An unofficial evaluation of the Canada-U.S. FTA

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Four years have passed since the Free Trade Agreement (FTA) between Canada and the United States was signed. During this short time -compared to the originally specified period of nearly fifteen years- there have been enormously important economic, political and social changes directly affecting how early results have been evaluated differently. The changes are not only domestic; recent international events have affected the agreement's functioning.

Surely, one of the most interesting aspects is that since the end of 1990, the most pressing economic problem for both Canada and the U.S. is the recession, with rising unemployment and the closing-down of many businesses, mainly in Canada.

One of the strongest criticisms from Canadian opposition concerns the role of private international capital in both countries that is, to many, the real winner in the Free Trade Agreement. The key clauses mainly favor trans- national businesses, economically handicapping smaller Canadian firms.

Neo-liberal parameters were followed in drafting the agreement and, in that sense, the influence and importance of business groups during the negotiations is not surprising. Since Ronald Reagan's first administration both domestic and international economic policies opposed government intervention and supported the private sector's preeminence in an economy where free market forces were the only control permitted.[1]

Not only the agreement's de-regulatory content, but also inequalities existing between U.S. and

The Free Trade Agreement between Canada and the U.S. has produced a series of plant closings and lost jobs for Canadians, as firms move to the U.S. and Mexico.

Canadian successes have become evident over time. Several critical aspects stand out in Canada: From now on the government's economic policy must be conducted not only in accord with domestic needs, but correlated to the U.S. economic policy.

This point is illustrated by agricultural policy discussions in the GATT Uruguay Round, for which no favorable end is in sight, due to disagreement between the European Economic Community, the CAIRNES group and the U.S. over agricultural subsidies considered as unfair competition.

Canada faces a very limiting situation in the Free Trade Agreement, signed at the end of 1987, since norms established and approved by the FTA cannot be changed, virtually forcing their agreement with the U.S. proposals.

Thus FTA articles 701 and 709 forbid any subsidy for agricultural exports in the two countries, and these clauses specifically state that "the interests of the other party should be taken into consideration when concessions are granted to third countries".[2]

Another problem facing Canada is that many of her industries are moving to the U.S. or to the northern Mexican border. This phenomenon has drawn the most heated censure from the Canadian opposition and has shown the weakness of an agreement that does not seriously consider possible effects to job structure. Nor is

[1] Gutiérrez H. M. Teresa. "La Política Económica de los Estados Unidos Bajo el Libre Comercio", in the collective book *La Administración Bush*, Center for Research on the United States, UNAM, 1991.

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[2] *The Canada-U.S. Free Trade Agreement*, Chapter Seven, p. 75-77.

industrial policy planning considered necessary to harmonize with the changes provoked by practically unrestricted opening up to U.S. investment in all of Canada's economic sectors.

Industrial relocation has several causes: Higher salaries in Canada -12.97 dollars per hour, compared to 11.10 in the U.S.- and better Canadian Social Security. This has caused Canadian businessmen to protest complaining that competitiveness is reduced.[3]

Lost jobs during June 1990 were estimated at 165,000 in the manufacturing sector alone. Eight percent of this figure corresponds to Ontario, considered the best region in the Canadian job market.

Official government sources deny that business closings resulting in unemployment are one of the FTA's

[3] Gutiérrez Haces M. Teresa, *Libre Comercio y Oposición Sindical*, Revista Trabajo No. 5, Universidad Autónoma Metropolitana Azcapotzalco, 1991.

Ontario Business Closings 1987-1991

Year	Closed		Partially Closed		Total	
	Plants	Jobs	Plants	Jobs	Plants	Jobs
1991	49	5,181	14	777	63	5,958
1990	110	15,339	27	5,215	137	20,554
1989	77	9,705	22	2,979	99	12,684
1988	58	8,670	12	1,129	70	9,799
1987	60	9,124	10	980	70	10,104

Source: Ministry of Labour, Ontario, 1991

Highlights of seven years of

March 1985
U.S. President Ronald Reagan and Canadian Prime Minister Brian Mulroney meet. They agreed to request their respective ministers to explore the possibilities for reducing and eliminating trade barriers.

September 1985
President Reagan and Prime Minister Mulroney exchange letters of resolution to negotiate a Free Trade Agreement(FTA).

October 1987
U.S. and Canadian negotiators sign a draft of the Agreement.

December 1987
The heads of both delegations ratify the text of the Agreement. The final version is sent to the U.S. Congress and the Canadian Parliament.

January 1989
The FTA between the U.S. and Canada goes into effect.

March 1990
The Wall Street Journal publishes an article asserting that Mexico and the United States have agreed to initiate negotiations to develop a Free Trade Agreement.

April 1990
The Mexican Senate establishes a forum for consultations on the FTA.

June 1990
The U.S. Senate opens Hearings on a "fast track" bill that would allow President George Bush to negotiate directly with President Carlos Salinas. Both Presidents issue a Joint Communiqué announcing their intention to negotiate a FTA, and instructing their respective trade representatives to explore the possibilities.

August 1990
The Mexican Secretary of Commerce and the U.S. Trade representative meet and issue a Joint Recommendation to President George Bush, urging that the U.S. and the Mexican President initiate FTA negotiations.

September 1990
President Carlos Salinas appoints an Advisory Committee for FTA negotiations and informs President George Bush that Mexico intends to sign a Free Trade Agreement. President Bush sends a bill to Congress to open negotiations. Canada expresses its desire to join the largest trade bloc in the world.

negative results. However, data published by the Canadian Labor Congress, the strongest national union, and the *Confédération des Syndicats Nationaux,* located in Quebec, show this process on the increase (see tables). Part-time jobs have doubled from 1983 to 1989, and the policy of reducing working hours increased from 1989 to 1991. Businesses have generally toughened their tactics when confronting workers and unions. Claiming unemployment insurance has become more difficult and contract re-negotiations commonly include references to "possible business closings" or plant relocation to the Mexico-U.S. border.

"Free market concepts were followed when FTA was written"

This issue has provoked paranoid reactions towards Mexico, seen as a giant competitor who grants concessions to foreign investment. Some of the Canadian arguments used to demonstrate unequal labor practices in the three countries are: Mexico's low salaries, weak unions and lack of effective worker protection measures, like unemployment insurance, and some officials who ignore employer's abuses or the violation of worker's health or pollution laws.

Perhaps one of the newest aspects in the debate over labor and wage policy centers on the discussion of a "social salary", which is one of Canada's greatest national union conquests. During the FTA negotiations Canadian officials promised that existing worker's benefits would not be affected, and a labor adjustment program would be applied to counter possible lay-offs or the negative aftermath of partial or total business closings.

Since signing the FTA the conservative government has not been able to implement this program. On the contrary, there is an obvious tendency to modify unemployment

free trade negotiations

February 1991
President Salinas, President Bush and Prime Minister Mulroney agree to start trilateral negotiations for a North American FTA.

May 1991
The U.S. House of Representatives votes in favor (231 to 192) of approving the "fast track" for negotiating the FTA with Mexico. The U.S. Senate also approves the motion (59 to 36) to give President Bush the authority to negotiate.

June 1991
Trilateral negotiations between Canada, Mexico and the U.S. open in Toronto, Canada. The issues discussed include access to markets, trade regulations, investment, technology transfer, services and settlement of disputes.

August 1991
The ministers of commerce of the three countries meet for a second time in Seattle, Washington. They agree on a gradual reduction of tariffs, to be carried out in three stage, on all products to be imported and exported between the three countries. They resolve to make an in depth analysis of the restrictions on government purchases in the three nations. In addition, a working group is created to strengthen the Mexican assembly plant program. The governors of the fifty U.S. states express their support for the negotiations.

October 1991
The Ministers of Commerce of the three countries meet for a third time in Zacatecas, Mexico. The meeting is attended by U.S. negotiator Carla Hills, Canadian Minister of Commerce Michael Wilson, and Mexican Secretary of Commerce Jaime Serra Puche, along with their respective negotiating teams. They review the progress of the working groups assigned to each of the nineteen major sections of the agreement and call for a draft by January of 1922. The agree to approach labor and the environment as parallel issues, but not to include them in the text of the agreement.

February 1992
The presidents of the United States and Mexico, George Bush and Carlos Salinas de Gortari, meet in San Antonio, Texas, to discuss progress at the 7th plenary negotiating session, held at Dallas. Progress was reported by 8 of the 18 working groups. Differences persist in such key areas as enery, agriculture and the automotive industry.

insurance. Federal assistance programs, such as children's aid, pensions and maternity benefits, among others, have been limited.

Unemployment insurance has stopped being a three-party negotiation, tending to become an arrangement between the worker and the company, since the government does not participate. Calculations based on recently published data indicate that 200 thousand workers have stopped receiving unemployment insurance benefits, and 170 thousand possible applicants cannot expect to receive it.[4]

As a result of this cutback in aid programs, the Canadian government has calculated a savings of 15% in pensions and family assistance programs. Everything seems to be headed toward a downgrading to equal the U.S. system which is more privatized than Canada's. One must not forget that U.S. insurance companies are eager to enter the Canadian market where they have not found ready clients, thanks to present social security policies.

On the other hand, a tendency to modify fiscal policy has also surfaced. A new fiscal regulation, the General Sales Taxes (GST) has been levied on consumer goods and services, and that is only the beginning of an obvious restructuring in view of the government's need for new sources of tax income resulting from reduced import duties.

Other tax changes include lowering credit for scientific research, exempting almost 100% of capital gains and approximately 24 percent reductions for high level tax payers, while some of the taxes are recovered from low- and middle-income consumers through the GST.

In the controversial area of foreign investment, U.S. negotiators had determined to liberalize Canadian investment laws as much as possible, creating new norms to assure that no future government could possibly modify what had been won:

The overall objective of these conversations is to extend liberalization of Canadian foreign investment policies as much as possible, and on the other hand, it is essential to freeze former rules in order to favor U.S. investors and prevent future Canadian governments from returning to the unsatisfactory policies of a few years ago. From now on, Canada will not put any restrictions on exports, local content, domestic sources or import substitutions for U.S. investors. If we can't put an end to existing Canadian Investment, we can significantly reduce its field of action. Starting today, the real FTA achievement will be that the vast majority of new U.S. investments will flow into Canada without Canadian government interference.[5]

Canadian plants relocated to Mexico

Company	Location	Jobs Lost
General Electric	Quebec	200
Ford Motor Co.	Ontario	900
Motorola Co.	Ontario	186
Square-D	New Brunswick	156
Square-D	Ontario	107
General Motors	Ontario	800
General Motors	Quebec	1700
General Motors	Ontario	2700
Black and Decker	Ontario	100
Black and Decker	Quebec	150
Whirlpool Co.	Ontario	870
Echlin Canada	Ontario	58
Echlin Canada	Ontario	125
Northern Telecom	Quebec	680
Northern Telecom	Quebec	250
Northern Telecom	Ontario	240
Northern Telecom	Ontario	145
Northern Telecom	Ontario	120

Source: Réseau Canadien d'Action, April 1991, Canada.

"Subsidies on agricultural exports are forbidden by the FTA"

[4] Gutiérrez Haces M. Teresa, (compiler), *Experiencias de la Negociación de T.L.C. Canadá-Estados Unidos*, Mexico-Canada Conference proceedings, Partido Acción Nacional, México, 1991.

[5] U.S. State Department, cited by John Dillon in "Energía e Inversión Extranjera", in the collective book *Experiencias de las Negociaciones del T.L.C.*, *op. cit.*, p. 77.

Following this State Department declaration, one might add that 13.7% of the Canadian Domestic Product represents direct U.S. investment, and 70% of foreign investment in Canada is from the U.S., an unbalanced situation when compared to a 7.6% Canadian investment in the U.S.

In addition to these figures, Free Trade Agreement chapters 14, 16, 105, 501 and 502 establish guidelines for applying the National Protection clause, indicating that, among other things, permission from the Foreign Investment Revision Agency is needed only for huge investments of more than 10 billion Canadian dollars.

As a result, 460 Canadian firms converted to foreign control between 1988 and 1989, leaving 136 businesses with Canadian investment. At the same time, obligations on U.S. businesses have been disappearing: for example, requirements for minimum purchases of Canadian materials, including a certain percentage of the value added for Canadian workers, or regulations on earnings transferred outside Canada.

"An estimated 165,000 Canadian manufacturing jobs were lost in June, 1990 alone"

Tariffs, central to the agreement, have also had unexpected results. At the outset, gradual reductions were calculated to take 10 years, but in reality the process accelerated surprisingly. As a result, Canadian business' competitive ability did not have time to consolidate when faced by an invasion of products, investments and services.

The only possible solutions were shut-downs, mergers or maximizing production management to recover losses at the workers' expense. For example, this has harmed fishing and lumbering, two of the main activities in British Columbia. In both cases, part of traditional operations have been moved to the U.S., causing lost jobs and reduced salaries.

Services will certainly be one of the future points of conflict, as in the case of agriculture, insufficiently regulated pending the conclusion of the Uruguay Round. The Canadian services sector generates more that 2/3 of domestic earnings and comprises 70% of jobs. However, the sector is based on the domestic market and shows a negative balance compared to the U.S.

Optimistic evaluations of results were not lacking during the FTA's first year. But as time passes, they have diminished when faced by the complexity of the issues.

In August 1990, Canadian discontent showed up at the ballot box when the conservative party was defeated by the New Democratic Party, which shows social-democrat tendencies.

In the middle of 1991 discussions grew on revoking the FTA and domestic debate intensified when faced with the appearance of new participants and scenarios, rooted in President Bush's Americas Initiative and in the North Atlantic Free Tree Agreement negotiations between the U.S., Canada and Mexico.

All this indicates that the last word has not yet been said regarding the most ambitious economic integration project in America

Quebec Sectors Affected by Unemployment November 1988 - October 1990

Sector	Businesses	Lost Jobs
Food industry	14	2,107
Textiles and clothing	38	2,763
Shoes	4	531
Furniture and wood products	15	987
Paper and packaging	11	1,894
Chemical and pharmaceutical	10	1,036
Metals	21	2,268
Electrical and electronics	16	3,046
Total	129	14,632

Source: Confédération des Syndicats Nationaux, Quebec, 1991.