



UPDATE

ON

NATIONAL AND INTERNATIONAL TRADE ISSUES

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This report provides an update on major national and international trade issues and reviews their relationship to programs and policies of the Government of the Northwest Territories (GNWT), as well as the economy of the Northwest Territories (NWT).

Canada is currently involved in four major trade initiatives. This report reviews:

1. the current state of negotiations on the Uruguay Round of the General Agreement on Tariffs and Trade (GATT);
2. those outstanding elements of the Canada-United States Free Trade Agreement (FTA), which must be concluded between Ottawa and Washington;
3. preliminary discussions leading up to formal negotiation of a North American Free Trade Agreement (NAFTA), including Canada, the United States and Mexico; and
4. current agreements and future objectives respecting the reduction of barriers to interprovincial trade in Canada.

GNWT ROLE IN NATIONAL AND INTERNATIONAL TRADE INITIATIVES

Firstly, it is important to note that the Government of Canada plays the lead role with respect to negotiating and ensuring compliance with multilateral trade agreements through the GATT, or entering into bilateral or trilateral agreements, such as the Canada-United States FTA and the North American Free Trade Agreement.

In order to ensure that provincial and territorial governments, as well as industry groups, are adequately consulted and to some extent involved in the negotiation process, a number of officials' committees have been established which meet on a regular basis.

In addition, trade ministers also meet on a less frequent basis to review progress, outstanding issues and resolve differences.

The GNWT is represented on all committees involving GATT, FTA and North American Free Trade Negotiations and also participates as a full and equal member at ministerial conferences.

Similar circumstances apply to negotiations on reducing barriers to interprovincial trade within Canada, although it is important to note that committees of officials and ministers are co-chaired by a provincial government and the federal government.

Moreover, any agreements which are reached must be approved by federal, provincial and territorial governments to the extent that their jurisdiction is involved. These arrangements reflect the shared authority which federal, provincial and territorial governments have to establish programs and policies for the purpose of supporting business and industry in their jurisdictions or less developed regions of Canada.

Within our government, responsibility for trade policy matters is jointly shared by the Departments and Ministers of Finance and Economic Development and Tourism, although national and international trade initiatives could impact upon a number of other program and service departments in our organization.

Finally, the two lead departments and ministers are supported by Intergovernmental Affairs, given the frequency of federal-provincial-territorial committee meetings in Ottawa, and a trade policy consultant who has been retained to provide more detailed analysis and advice on the impact which national and international trade initiatives could have upon the NWT economy and policies and programs of our government.

GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

The General Agreement on Tariffs and Trade is a multilateral treaty, whose 97 signatory countries account for more than four-fifths of world trade. The main objective of GATT, which defines the rules of international trade, is to liberalize and strengthen global trade, thereby contributing to economic growth and development around the world.

The current negotiations are called the Uruguay Round because they were initiated in that country in 1986. The prime focus of the Uruguay Round has been to reduce, eliminate or find alternatives to domestic agricultural subsidies which are severely distorting international trade in this sector and costing national governments billions of dollars for support programs to their farmers.

Other issues which have been pursued with some success in the Uruguay Round include new trading rules and regulations in textiles and clothing; services such as banking, investment and tourism; anti-dumping measures; government procurement; intellectual property rights; subsidies and countervail actions; and further reductions in tariff and non-tariff barriers on a wide range of products.

However, while progress has been made in these categories, it is clear that unless some resolution can be found to the agricultural subsidy issues, there will be no final and comprehensive agreement

among the GATT members on any of the issues which have been negotiated over the past four years.

Although new international trading rules relating to intellectual property and anti-dumping measures do not have direct relevance to this government or the NWT economy, the following examples will illustrate the significance which the current GATT round has for us in the North.

FOREIGN EMBARGOES ON SEAL AND FUR PRODUCTS

Firstly, the Government of Canada considers that current and proposed European and American boycotts of products made from seals and fur-bearing species to be non-tariff barriers which should be removed.

While the federal government has not been successful in achieving this objective, its initiative has been supported by our government, which is also investigating other alternatives under the GATT to have these trade restrictions eliminated.

It is important to note that other countries are finally appreciating the devastating impact which foreign embargoes can have upon their exports of renewable resource products.

Mexico, for example, has convinced the GATT to set up an appeal panel to review an American decision to ban Mexican tuna imports because drift nets, which Mexican fishermen use to harvest tuna, are allegedly killing dolphins.

The United States Marine Mammal Protection Act gives the American administration the authority to ban imports from countries which do not comply with their domestic laws on protection and conservation of marine mammals. This is the same law which has contributed to the virtual destruction of the sealing industry in the Northwest Territories.

TARIFF BARRIERS ON NORTHWEST TERRITORIES EXPORTS AND IMPORTS

Secondly, our government has encouraged the federal government to seek further reductions to tariff barriers on those export products which originate in the NWT.

Assuming the current round is successful, tariffs on exports of NWT fish, lumber and agricultural products will decline.

Moreover, reducing tariffs on a wide variety of imports for domestic, commercial and industrial use should lower costs for consumers in the NWT.

DEFINITION OF ACTIONABLE SUBSIDIES

Thirdly, and possibly most important, the current GATT round has addressed new rules for defining government subsidies which can be actionable or subject to countervailing duties.

A countervail action involves additional customs duties which are imposed by an importing country to compensate for government subsidies in an exporting country when the subsidized imports are found to cause damage to industries in the importing country.

In other words, governments can take steps through the application of countervailing duties to make sure that their industries are competing on the same basis as industries in another country which provides subsidies and other support programs to make their exports less expensive.

For Canada, which has an extensive network of regional development and industrial support programs, including many which are specifically directed toward the Northwest Territories, negotiations on a more precise definition of subsidies and on the proper rules for applying countervail, have been a critical component of the current GATT round.

Moreover, the outcome of negotiations on subsidies and countervail through the GATT will set the international parameters for bilateral agreements, such as the Canada-United States FTA.

CURRENT STATE OF GATT NEGOTIATIONS

After a near breakdown at a meeting of ministers in Brussels last December, the GATT negotiations have reconvened, with a particular focus on reaching agreement on the agricultural subsidy issues noted above. Assuming some consensus can be reached, it is expected that the Uruguay Round will be successfully concluded by the end of 1991.

CANADA-UNITED STATES FREE TRADE AGREEMENT (FTA)

The following is a brief review of the Canada-United States FTA, including issues which are of direct concern to the Northwest Territories.

Mr. Sibbeston first outlined our government's views on the FTA in November, 1987, when he appeared before the House of Commons External Affairs and International Trade Committee in his capacity as Minister of Economic Development and Tourism.

Shortly thereafter, Government Leader Patterson restated territorial concerns in his opening statement to the First Ministers Conference on the economy.

While the Government Leader and the Minister identified the potential benefits of a more liberalized trading arrangement with the United States, both stressed the importance of continuing to pursue a Canadian exemption from the Marine Mammal Protection Act.

Other concerns focused upon ensuring that economic development initiatives arising from aboriginal claims settlements and other regional development programs or subsidies would not be subject to countervail action by the United States.

It has been over three years since former President Reagan and Prime Minister Mulroney signed the Canada-United States Free Trade Agreement and Canadians have yet to reach a verdict on whether or not it has produced tangible benefits for the consumer, the worker and the producer.

From a Northwest Territories perspective, we have not seen factories and mines opened or closed down because of the FTA. Any savings to consumers because of tariff reductions on United States products sold in the Northwest Territories have been more than offset by the recently introduced Goods and Services Tax.

NEGOTIATIONS ON DEFINITIONS OF SUBSIDIES AND COUNTERVAIL

Nevertheless, our government has been closely monitoring bilateral talks between Ottawa and Washington because the issue of defining subsidies and countervail has not yet been completely resolved, in part, because both have been awaiting the results of negotiations on these matters in the Uruguay Round of the GATT.

Assuming that the Uruguay Round is successfully concluded, new international definitions of subsidies and countervail will be applied in negotiations on these matters between Canada and the United States.

The outcome of these negotiations could have significant implications for the future of regional development programs in the Northwest Territories and other developing jurisdictions of Canada.

Moreover, the outcome could determine the future of supply management programs, such as egg and chicken marketing boards, which the United States considers to be another form of subsidy.

While negotiations have yet to begin on this important issue, our government continues to stress the point that Canada must not deal away the ability of governments, whether federal, provincial, territorial or municipal, to use their resources for establishing a viable economic base and trained work force in less developed regions of this country.

UNITED STATES MARINE MAMMAL PROTECTION ACT

Secondly, the Government of the Northwest Territories continues to explore the opportunities that may be available under the FTA to obtain an exemption from the United States Marine Mammal Protection Act. Regrettably, the Americans rejected consideration of this issue in the early rounds of FTA negotiations.

However, federal representatives remain sympathetic to measures which could be taken to open up United States markets to seal, polar bear and whale bone products while respecting the need for conservation and management programs to protect each species from over-harvesting for commercial purposes.

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

The third international trade initiative which our federal government has embarked upon is a trilateral agreement between Canada, the United States and Mexico which would establish a North American free trade zone.

The decision by Canada to enter into negotiations has further stimulated the debate about the impact of the FTA and the potential implications of yet another agreement which could further tie our economy to the United States.

From a territorial perspective, the Government of the Northwest Territories has been monitoring the approach which Mexico will take to foreign investment in its oil and gas industry which has been nationalized since the 1930s. While the Mexicans are considering measures which would provide for greater use of North American technology in developing their oil and gas resources, they have consistently refused to allow foreign investment.

The former will no doubt be good for Canadian producers and suppliers in terms of export sales and service opportunities. However, if the Mexicans change their position on foreign ownership, the latter could result in increased competition for oil and gas investment funds on the international market and potentially divert exploration and development dollars from the Beaufort Sea.

CURRENT STATE OF NAFTA NEGOTIATIONS

The Government of the Northwest Territories will be following the NAFTA negotiations to determine how other related issues are dealt with, including the definition of subsidies and countervail and how environmental issues are reconciled in a trade agreement. Formal negotiations have just begun and are not expected to conclude by the target date of 1992.

INTERPROVINCIAL TRADE BARRIER REDUCTION NEGOTIATIONS

To complement trade liberalization initiatives at the international level, the federal and provincial governments have been seeking to reduce barriers to interprovincial trade within Canada.

These barriers have been established over the years to provide preferences to locally based producers, suppliers and labour with the objective of ensuring that benefits remain in a particular province or region.

All governments have policies, programs and laws in place which place restrictions on out-of-province purchasing by their departments, agencies and, at times, municipalities. Our government is no exception.

Advocates of reducing internal trade barriers argue that they set up artificial restrictions to the free flow of goods, services, capital and labour, as well as forcing governments to pay a premium of their purchases when tax dollars could be better spent on other priorities.

Advocates also argue that internal trade barriers eventually lead to reduced competition and investment, and higher costs to consumers in both the public and private sectors.

On the other hand, governments in less developed regions of Canada argue that, without some form of protection and preference, their locally-based private sector would not develop to the point where a wide range of products and services are available to consumers.

Moreover, if local preference policies and programs are not in place, the private sector would not be able to compete with larger, non-resident businesses which simply take advantage of development opportunities and leave when development activity slows down or stops altogether.

NATIONAL AND REGIONAL INITIATIVES

To date, progress has been relatively modest in reducing barriers to interprovincial trade. The Atlantic provincial governments have negotiated an agreement which will provide businesses in their region with equal access to most government contracts and tenders. A similar initiative has been concluded among the four western provinces.

At the national level, it would appear that the federal, provincial and territorial governments are close to formally ratifying a procurement purchasing agreement which would in five years provide cross country access to all goods purchased by

provincial government departments under contracts valued at over \$25,000.

The Government of the Northwest Territories is a signatory to this agreement under special terms and conditions which exempt the Northwest Territories and Yukon from most of its provisions. The reasons for this exemption have been outlined above and demonstrate that our government clearly supports a role for the public sector in contributing to the development of a strong, viable, locally-based private sector.

The reason the GNWT is a signatory to an agreement which is not binding on our government is twofold:

1. by being at the table and negotiating special provisions which reflect northern conditions, we are able to protect our interests and those of our private sector and labour force; and
2. when internal trade negotiations address other matters such as government construction contracts and labour mobility, we may be seeking similar exemptions to take into account the need for some measure of protection and preference for our developing private sector.

CURRENT STATE OF INTERPROVINCIAL TRADE NEGOTIATIONS

A strong and committed territorial presence will be required in the future given the federal government's recent announcement that it will work with other levels of government to ensure that by 1995 Canada becomes a single, integrated market from coast to coast to coast.

As stated in the May 13 Speech from the Throne:

"We (the federal government) need to eliminate:

- . policies that favour a province's suppliers over lower cost producers from other provinces;
- . regulations that often make it simpler for producers to ship their products abroad than to sell them in neighbouring provinces;
- . hiring policies that give preference to provincial residents over those from other provinces; and
- . occupational standards that restrict the work opportunities of residents of other provinces."

CONCLUSION

From the experience over the past four years, and what should be anticipated during the term of the new incoming government, the Government of the Northwest Territories must continue to ensure that both national and international trade initiatives do not remove from government its ability to intervene in the economic development of the "have-not" regions of this country.

This applies to federal, provincial, territorial and municipal governments.

Furthermore, and with respect to the embargoes on imports of fur and seal products, the Government of the Northwest Territories must continue to determine if wildlife and marine mammal conservation measures imposed by laws of foreign countries can be successfully challenged through GATT or FTA appeal procedures.

With all due respect to the intensive efforts of the Fur Institute and Indigenous Survival International to lobby foreign governments and influence public opinion, we continue to lose ground to the anti-trapping and marine mammal harvesting lobby.

Perhaps it is time to consider more forceful measures involving international trade rules and regulations.

From all accounts the nations of the world are evolving toward a global economy and Canada is taking steps to become an active member internationally and through reforms at home.

As they seek to develop our economy and work force, northerners must be both aware and capable of reacting to national and international trade initiatives which could predetermine the ability of the northern private sector, our government and the federal government to respond in the best interests of our economy, our business community, our labour force, and our constituents.