting, soil preparation, planting, and cultivating to enter the country to provide the service. The firms will *not* have to locate in Canada, *and will not be required to hire Canadian labour; US.* equipment and labour will have to be accepted as a condition of free trade.

Other services, such as data processing, can be provided entirely from outside the country. The government argues that free trade in computer services, including data processing, is just following a world-wide trend, so it was inevitable. However, Canada is in a more precarious position than most other countries. This is because the language barrier is insignificant in most cases, and because such a large number of our industries have head offices in the U.S.

This means many ordinary office functions can quite easily be performed at a central location in the US. for large international firms. Right now there are restrictions on transborder data flows. Some of them are substantial and involve tax regulations and outright prohibitions against the processing and storing of data outside the country. As these prohibitions are lifted, the threat to clerical jobs will be considerable.

Clerical jobs account for about 30% of all jobs for women in Canada, so providing more of these services outside the country will have a significant impact on the area which provides the most employment for women.

It is undeniable that as services become more and more significant in world trade, international regulations would have to be established. Being against this trade agreement's provisions for services does not mean that Canada can or should ignore this issue. However, we will be in a much stronger position to see that our services are protected if we join forces with other nations in their negotiations with the U.S.

This can happen in the negotiations which will take place in the Uruguay Round of GATT But it can only occur if Canada does not implement this agreement on January 1, 1989.

The trade agreement with the US. is a colossal give-away of our service sector, and the full extent of its implications *will only be felt* in the years to come. What has been negotiated so far is extremely dangerous, but even more threatening is the realization that the agreement is not a once-and-for-all list of the services to be covered. The agreement must be viewed as a process toward greater and greater integration of the U.S. and Canadian service sectors.



Our culture is not protected under this deal, as promised

What Kind of Canada?

By Rick Salutin

From just about the first moment of his free trade initiative, Brian Mulroney promised us, in plummy tones, that he would "protect our cultural sovereignty." We should have known we were in trouble.

Now, with their deal done, Mulroney and his culture minister, Flora Macdonald, swear they kept the faith. Yet ask the people most involved: the writers, artists, actors and musicians. Listen to the president of ACTRA, the union of 9,000 Canadian writers and performers in TV, radio and film, speaking to the House of Commons committee on the deal:

"We say to our prime minister and we say to you: *he failed us* Canada's ability to improve the cultural life of Canadians, to continue to build an independent presence in the northern part of the continent, to strengthen our heritage as Canadians, has been traded away."

ACTRAs position was [supported by](#) Canadian Actors' Equity, the Writers' Union of Canada, the Playwrights' Union of Canada, and the Periodical Writers' Association of Canada.

Indignant and opposed

Brian and Flora are flabbergasted at this failure to appreciate the cultural side of their deal. They've had a little support from people like the owners of Maclean-Hunter magazines, and the businessmen in the Canadian Association of Broadcasters; but the people who actually *make* our culture, as opposed to those who merely *pay* them for making it, are indignant and opposed. What's going on?

To start off, three facts:

(1) There is not a **lot of Canadian** culture left to protect. Most has already been picked off by the Americans. Less than 5% of all screen time in Canada goes to Canadian movies, and 97% of film profits leave here, 95% to the US.

Only 24% of video cassette sales are Canadian. Prime-time TV in drama and sitcoms is just 2-3% Canadian. Canadian-owned publishers have a mere 20% of the market, though they publish 80% of Canadian titles. And 77% of magazines sold here are foreign, along with 85% of records and tapes.

No other supposedly independent country mirrors this situation. We have writers and artists to be proud of, but protection of the status quo is hardly what we require. We need aggressive support and expansion.

(2) What we *have* built in our culture has been

achieved largely through the use of public policy **and funds**. When you read a book by Farley Mowat, or enjoy a satirical song by Nancy White on CBC radio, or attend a play at one of our regional theatres, you can do so largely because the Canadian people have decided, through their governments, to support the creation of culture in this country.

Of course, government support doesn't create the artists or tell them what to do, but it does allow them to live and work as artists in Canada, without taking day jobs, or having to move somewhere else.

This kind of public support for culture is not unusual in the world today; in fact, it is normal in every comparable country *except* the United States.

(3) Americans are **extremely touchy** about this subject. They have always used their culture - movies, TV, music - along with their military and economic power, to get their way in the world. They see no reason why they shouldn't sell *their* culture without limits in *our* country; and they consider our cultural policies as impediments to their business.

Ten years ago *TIME (Canada)* lost the right to call itself a Canadian magazine. Since then the Americans have put the issue near the top of *every* Canada-US summit, and demanded a reversal.

In the past 40 years, every time a Canadian government tried to encourage a film industry in this country Hollywood and its troops have rallied in opposition - and every time they've won.

Recently the Mulroney government proposed a very mild policy that would have allowed a few more Canadian films into our theatres. The head of the US film industry called the policy a "viral contagion" ready to sweep the world; it has since been withdrawn.

The Americans sometimes seem to take culture here more seriously than we do ourselves, and we should have expected their attitude to show in this deal. It does.

Retaliation clause

What does the deal say about culture?

To start with, it says our cultural industries are exempt from the terms of the agreement. This sounds not too bad. Under the deal, Americans can buy up just about any business in Canada, and we, through our government, can't stop them or place conditions on their purchase. If they try to buy a book publisher or other cultural "enterprise," though, our government retains the right to step in.

But the *very next sentence* says, if any Canadian cultural policy costs the Americans money in Canada, the U.S. can retaliate against our exports, and not just in culture, but *in any area they choose*. Talk about giving with one hand and taking back with the other! This is like being told: you can rob that corner store, but if you do you'll go to jail.

The retaliation clause means that if a Canadian publishing house is bought by an American conglomerate like Gulf & Western or Coca-Cola (that's who owns publishing in the U.S. these days), our government can step in and stop the sale. But the Americans have every right then to tote up their financial loss, and hit us back by penalizing Canadian exports to the U.S., such as steel, fish, or agriculture. This is what our government has agreed to, with *no* apparent right of

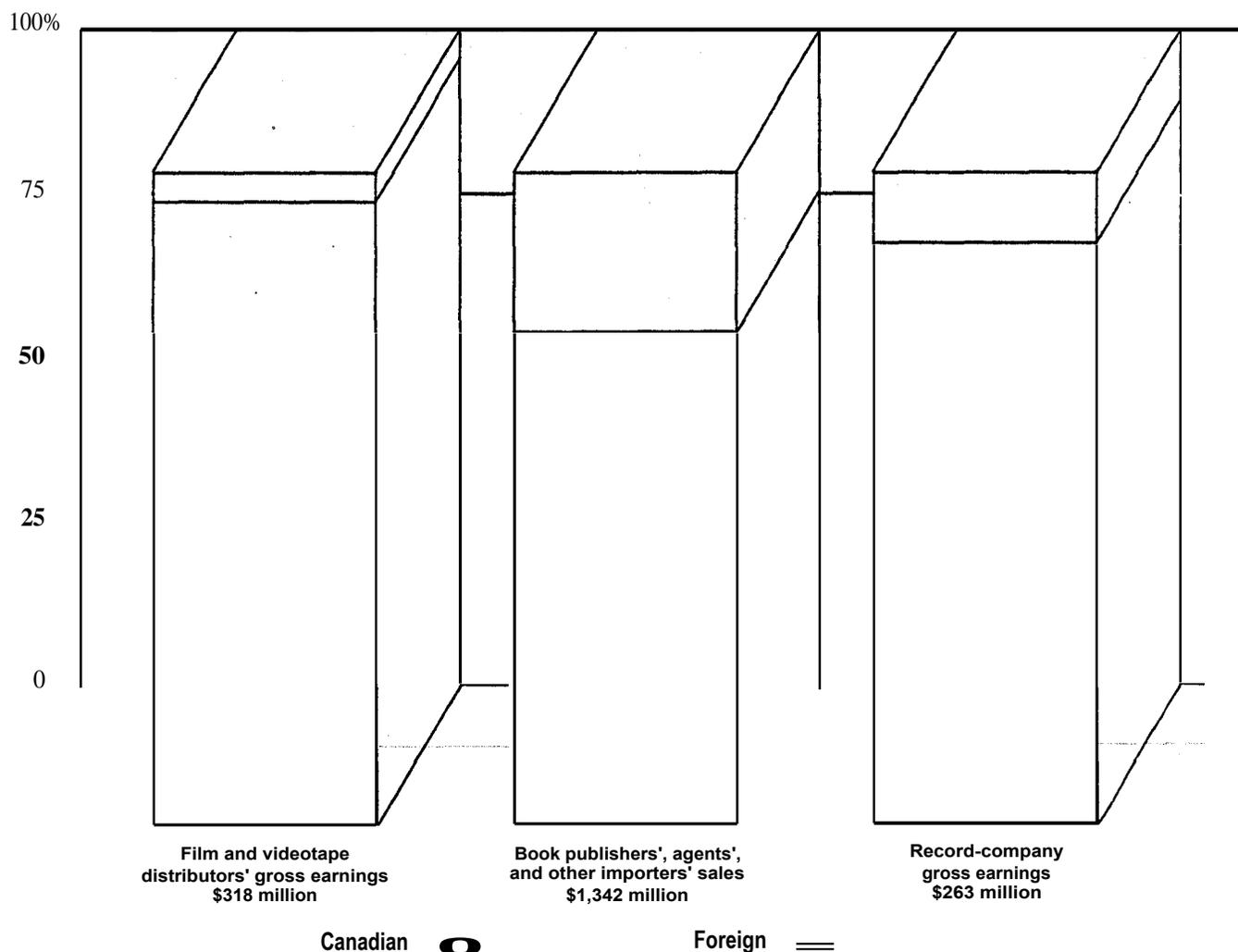
objection or appeal.

Can you imagine the reactions of Canadian steelworkers, farmers or fishermen, who lose their jobs or homes because of a government policy that supported Canadian writers and readers?

This is a formula for setting us against each other - artists against factory workers, musicians against miners - and for forcing Canadians to choose between bread on their tables and those things that nourish their spirits. Almost any government would have no stomach for such conflicts, and would probably avoid cultural policies which could create them.

The likely outcome under the deal is therefore that governments would stick to cultural policies that won't provoke complaints from the U.S. Like what? Like supporting the opera, the ballet, or the symphony -

Sales of Canadian vs. Foreign Products, Selected Cultural Industries, 1984



Source Statistics Canada. "Canada's balance on international trade in the cultural sector," *Culture Communiqué. Service Bulletin*, vol. 9, no. 5 (August 1986).

areas where Americans don't do business in Canada, and which, by the way, business executives and their American associates attend a lot more than the rest of us do.

Governments would probably step back from supporting areas that affect most people, like TV, radio, film, and popular music, because in these areas the Americans are in business to make money up here.

Some exemption!

Almost any Canadian cultural policy could be attacked under this deal. Canadian content rules set by CRTC regulations for radio music, for instance, or even the CBC itself, or the Canada Council. If the CBC, for example, chose to make its prime-time TV schedule

all-Canadian, the Americans could compute their losses in sales of *Dallas* and the like - and hit PEI. potatoes or B.C. lumber.

For that matter, according to the language of the deal, the U.S. wouldn't need to wait for *new* cultural policies. They could challenge *current* CBC policies, or the fact that the Canada Council helps support writers and publishers, thus marginally impeding American profits in the Canadian book market - and threaten to retaliate.

Without institutions such as the CBC and the Canada Council, we would have no culture, yet the government has put them all on the block. Some exemption!

There are other threats to our culture, too, under this deal in which the Tories claim they "kept culture off the table." To take one example, many of our magazines are



severely threatened.

Right now, to qualify for Canadian status and certain benefits that go with it, a magazine must be printed and typeset in Canada. Those requirements are eliminated under this deal. This is fine for huge magazines like *Maclean's*, which can save money by printing in the US with non-union labour, but it means the Canadian printing industry and sectors around it (like typesetting and "graphics") will have trouble surviving, and will have to specialize and raise prices.

Smaller Canadian magazines which can't afford to print in the US may well be priced out of existence - and Canadians will be left with *People*, *Newsweek* and to be sure, *Maclean's*. Think about this when you read the next *Maclean's* editorial supporting free trade.

"On the table"

iG What is on the table is Canada itself. We are not talking about sovereignty association with the US. What we are talking about is association sovereignty. We get the association and the US gets the sovereignty."

■ Mel Hurtig, Publisher.

The Americans don't have to go after every element of our culture at once. They have a hit list, and they are crossing off items methodically. With the print and typesetting changes, they have begun to dismantle the TIME policy they detest so much.

That extremely mild film policy proposal has already been withdrawn; its removal was a precondition for the deal.

A tax break which aided filmmaking here is also gone. *The US won these points simply by demanding them from a Canadian government desperate to accommodate the US.* And if a Canadian government ever decides not to simply give in on cultural demands, the Americans now have their ultimate weapon, the retaliation clause.

We have handed the U.S. a kind of cultural laser beam, with which they can pinpoint elements of our culture for elimination, one by one. It is a sort of insurance policy for them. Should this government, for instance, go berserk and reintroduce the film bill, the Americans could claim financial damage, threaten to retaliate, and wait for the Canadians to back down.

Culture treated worse

All in all, it is possible to argue that culture has worse treatment under the deal than almost any other sector. It is apparent the Mulroney government didn't gain its main object in the negotiations: clear rules of trade that both countries accept. The Americans will continue to claim our social policies - like Medicare and unemployment insurance, and our regional equalization

policies - are unfair subsidies; and they will continue to penalize us for such behaviour.

But in the next five to seven years, when both countries are supposed to negotiate a definition of unfair subsidies, we can at least continue to defend our social and regional policies and argue it is our right to have them.

In the area of culture, we have already granted the definition of an unjust subsidy: it is *any cultural policy which costs the Americans money in Canada*

When it comes to culture, we have already accepted the underlying premise of American society as our own: that every value in life can be reduced to dollars. And we surrendered on this crucial issue without a fight.

A final point. What if Mulroney had kept his promise to protect our culture, while signing away the rest of our country. Most writers and artists would still hate this deal. We don't create culture just as a private activity. We do it as part of our community and our country.

If we are absorbed into that glittering American marketplace, if there is nothing distinctive about us, nothing to be proud of - then what kind of Canadian culture could we create in the future? There might still be books, films, and music made here, but there would be nothing *Canadian* about them.

All about culture

The truth is, it was never possible to keep culture out of the deal, because *the deal is all about culture*. This deal is about the way we think of ourselves and our fellow citizens, and our role in the world.

Already those thoughtways are being altered by the new language of the free traders: an imported Reaganite language of tough, lean and mean; of not being wimps, or fearful, or weak; of, in the ugly words of Donald Macdonald, rejecting the idea of Canada as a "sheltered workshop."

Artists don't create out of air, or their own heads; they take images from the world in which they live, and remould those images in the hope of moving and enlightening their fellow citizens. When our society changes, our art is affected as well.

The fight over this deal is altogether a fight about culture, because it concerns the kind of Canada we hope to construct for ourselves and our descendants a project requiring far more creativity and imagination than any novel or symphony.

The fight was never just to save our culture; *it was always to save Canada.*





Industrial Policy Restricted

U.S. President Ronald Reagan has described the Canada-US. trade agreement as an "economic constitution for North America" For once, he was not exaggerating.

The Mulroney-Reagan deal is much more than a trade agreement. The deal goes far beyond the nuts and bolts of Canadian tariffs and the administration of US. trade law to encompass virtually every area of public policy of any significance to Canada's economic future.

The impact of the deal on Canada's ability to develop an independent economic policy is staggering. It imposes extremely severe limitations on Canadian industrial policies. So severe that it will be virtually impossible for Canada to have an industrial policy worthy of the name.

Flexibility curtailed

The agreement either eliminates or sharply curtails Canada's policy flexibility in seven areas which are central to any coherent economic policy in a country with an economic structure like Canada's.

1. In a country with the highest proportion of foreign ownership of any OECD country, the deal prevents Canada from imposing restrictions on investment from our most significant foreign investor, the United States, and limits our ability to impose performance requirements on investors from third countries.
2. In a country whose traditional competitive advantage has been relatively abundant and low-cost energy supplies, the deal prevents Canada from exercising any control over energy prices and supplies.
3. In a country whose trade is dominated by a single trading partner, the deal substantially limits Canada's ability to develop and influence trading relationships with third countries.
4. In a country whose economic geography has traditionally required government intervention of various kinds to strengthen and diversify regional and resource-based economies, the deal makes it impossible for Canada to pursue any of its traditional approaches to regional development.
5. In a country whose climate alone requires special arrangements for the production and marketing of agricultural produce, the agreement undermines the effectiveness of the orderly marketing structure that has been the cornerstone of Canadian agricultural

policy

6. In a country whose cultural industries are under constant threat of domination from the United States, the deal sets up trade-offs between cultural policies and other economic benefits that will make the introduction of new cultural policies extremely difficult.

7. And in a country in which Crown corporations and regulated monopolies have played a significant role in economic development, the deal imposes strict limitations on the economic roles of these institutions.

Sobering reading

The details of the deal make very sobering reading for any Canadian who supports the creative use of public economic policy to enhance economic opportunity and security in this country.

Foreign investment: the agreement specifically prevents Canada from establishing performance criteria for US. investors in Canada. It also prevents Canada from establishing such criteria for foreign (non-US.) investors if the requirement adversely affects either Canada-US. trade or the interests of U.S. corporations.

In countries with relatively low levels of foreign investment, a similar limitation might not be a serious problem. But for Canada, with its extremely high level of foreign investment, the loss of the right to set criteria for such investment is a very serious loss of policy flexibility indeed.

Energy: For much of our history, the availability of relatively low-cost energy supplies has been one of Canada's economic advantages. That advantage has been used effectively by provincial governments to attract energy-intensive industries.

For example, Quebec, Manitoba, Ontario and British Columbia have all used low-cost hydro-electric power as a means of attracting smelting and other electricity-intensive industries. Alberta has encouraged the development of its petrochemical industry through the application of preferential price and supply policies.

Under the trade agreement's prohibition of price and supply allocation discrimination against US. consumers, such policies could not be applied.

Options limited

Energy is also an important industry in and of itself. The trade agreement limits Canada's policy options for the

development of this sector to "incentives" for resource development aimed at conserving the reserve base. It would not, for example, have permitted the kinds of pooled pricing arrangements that allowed for the development of oil sands projects when production costs were far higher than world prices.

It would also not have permitted the "Ottawa Valley" policy of the 1960s and early 1970s which, prior to OPEC's success in pushing up oil prices, guaranteed Canadian oil a market at above world prices.

Trade policy: The agreement limits Canada's policy options for trade in three ways.

First, and most important, it eliminates the whole notion of trade policy as it relates to our biggest trading partner. In effect, Canada can have no policy regarding trade with the United States, other than the free trade agreement. Indeed, by agreeing to a common process for judicial review of trade administrative decisions, *Canada is effectively accepting the legitimacy of US trade laws as they affect Canada.*

Second, it specifically outlaws the use of performance-tied duty remission programs. Such programs have been used by Canada to encourage production in this country by allowing the privilege of duty-free imports to corporations that meet performance criteria. The agreement *prevents* Canada from using such programs in its trade relationships with any country.

Third, the agreement will create pressures to equalize Canadian and US. tariffs on goods or services that are inputs to industries involved in Canada U.S. trade. The most obvious example is in the auto sector, where tariffs on parts are much higher in Canada than in the US. With free trade between Canada and the U.S., Canada's higher parts tariffs will actually become a disadvantage in attracting Japanese investors to this country.

Auto industry

The deal's limitations on trade policy have particular significance for Canada's auto industry.

Canada has taken three different but related approaches to attracting auto industry investment. We have encouraged new firms to qualify under the Auto Pact by meeting the Canadian production safeguards. These firms qualify for duty-free entry into the US. as well as for duty-free imports of parts from any country.

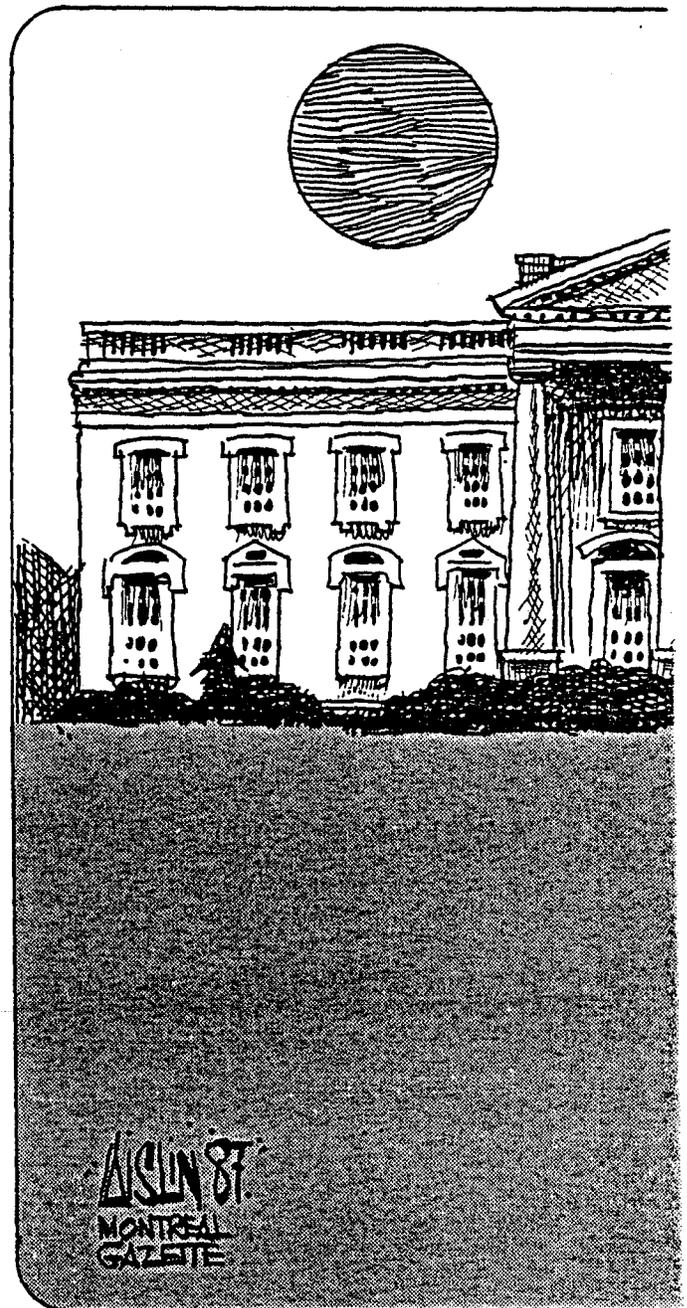
And we have also implemented two types of *duty* remission programs in the auto sector, one tied to Canadian content, like the Auto Pact, and one tied to export performance. While these programs do not offer duty-free access to the US. market, they do allow firms that meet the performance requirements to import duty free.

The deal specifically freezes Auto Pact qualification at the end of the 1989 model year. No more firms can qualify.

The duty remission programs are terminated in the deal. The Canadian content-linked programs must be phased out by 1996 and no new firms maybe included. The export-I inked programs must end immediately for exports to the U.S. and for exports to all countries by 1996.

The loss of these programs will have an immediate impact both on the activities of the companies that currently benefit from participation and on the location decisions of auto industry firms in the future.

It is generally agreed by auto industry experts that, when currently planned offshore investments in North



America are included, production capacity exceeds demand in North America by about 3 million cars a year.

Big shakedown coming

The industry is heading for a big shakedown. The share of the "Big Three" will shrink while the share of offshore producers will increase. Attracting offshore - principally Japanese - investment in Canada will be critical to maintaining our share of the North American automobile market.



But how are we going to attract that investment? We can't use the Auto Pact, because no more firms can qualify. And in any case, offshore investors don't need to meet Canadian content rules to get duty-free access to our market. We also cannot use the main policy tools we've used to date - duty remissions. The agreement outlaws all performance-related duty remission programs.

The location of new offshore investment in Canada will therefore be determined entirely by the market. Consider the choice faced by a Japanese corporation seeking a North American location. If it locates in Canada, it will have to pay duty on its shipments into the U.S. market until it meets the North American content rule. It will also have to pay higher Canadian duties on the parts it imports. If it locates in the United States, all it will have to pay is duty to ship to the much smaller Canadian market (1/10th the size of the US. market) and the lower US. parts duties.

If the auto industry in North America were stable, the argument that the trade deal won't adversely affect Canada's share of the market might hold up. But the North American auto industry is anything but stable. It is in the middle of its most massive adjustment since Ford and GM refined assembly line technology. *What the trade deal does is make it impossible for Canada to influence the outcome of that adjustment.*

Regional and industrial development policies:

Although the trade agreement does not specifically prevent Canada from carrying on with its traditional approach to regional and industrial development, it will make such policies very difficult to apply effectively.

The agreement does not deal in any way with the extremely broad definition of "subsidy" in US. trade law. Virtually every conceivable Canadian development policy is considered by the United States to be a subsidy. In fact, because Canada has agreed to a joint judicial review process in trade administration, Canadians will find themselves applying *US. definitions* of what is subsidy to Canadian programs.

While this does not directly prohibit Canada from carrying out industrial development programs, it does mean that industries assisted by these programs will not be able to export to the United States without attracting U.S. trade penalties.

Such industries would, of course, be allowed to sell into the Canadian market. But they would never be able to grow to North American scale. And they would face competition under free trade from U.S. firms that are already at that scale.

Agriculture: While agricultural policy isn't normally thought of as an industrial policy, it should be. The goal of the agreement in agriculture is to open up the North American market on a competitive basis. But in agriculture, more than in any other sector, we have to face reality. We cannot hope to compete with the

agricultural industry of the United States on an equal basis. That has nothing to do with how good our farmers are. It has strictly to do with climate and soil conditions.

Uneasy rider

Cultural policies: Although the deal specifically permits Canada to continue with existing cultural policies and allows the implementation of new policies, it contains a rider that will have an extremely important impact on the politics of culture in Canada.

Paragraph 2 of Article 2005 of the deal would allow the United States to "take measures of equivalent commercial effect" in response to cultural policies that limit U.S. cultural industries access to the Canadian market. What this means in plain English is that the United States can earmark a particular retaliatory measure in any industry as a response to a particular Canadian cultural initiative.

The potential impact on the political basis for cultural policies in Canada is obvious. It will give the U.S. immense scope for political interference in cultural matters. Imagine the impact, for example, of a U.S. steel export rollback in response to a Canadian film distribution policy!

Crown corporations and monopolies: Property rights have been the most ideologically laden of constitutional issues in Canada. An important part of the debate has concerned the limitations that the entrenchment of private property rights would impose on the use of public initiative and public enterprise as part of an industrial strategy for Canada.

Article 1605 of the agreement establishes rights equivalent to entrenched private property rights for U.S. investors in Canada.

The article goes beyond "national treatment" to impose restrictions on expropriation of the property of U.S. investors, even if no such restrictions applied to the expropriation of Canadian-owned private property. It requires, among other things, that the expropriation be for a "public purpose" (not defined in the deal) and that "fair market value" be paid for the property.

Property rights enshrined

It also covers property either "directly" or "indirectly" nationalized or expropriated and applies to all levels of government and to any "measure or series of measures tantamount to an expropriation."

Significant government initiatives such as public automobile insurance would become virtually impossible under these kinds of restrictions. And the introduction of Medicare, for example, would likely have required governments to buy out the private health insurance business of the U.S. companies that were active in the field at the time!

The restrictions on monopolies are also important. Article 2010 of the agreement would prevent monopolies from establishing preferred supplier arrangements, such as that between Northern Telecom and Bell Canada. The U.S. government estimates that the elimination of Bell's preferred supplier arrangement with Northern would generate \$100 million in new U.S. exports to Canada and, in the process, weaken an important Canadian high-tech industry.

One of the very interesting aspects of the trade agreement as it affects policy flexibility is that, over and over again, it outlaws the Canadian approach to a particular issue while permitting the traditional USS approach to continue.

In regional development, it will make it very difficult for Canada to continue to support regional and industrial development on a programmatic basis. But the agreement does nothing to limit the United States' use of its massive military procurement program to accomplish precisely the same goals.

Canada's hands tied

In trade policy, the deal outlaws the Canadian approach - duty remission tied to performance requirements - but allows the U.S. to continue to use free trade zones and duty drawback to accomplish precisely the same goals.

In the auto sector in particular, it outlaws Canadian duty remission programs tied to content, but does nothing to prevent the U.S. from applying its own content requirements in regulations such as those governing automobile fuel consumption.

In energy, the agreement outlaws the National Energy Board's lowest-cost-alternative pricing policy for energy exports, but does nothing to limit the actions of U.S. energy regulators.

In agriculture, the agreement undermines the effectiveness of the Canadian approach - supply management - but does not touch U.S. agricultural subsidy programs.

And in technological development, preferred supplier arrangements such as Bell Canada has used to foster the development of Northern Telecom are outlawed, but the deal does not touch the analogous policies of the United States Department of Defense and the National Aeronautics and Space Administration.

The trade agreement leaves virtually no scope for Canadian industrial policy. If this deal takes effect, Canada will have no right to undertake any other industrial policy. If free trade does not work, if it fails to deliver the benefits the government has promised, the agreement leaves us without even the alternative industrial policy tools to fall back on.

Industrial policy has been part of the free trade debate from the beginning. In its earliest stages, one of the common lines of criticism of the Mulroney-Reagan initiative was that it was being pursued in an industrial

" AS PRIME MINISTER, MY OBLIGATION IS TO
 PROVIDE NATIONAL LEADERSHIP
 WHETHER IT IS POPULAR OR NOT."
 MILLION .



and economic policy vacuum. This criticism came both from supporters and opponents of the idea in principle of Canada-US. free trade.

Supporters of free trade argued that effective industrial policies were an essential prerequisite to free trade with the United States.

They argued that to open the Canadian economy up to unrestricted competition from an economy ten times its size without first having used effective public strategies to strengthen the competitiveness of Canadian industry would be tantamount to feeding the Canadian market (and Canadian jobs) to the American industrial empire.

Single-minded pursuit

Opponents of free trade negotiation focussed on the fact that the Conservatives' single-minded pursuit of a free trade agreement with the United States was at that time (and, indeed, still is) the government's only economic policy initiative. The immediate implication

was that free trade monomania left the government with no policy response to unacceptably high levels of unemployment.

The longer-term implication was that, by the time free trade had been demonstrated to be a failure as an economic policy for Canada (either because no agreement could be negotiated, or because free trade failed to deliver its promised benefits), we would have lost valuable time during which we could have been pursuing effective industrial policies.

Taking the aspects of the Mulroney-Reagan economic constitution that touch on industrial policy together, it is now clear that the critics were far too restrained in their criticism.

The deal makes an effective industrial strategy for Canada impossible-



Big corporations are pulling the Canada-U.S. trade strings

The BCNI Calls the Shots

By David Langiile

Free trade with the United States was not Brian Mulroney's idea. Back in 1982, a small group of big business leaders began the push for a bilateral trade deal.

Right from the beginning, these business leaders began soliciting American support in an effort to slip the deal past the Canadian public with a minimum of debate.

They succeeded. When Reagan and Mulroney signed the free trade agreement on Jan. 2, it had not even been approved by our House of Commons. Parliament had not even finished debating the deal before the business leaders achieved their objective.

The chief architect and major proponent of the free trade agreement is the Business Council on National Issues.

Corporate power

The BCNI is composed of the chief executive officers of the 150 largest corporations operating in Canada. They control assets of over \$700 billion dollars, earn annual revenues of \$250 billion, and employ over 134 million Canadians. That helps explain why this low-profile organization has become the most powerful interest group in the country.

Back in the 1970s, some of Canada's leading businessmen thought the government was growing beyond their control. They were anxious to curb government intervention and increase corporate profits, but the public had little sympathy for the "corporate welfare bums," as David Lewis so aptly described them in the 1972 election.

The BCNI was established in 1976, one year after the government imposed compulsory wage and price controls. The controls program turned the marketplace into a political battleground. Business, labour and government all began searching for improved consultative mechanisms through which they could better articulate their interests.

Prime Minister Trudeau and his ministers had stopped listening to the existing business organizations, such as the Canadian Manufacturers Association and the Chamber of Commerce, because of their platitudes and pleadings for narrow self-interest. Business leaders only seemed to react negatively and "after the fact" to government policies and programs.

The initiative to form the Business Council came from the former head of Imperial Oil, W O. Twaits. He argued that a new business group was needed to "strengthen the voice of business on issues of national importance and put forward constructive courses of

action for the country."

After commissioning a study of business organizations in other countries, the Canadian businessmen found that they preferred a more "free enterprise" approach than most of the European or Japanese models, which encouraged more co-operation with government and labour.

They styled their Business Council after the Business Roundtable in the United States. Created in 1974, the Business Roundtable has mobilized 196 of America's top corporate leaders in direct, personal lobbying campaigns.

Both the BCNI and the Roundtable concentrate on a limited number of issues of national importance. According to their literature, the Business Council executives want "to contribute personally to the development of public policy and to the shaping of national priorities."

Who's Who

The Business Council includes the presidents of eight chartered banks, a dozen leading insurance companies, 13 oil and pipeline companies including Imperial, Shell, Gulf and Texaco; and such manufacturers as General Motors, Ford and Chrysler.

There are also important Canadian multinationals like Inco, Stelco and Seagrams involved, as well as American-owned DuPont, IBM and ITT. The list of companies represented ranges from Bechtel (engineering) to Bell (phones) and Southam (media).

The current chair of the BCNI is Donald Culver of Alcan. The former chair, Rowland Frazee, was head of the Royal Bank. President Thomas d'Aquino is a lawyer specialized in international business, who used to work as an assistant to Prime Minister Trudeau.

As the senior voice of business in the country, the Business Council tries to orchestrate a consensus in the business community. That's why the heads of the Canadian Chamber of Commerce, the Canadian Manufacturers Association and the Conseil du Patronat - du Quebec also sit on the Business Council. The big business leaders have mobilized a "power block" that can determine the shape of public policy.

BCNI's track record

So far the Business Council has been very successful in shaping Canada's macro-economic framework. Throughout the latter half of the Trudeau years, and then under the Conservatives, they have helped maintain the emphasis on fiscal and monetary restraint to control

inflation and reduce the government's deficit. (Actually the deficit would have been much further reduced but for their success in cutting corporate taxes.)

However, the Business Council's greatest impact has been felt since 1982, when it achieved a substantial turnaround in government attitudes towards the business community. That's when the Liberals accepted the BCNI's proposal for wage controls on public employees and imposed the "6-and-5" program.

Bowing to the combined pressure of the BCNI, American head offices and their friends in the White House, the Liberals agreed to scrap the National Energy Program, curtail the Foreign Investment Review Agency, and refrain from an interventionist industrial strategy. The government also heeded the BCNI's warning against extensive job creation programs.

The Business Council wrote its own weak competition legislation designed to regulate against monopolies and price-fixing, and the government finally accepted it with few amendments. In 1983 and '84, the BCNI orchestrated a new federal-provincial energy accord that restored windfall profits to the oil companies. Now the BCNI is steering the country towards a free trade agreement with the United States that brings with it the final surrender of our economic sovereignty.

According to Senator Michael Pitfield, when he was Secretary to the Cabinet, Trudeau was able to block the BCNI's initiatives only about 50% of the time. (Neither Mulroney nor Turner are inclined to try that hard).

Canadian businessmen have been forced to organize and cooperate because of changes in the international economic system. As tariff barriers go down, they face



increasing competition, both overseas and in their home markets.

While governments may play a larger role in economic management, most investment decisions still rest in private hands. In fact, as more economic power becomes concentrated in fewer hands, it has become easier for a few top corporate leaders to shape government policies in their own interests.

The Canadian government is particularly vulnerable to big business pressure because our economy has become so dependent on foreign trade and investment. Since the multinational corporations can threaten to invest outside of Canada, the government has lost much of its ability to stand up to the corporations.

As a result, the government is dependent on a business class which has little respect for national boundaries, and relies on the free flow of capital. These business interests are more continental than Canadian, more concerned with the investment climate than with offering employment.

Competitive pressures

The major corporations involved in the BCNI require secure access to larger markets. They demand that the state lower their costs of production and break down barriers to their exports and investments.

Rather than draw labour into a tripartite alliance by means of a social democratic agenda, as many European countries have done, business in Canada is striving for a broader trading environment. As a result, Canadians may be forced to compete on Reagan's "level playing field," which means a less-regulated marketplace and little protection for those who are less competitive.

Corporations have to expand or risk being taken over in the increasingly competitive economic environment. As tariff barriers continue to fall under the previous GATT agreements, Canadian-based companies have to increase their exports or invest in larger markets in order to maintain their profitability.

Traditionally, the most successful industrial corporations in Canada are those which export the country's resources, such as INCO or MacMillan Bloedel. Now manufacturing companies such as Bombardier and Northern Telecom are having to specialize in a few lines that will be competitive in a larger market.

Continentalism

While Canadians have been debating the merits of a free trade agreement since the pre-Confederation period, these modern corporate leaders draw their inspiration from C. D. Howe and the continentalist tradition enshrined at the C. D. Howe Institute, the Economic Council of Canada, and the higher reaches of the Ottawa bureaucracy.

The latest trade initiative is merely the culmination of post-war economic policy. Many of the leading corporations in Canada are now either American-owned or set up to serve the American market. Continental integration has proceeded to the point where the manufacturers of central Canada are finally ready to ally with the Western resources industries, who have long chafed at tariff barriers which raise their costs and curtail their exports.

Economic nationalism has no appeal to these businessmen, who see it as an impediment to the continentalist free enterprise environment they favour.

When the Trudeau government finally did make a faltering attempt to develop an alternative industrial strategy in 1982, it floundered when the anticipated boom in resource exports failed to materialize. As oil prices dropped and the National Energy Program came apart, so did the hopes of repatriating the Canadian economy.

For their efforts, Canadian government officials were so severely chastised by the Reagan administration that they have abandoned further experiments in economic nationalism that might jeopardize their "special relationship" with the Americans.

It is an ironic twist that the current effort to secure a free trade agreement is in large part a reaction to economic nationalism in the United States, which has raised protectionist barriers against Canadian exports.

"Unfair subsidies"

It was also expected that a free trade agreement would help sweep away many of the barriers to the free flow of goods, labour and capital among the Canadian provinces. The BCNI complained that they "have fragmented our already small domestic market and made us less competitive internationally."

Such barriers, however, have been erected to promote "nation-building" or "province-building" i.e., to resist those market forces that would have exploited our hinterlands for the benefit of "foreign" metropolises.

By engineering a free trade agreement with the United States, the BCNI may force Canadians to abandon the economic and social development programs we have created to protect ourselves from the vagaries of the free market. To press for free trade is to press for a market-driven industrial strategy and to dismantle those government programs which offer "unfair subsidies" in defiance of the market - ranging from low stumpage fees in B.C. forests to unemployment insurance for Maritime fishermen, from regional development grants in Manitoba to preferential wine pricing in Ontario. Rather than have the state offer such "subsidies" to serve social interests, the multinational corporations prefer "adjustment incentives" which enable them to rationalize and restructure their operations so as to remain competitive internationally and maximize their profits.

Pushing for a deal

In the fall of 1982, members of the BCNI concluded that they must obtain guaranteed access to the American market through either a multilateral or a bilateral comprehensive trade agreement. According to d'Aquino, even the brewers and the textile manufacturers, whose industries are among the most vulnerable, were willing to accept trade liberalization as long as there were "appropriate transitional mechanisms."

While the business leaders could see the economic benefits of a free trade agreement, they realized that it would be difficult to sell politically. *They* had to build more support among the Canadian business community, sell the idea to the Canadian government, and at the same time stir up more interest south of the border.

By January of 1983, d'Aquino began to publicly espouse the idea, and the Council pushed it very heavily for the rest of that year. What's shocking is that the Canadian business leaders met with American businessmen, with the U.S. Ambassador and with Vice-President George Bush to solicit their endorsement for the deal long before the Canadian government was even ready to discuss it. Little wonder that Canada was unable to obtain a favourable deal after its negotiating position had been compromised at the outset!

We now know that representatives from the Business Council and the Canadian Chamber of Commerce had several meetings in 1963 with the American Ambassador, Paul Robinson. We know they discussed the possibility of a trade agreement and how business interests on both sides of the border might gain the support of their respective administrations.

Members of the Business Council then raised the matter with Bush when he came to Ottawa that spring. After this, d'Aquino went to Washington and repeated his call for a Canada-US. free trade deal. During the summer of 1983 the BCNI conducted its own inquiry into the feasibility of a cross-border trade pact, in preparation for a joint study with the Business Roundtable.

Whether the American officials wanted such a deal or not, it was important that they not appear over-enthusiastic. As the *Financial Post* explained in the fall of 1983, "Canadian and US. officials both agree that because of deep-seated fears over American motives, Canada must initiate any proposal. Any US. initiative would amount to a 'kiss of death'."

Avoiding debate

Finally, by the spring of 1984, the Business Council agreed on a program designed to push Canada-U.S. trade-relations to the top of the next government's political agenda. While the federal election campaign was underway, the council quietly spread its message to provincial governments and to the wider ranks of the

private sector. By the time the new Prime Minister took office, they hoped to have the backing of a constituency which no government could safely ignore.

It's notable that the Business Council discussed the trade issue in meetings with Brian Mulroney and John Turner *before* the September 1984 election - an election in which neither leader advocated free trade.

However, the Business Council and the Chamber of Commerce had been hard at work swinging the sentiment of the Canadian business community away from its traditional protectionism. Soon after the election, both organizations were calling on the government to aim for the broadest, most comprehensive free trade agreement possible.

Finally, even the Canadian Manufacturers Association asked the government to begin trade talks with Washington and report back on whatever bargain was possible. Over two-thirds of the members of the Canadian Federation of Independent Business supported freer trade. According to their president, John Bulloch, free trade meant adapting to the future, while "economic nationalism is no longer a viable option."

During the fall of 1984, the heads of these organizations recruited a 45-person private sector task force "to coordinate a responsible Canadian business approach to the Canada-United States trade issue at a time when the policy and the options were far from clearly decided on the part of the Canadian government."

Several BCNI members served on this task force, *which* was chaired by David Braids, vice-chairman of CIL Corporation.

Their efforts got a boost when Donald Macdonald, the Bay Street lawyer who was chairing the Royal Commission on Canada's Economic Prospects, made it clear in late 1984 that the Commission supported free trade. The final report of the Commission released in September of 1985, was a one-sided rationale of the trade initiative. Macdonald has since joined his Business Council friends in helping to sell the deal across the country.

Comprehensive

The Business Council had been pressing for a comprehensive trade agreement, because the Americans were unlikely to agree to sectoral accords such as the Canadian government had first proposed.

However, the Business Council proposed an interim step in September 1984 in an effort to soften opposition while paving the way for a comprehensive deal. It was d'Aquino's idea to push first for a "trade enhancement agreement" in which both governments would signal their intent to reduce barriers to trade.

The BCNI was sensitive to the choice of language. In an earlier era, Mackenzie King had managed to defuse the free trade debate of his day by a mixture of double-talk, denial and confusing the issue with technicalities. The Macdonald Commission had noted

how "the avoidance of free trade terminology may well have been an important feature in preventing any widespread, emotionally-based, nationalistic opposition to the agreements.'

D'Aquino now felt that the use of free trade terminology had become "a red herring... free trade was a goal not reached anywhere and not worth pursuing."

Instead, the BCNI proposed a "forum for discussion" of trade matters - a mechanism to explore ways of lowering tariffs, removing non-tariff barriers, and solving trade disputes. The new Minister for International Trade, James Kelleher, incorporated the BCNI's suggestion in his discussion paper on "How to Secure and Enhance Canadian Access to Export Markets:'

But after the success of the Shamrock Summit between Mulroney and Reagan in March of 1985, the Business Council felt conditions were conducive to go straight for a comprehensive agreement.

Although they continued to express strong support for multi-lateral trade liberalization through GATT, they urged the Prime Minister that April to begin early discussions with the United States aimed at achieving a bilateral trade accord. In fact, Mulroney was already committed by this time, even though the formal notice that Canada was prepared to negotiate a trade deal was delayed until September. It hadn't taken Mulroney long to realize that free trade with the US. was a big step towards a more free-enterprise economy.

Selling it in the U.S.

With the support of the Canadian government now assured, the BCNI set about eliciting more American support. In March of 1985, a group of 17 BCNI members journeyed to Washington for three days of discussions with American business leaders and Secretary of State George Shultz, Secretary of Defense Casper Weinberger, Senate Majority Leader Robert Dole, and Senator John Danforth, chairman of the Senate's International Trade Subcommittee.

Since then, BCNI members have given numerous speeches in the United States, met with the key Senators involved in trade discussions, and secured the endorsement of their counterparts in the Business Roundtable. The two organizations "agreed to cooperate in seeking a fair balanced agreement between the two countries, [and] urged that the negotiations be moved in such a way that an agreement can be achieved expeditiously."

Selling it in Canada

The Business Council has also been actively trying to build public enthusiasm for the trade initiative. They've been the primary supporters of the Canadian Alliance for Trade and Job Opportunities, which has raised a \$2.4 million war chest to campaign for free trade. They

recruited Peter Lougheed and Donald Macdonald to co-chair the Alliance, while BCNI Chairman David Culver chairs the executive committee behind the campaign.

BCNI members are also trying to persuade their more than 1.5 million employees to support the free trade deal. Ed Newall, chief executive officer of DuPont Canada, has said that they will be appealing to their workers, "site by site, office by office," to convince them of the merits of opening Canada's border to the free flow of goods and services from the United States.

According to the BCNI, over 90% of their members favour freer bilateral trade with the United States, while 70% expect their own firms to be net beneficiaries as a result of the deal.

The implications

For Canada, the benefits to be gained from such an agreement are quite uncertain. In order to survive in an increasingly competitive trading environment, Canadian firms will have to reduce their operating costs. If they follow the American model, however, they are more likely to rely on wage concessions than to undertake large investments in labour-saving technology and accept an interventionist industrial strategy.

While unregulated free enterprise will force Canadian



workers to compete with their non-union counterparts in the American Sunbelt, it has not proved the best route to industrial innovation and dynamism. In fact, this is a particularly inappropriate time to link up with the American economy, which is threatening to sink under the weight of massive trade deficits and declining productivity.

The costs of adjustment will be paid by Canadian workers and taxpayers. At the least, we will have to provide more corporate "incentives" and unemployment payments as thousands of jobs are lost. We may also have to sacrifice many of our public services and programs for regional development, environmental protection, health and safety welfare, pensions and culture. Americans complain that such programs constitute unfair competition, and demand that Canadian policies be harmonized with their own.

There will also be stronger pressure to ensure that our foreign and defence policies are kept in lock-step with those of the U.S.

While the Canadian Manufacturers Association has been fairly candid in endorsing such moves, the BCNI continues to deny that liberalizing trade will compromise Canadian sovereignty or social programs.

Economic nationalism

Despite the opposition to the free trade agreement, the die has been cast in favour of increasing economic integration with the United States. The federal government needs a trade surplus with the Americans to finance its current account deficit. The deficit itself is the result of foreign investment in Canada, which requires the regular payment of interest and dividends, and the flow of Canadian investment capital out of the country in search of higher profits elsewhere.

Economic nationalism has lost its allure for many Canadians. The most important factor seems to be a sense of economic inferiority to the Americans, who still seem to enjoy higher average income and employment levels than their northern neighbours.

Although the current bubble in the US. economy will inevitably burst, since that country has become a net debtor and is beginning to experience an outflow of profits and interest payments, more and more Canadians have been willing to hitch their fortunes to the fading American star. The cumulative effects of American cultural imperialism may finally crystalize as Canadians "tune in" to the American Dream.

Loss of sovereignty

We can already see the implications of a closer trading relationship with the United States. As trade barriers have been lowered and capital has become more mobile in the post-war period, large corporations have grown less dependent on any one particular country. They can invest more or less where they please.

But such corporations still prefer to operate in countries whose governments are sympathetic to free enterprise. This ensures profitable conditions in domestic markets, and enables them to compete successfully in export markets.

While business gains more power and freedom to manoeuvre, Canada is becoming ever more dependent on multinational capital. Our country has surrendered a great deal of its sovereignty as more and more decisions are taken in American head offices, on Wall Street, or in the White House, at IMF, OECD, GATT or the Economic Summit conferences.

Given this internationalization of capital, it will be very difficult for a future Canadian government to pursue policies that would protect the interests of Canadian workers or small business firms. Big business is unlikely to endorse a full employment program or other measures to stimulate domestic consumption if they result in raising the cost of labour.

The real patriots

Business Council leaders have proclaimed themselves the "real patriots" of the country and lashed out at the opposition politicians, union leaders and premiers who express reservations over the free trade agreement.

Chairman Donald Culver dismisses criticism of the deal as the "ideological polemics of the nationalists," whom he derides as "shrill and biased," and even "sinister" because of "their readiness to wrap themselves in the Canadian flag."

According to Culver, "it's time that the real patriots stand up and be counted" by supporting the free trade initiative. Culver, who is head of Alcan Aluminum, claims that it is the businessmen who have the country's best interests at heart because they control most of the investment, job creation and exports generated in the country.

However, unless Canadian workers want to compete with the wages and working conditions of South Carolina, Taiwan or the Philippines, we will have to rely more on collective ownership and control of our economy.

Although Canadians may be tempted by visions of a Dallas lifestyle, the increasingly skewed distribution of income in the United States suggests that only a privileged elite will benefit from integrating the two economies. Most Canadians may actually suffer a decline in their standard of living to a level typical of areas in the Rust Belt or the depressed hinterlands of **America.**



Together We Can Win

By Dennis Howlett

The Mulroney-Reagan trade deal can still be defeated. It will not be easy to overcome the combined power and multi-million-dollar PR war chests of the government and key sectors of the business elite who have made this their No. 1 policy goal.

But the threat of greater social inequality and the loss of our sovereignty has led to an unprecedented coalescing of groups opposed to the deal. These include labour unions, women's organizations, farm organizations, seniors, anti-poverty groups, native organizations, cultural and artistic organizations, churches, teachers' federations, peace groups, environmental groups, and even some business groups.

The keys to defeating the Mulroney-Reagan deal are educating Canadians about the dangers of, and alternatives to, economic union with the United States: forcing a federal election; and defeating the deal at the polls.

Long way to go yet

The deal is far from being a *fait-accomplie*. It still has many hurdles to surmount before it can be implemented.

In Canada the government will have to introduce implementing legislation and have it pass both the House and the Senate. Both opposition parties have

committed themselves to stalling tactics, and the Senate is also threatening to block this legislation in order to force an election.

It will be important to let the opposition parties know that there is broad support for using such tactics. Both opposition leaders have also said they will abrogate the deal if they form a government. It will be important to generate public pressure to hold them to that promise, if and when they are elected.

There are some provisions of the deal that also require provincial implementation, and the refusal to do so on the part of even two or three provinces could help block the deal.

Though there appears to be a good basis for a constitutional court challenge, provincial refusals to implement are even more important for the signal they would send to the US. (US Trade Representative Clayton Yeutter has said, "Congress will not approve the arrangement until and unless the necessary provincial approbations are in place:") and the pressure it would add to forcing a federal election.

Those provinces opposed must also make clear that they will not cooperate in ongoing negotiations on subsidies, further service sector agreements, or harmonization of agricultural policies. It will be important to

press those provincial governments that have said they oppose the deal to do all they can to block it and help force an election.

Regional development jeopardized

The deal has also gotten *conditional* support from several Atlantic premiers. These conditions include demands that regional development programs not be jeopardized. We need to demonstrate that, the empty assurances by the prime minister to the contrary, the deal *does* seriously jeopardize regional development and social programs.

It will be important to continue publicly to expose the contradictions in the positions of these governments. Provincial elections in Newfoundland and Nova Scotia are quite likely in 1988 and should be used to reverse provincial support for the Mulroney-Reagan deal.

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contradictions in the positions of these governments. Provincial elections in Newfoundland and Nova Scotia are quite likely in 1988 and should be used to reverse provincial support for the Mulroney-Reagan deal.

The deal also requires Congressional approval in the US., but the implementing legislation is not likely to be introduced until June of 1988, after Congress deals with its omnibus trade bill. Thus, even if everything goes

"World trade"

if Canadians rejected free trade with the United States in 1911. They would do so again in 1983. Canada must increase its share of total world trade, which has dropped by 33% in the past two decades "

- Brian Mulroney, 1983.

without further delay, the US. House and Senate are not likely to vote on the agreement until very close to the November date of the U.S. elections.

Because the deal is so favourable to the US., it is likely to be passed by Congress. However, it is still possible that Congress will try to make changes to the deal, or pass provisions as part of the omnibus trade bill affecting Canada, that could unravel the Mulroney-Reagan deal. Even the Tory-controlled External Affairs and International Trade Committee recommended that the government reject the free trade deal if Canada is not exempted from the omnibus trade bill or if Congress amends the agreement.

Although the Mulroney government and the media claim that the fast-track rules allow Congress to only make a "yes" or "no" decision on the trade deal, these rules can be amended by a simple majority vote. So it is still possible that Congress could change the rules and make changes in the deal.

There were already moves afoot to do exactly that on the Maritime shipping section of the agreement negotiated in October - which is why the section was removed in the final text.

The "stand-still" agreement with the US. administration and the provision of the deal that Canada must be specifically named for the omnibus trade bill to apply to it offer little protection when one realizes that it is Congress (not the administration) that makes trade policy in the US. and they have not yet agreed to the deal with Canada. Such actions by the US. could seriously undercut support for the deal in Canada.

An election is essential

The important thing to remember is that the deal is not set to go into effect until Jan. 1, 1989, so the key strategy is to force a federal election before then. Ultimately, if the deal is to be stopped, it will have to be stopped by the Canadian people.

In order to build the push for an election, and to

ensure that *when* there is an election Canadians will reject Mulroney and his sellout deal, we need to do all we can to educate Canadians about the disastrous consequences of this deal for the future of our country.

We also need to begin projecting a positive, more just and democratic alternative to the "free trade, foreign domination, deregulation, social service cutback and greater unemployment and poverty" vision of Canada's future represented by the Mulroney trade deal.

Education is the most important immediate task. The Mulroney government knows that, if Canadians become informed about what the deal means for their future, they will reject it. A secret government memo on its communications strategy for the trade initiative, published by the *Toronto Star* in September 1985, suggested that their strategy "should rely less on educating the general public than on getting across the message that the trade initiative is a good idea. In other words, a selling job."

Recently the government strategy has been to simply deny and confuse people about key questions such as the industries most likely to be harmed, the numbers of jobs that would be lost, or the ways in which our social or regional development programs are jeopardized.

Briefing notes prepared for Conservative MPs, for example, pose the question, "Will social programs be affected by the [agreement]?" and suggests they simply answer "No," without any other explanation.

They are attempting to sell the trade deal with appeals to regional animosities, vague and unsubstantiated promises of lower prices or job gains, and fear-mongering warnings about there being no alternative way of escaping the rising tide of American protectionism.

A bad deal for Canada

Canadians need to be made aware of the many ways in which this deal will affect our energy security, our jobs, our social programs, regional development and agricultural policies, our environmental standards - even our foreign policy. It's a bad deal for the provinces: it's a bad deal for farmers, fishermen, workers, women, poor people, native people, nurses and teachers; it's a bad deal for Canada

In contrast to the government strategy, our efforts should seek to educate people at the grassroots about the issues - not mount another selling job, but help people to think through the issues for themselves.

For this effort we will need to do good solid research, produce readable, popular resources, and organize public forums and educational events in communities large and small across the country.

The media is very influential in shaping public opinion. With few exceptions, it has not carried out its responsibility in helping Canadians discern the real issues involved. In part the problem is that the ownership and control of the media is tied up with the business elite which is in favour of the **deal**.

Despite the obstacles that must be faced in getting our view across, the media is too important to ignore. Our media strategy should aim to build a movement and organize events and actions that the media will not be able to ignore. We also need to make every effort to get our views *into* the media.

Because the national media will always be a hit-and-miss communications channel at best, we need to develop a strategy for making best use of the smaller local and regional newspapers, radio stations, and union, church and other organizational publications which have a significant combined readership, and which may be more accessible.

Organizations which have come out against the deal include labour unions, women's organizations, farm organizations, seniors, anti-poverty groups, native organizations, cultural and artistic organizations, churches, teachers' federations, peace groups, environmental groups, and even some business groups.

Many are already mounting major campaigns to educate their membership about the dangers of the deal, focusing on those aspects that are of particular concern for their members.

The combined membership of the organizations participating in the Pro-Canada Network, for example, is *over 10 million*. If a significant percentage of those people can be educated and mobilized, they could comprise a major force against free trade.

In almost every province coalitions have been created of organizations and individuals who oppose the Mulroney deal. These coalitions will be sponsoring educational events, collecting names on petitions, and organizing political actions on the issue. These coalitions (a list of contacts is included elsewhere in this issue) are seeking new members - both organizational and individual. Coalitions and groups need to be organized on a community level, as well.

Educational efforts should not just provide people with information about the deal, but should also help to mobilize people politically in the struggle to block it. Opportunities need to be provided to individuals to do something, either by signing petitions, joining coalition groups, writing letters to MPs, taking part in demonstrations, etc.

What you can do

Individuals are urged to join existing provincial coalitions or organize community-based coalitions. Writing letters to the editors of newspapers, letters to MPs and party leaders expressing your views is also an important action that can be taken.

A small group could be organized to meet with your local MP. Getting your local union, church or other groups you may be involved in to consider the issue by inviting speakers to educational events that might be organized would also be a valuable contribution to the educational effort.

Finally, donations of money to the Pro-Canada Network, provincial coalitions against free trade, or to other organizations fighting the Mulroney deal is an important need.

The debate about the Mulroney-Reagan deal should be used as an opportunity to promote broad discussion among Canadians about the kind of society we want. We don't want to appear to be just defending the status quo. We must make it clear that our opposition to the Mulroney trade agreement is not only because of the harm it does to present programs, but also because of the future opportunities it precludes.

The pro-free-traders argue that there is no alternative but to submit to the Americans. Stimulating debate about alternatives can show that there *are* indeed many alternatives to becoming a colony of the U.S.

A useful tool for this effort is a declaration, titled *A Time to Stand Together - A Time for Social Solidarity*, which was issued with the support of the Canadian Conference of Catholic Bishops, the Canadian Labour Congress, the Confederation des syndicats nationaux, the Confederation of Canadian Unions, the National Action Committee on the Status of Women, the National Farmers Union and the United Church of Canada.

It advocates an alternative social and economic program based on full employment, greater self-reliance, democratic control over investment, expansion of public services, new labour standards, progressive taxation, and expansion of the public sector. (*The document is available for \$4.00 each from The Working Committee for Social Solidarity c/o 21 Florence St., Ottawa Ont.)UP 0W6.*)

The stakes are high. We risk losing a great deal. But the present conjuncture represents a tremendous opportunity as well. The current debate is forcing Canadians to consider what kind of society we want, and what kind of alternatives are possible, in a way that hasn't happened in decades.

In the coalitions of groups coming together to fight the Mulroney-Reagan deal there is also the basis of a strong social movement of a new and much more fair and progressive Canada than we have today.

If we are able to defeat the deal, it will be a major setback for the business elite and the market-oriented, anti-people policies being championed by the Mulroney government.

If we are able to mobilize a strong social movement and develop some common visions of a more just alternative, then there will be an unprecedented opportunity to begin building a new and better kind of society in Canada.



Aislin (Terry Masher) is the editorial cartoonist for *The Montreal Gazette*.

Margaret Atwood is a Canadian novelist, poet and literary critic.

Peter Bakvis is with the Quebec Coalition Against Free Trade.

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Michael Clow is a political economist teaching at St. Thomas University.

Marjorie Cohen is an economist who teaches at the Ontario Institute for Studies in Education.

Jim Conrad is Executive Director of the Business Council on Fair Trade.

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Andrew Jackson is with the NDP's parliamentary research group.

Eric Kierans is a former Liberal cabinet minister, now fellow-in-residence at the Institute for Research or Public Policy in Halifax.

Steven Langdon is the NDP critic on trade and industry.

Julia Langer is executive director of Friends of the Earth.

David Langille is a doctoral student living in Toronto.

Gilbert Levine is the research director of CUPE.

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Hugh McKenzie is a research director of the United Steelworkers of America (Canada).

Geoff Meggs is the editor of *The Fisherman*.

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Jeff Rose is national president of the Canadian Union of Public Employees.

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John Warnock is the author of *Free Trade and the New Right Agenda* and teaches political economy at the Universities of Victoria and Regina. (His book will be available from New Star Books, Vancouver, in May.)

Bob White is president of the Canadian Auto Workers.

Bruce Wilkinson is a professor of economics at the University of Alberta.

