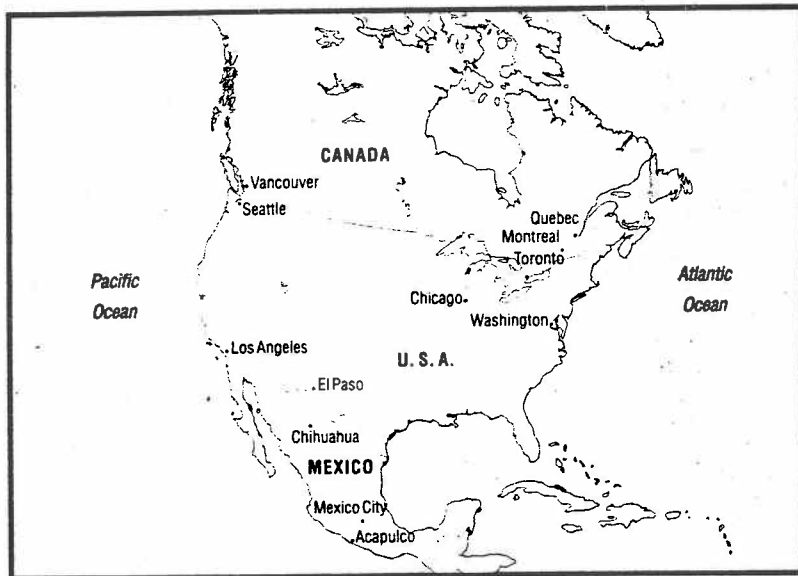


## CANADA LIKELY TO JOIN NAFTA, DESPITE RESERVATIONS

The landslide victory by the Liberal Party in the Canadian elections earlier this fall cast some doubt as to Canada's participation in NAFTA. The Liberals, led by the new Prime Minister Jean Chretien, came out against the free trade agreement during the campaign, but have since backed down to a large degree. The trade agreement already has received legislative approval in Canada, passing the House of Commons and Senate this past summer. However, its passage was under the former Conservative government which lost last October's elections. NAFTA must be proclaimed into law by the new prime minister.

Although the new Canadian government is looking for revisions in NAFTA in the form of side agreements on water and energy, as well as a code defining trade distorting subsidies and another on limits to the U.S. use of anti-dumping and counter-vail laws, it is easy to understand why the Canadians will most likely implement NAFTA. The reason? Canadian exports have risen sharply over the past four years under the 1989 free trade pact with the U.S. The growth in Canadian exports to the U.S. - up over 30% since the Canadian-U.S. free trade pact went into effect January 1, 1989 "has come in industries critical to Canada's economic future," according to Cathy Daicoff, Managing Director of S&P's Toronto office. "These include crude oil and natural gas, forest products, high technology, and telecommunications equipment and services."



According to a report by the Toronto-Dominion Bank, "exports have spurred growth in most regions of Canada." Canada's economy is forecasted to grow 2.5% this year and 3.3% in 1994, faster than both the U.S. and Mexico. Exports to the U.S. are up 21% in the first eight months of 1993, to \$70.4 billion, and Canada enjoys a \$14.2 billion surplus with the U.S.

## HIGH UNEMPLOYMENT DRIVES OPPOSITION

"Most of the opposition to NAFTA in Canada," Ms. Daicoff continues, "has come from the labor movement because the country's unemployment rate is a relatively high 11.2%." While some of the job losses can be attributed to the U.S.-Canadian agreement, most have come in labor-intensive, lower-paying industries such as textiles and furniture making, which are no longer able to compete with the low-wage countries of South America and Asia. "Many of these jobs would have been lost with or without the trade agreement," according to Ms. Daicoff. Ontario, the country's most industrialized province has been hit the hardest by unemployment. Its provincial government is strongly opposed to NAFTA and has challenged the accord in the Ontario Court of Appeals as a wrongful federal intrusion into areas of "provincial jurisdiction." However, the provincial government is believed to have little chance of winning the case.

Canada's trade with Mexico, on the other hand, is minuscule—at \$3.5 billion, compared with Canada's trade with the U.S.—at \$226 billion. Canada's trade with Mexico is expected to grow at a much slower pace in the near term even with NAFTA. Thus, the fear of losing jobs to Mexico has been much less of a concern to Canada. It should be noted, however, that over 300 Canadian companies have established a presence in Mexico over the last several years in anticipation of NAFTA and that this number is likely to increase with its enactment.

## DUMPING, SUBSIDIES ARE OBSTACLES

Canada's reservations about NAFTA have primarily to do with the U.S. Specifically, the liberal government wants clearer codes on subsidies and anti-dumping action to avoid countervailing duties that have been slapped on some Canadian exports, including farm and forest products, by U.S. authorities. Canada also wants to change a provision in NAFTA that requires it to maintain energy exports to the U.S. even in the event of a shortage. It also wants the same protection for its energy industry that Mexico enjoys under NAFTA. Canada also wants to negotiate better terms on water trade.

While the U.S. is expected to agree to some modifications with respect to water trade, subsidies, and dumping (at the Asia-Pacific Summit in Seattle President Clinton and Prime Minister Chretien agreed to negotiate definitions of subsidies and dumping), it is unlikely to agree to change the pact's energy section. Among other things, it is felt that if the energy provisions of NAFTA are reopened, it would lead to U.S. interests demanding that Canada's special exemption for its cultural industry be reconsidered. In addition, Canada has an energy surplus with the U.S., and its energy industry has enjoyed substantial profit growth since the 1989 U.S.-Canada free trade agreement. However, some of the Canadian concerns would be resolved if the Uruguay Round under way in Geneva is successfully concluded.

Canada's Trade Minister Roy MacLean has said that the country would likely be satisfied with a

commitment from the U.S. and Mexico to set up working groups to study the problems Canada has with the agreement. He also indicated that his government would seek side agreements on those issues similar to those the U.S. obtained on labor and environmental standards.

The Canadian government has shown some flexibility with respect to the implementation of

the pact, stating that it was not necessary for all outstanding issues to be resolved by Jan. 1, 1994, when NAFTA is set to take effect. Instead, the new Liberal government will decide whether to put NAFTA into effect after gauging the progress of talks with the U.S.

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