

Rural Canada and the WTO

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Outline

- The Canadian Context for Trade
- Hot Issues in the Media
- The Rural Lens
- Trade Policies for Rural Canada

The Canadian Context for Trade

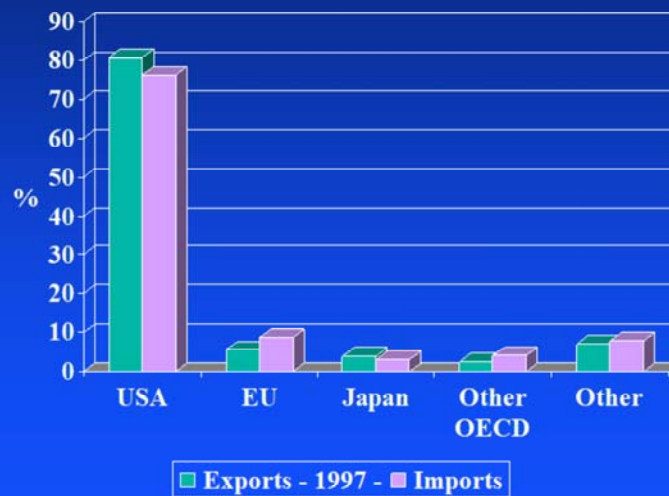
- **USA Dominance**
- **High level of foreign ownership**
- **Canadian industries are concentrating**
- **Mercantile policies**



The Canadian Context for Trade Issues

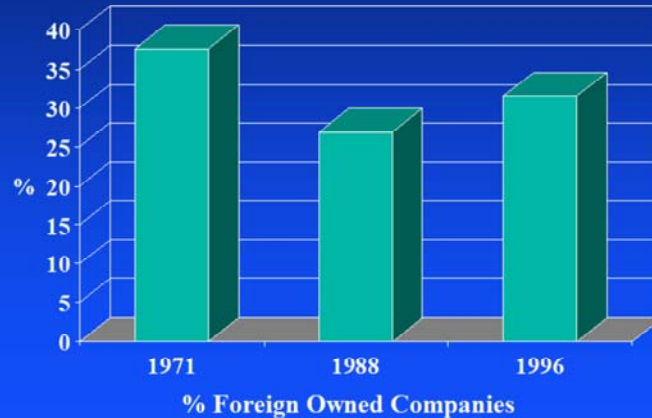
- Four points set the context for understanding Canada's response to trade issues and options for the future

1. USA is Canada's dominant trade partner



- The USA is our dominant trading partner
 - 80% of our exports are to the USA (\$243 million in 1997)
 - 76% of our imports are from the USA (\$210 million in 1997)
 - The next largest trade partner is only 5.5% of imports (European Union)
 - Japan next with 4% of our exports and 3% of our imports
- Canada is USA's largest trading partner as well
 - 27% of USA trade is with Canada
 - Mexico is next - 14%
- Result
 - What happens in the USA has strong impact on Canada
 - Trade policy in Canada must accommodate USA interests to a large extent

2. Canadian industries have high foreign ownership



Canadian Industries have a high level of foreign ownership

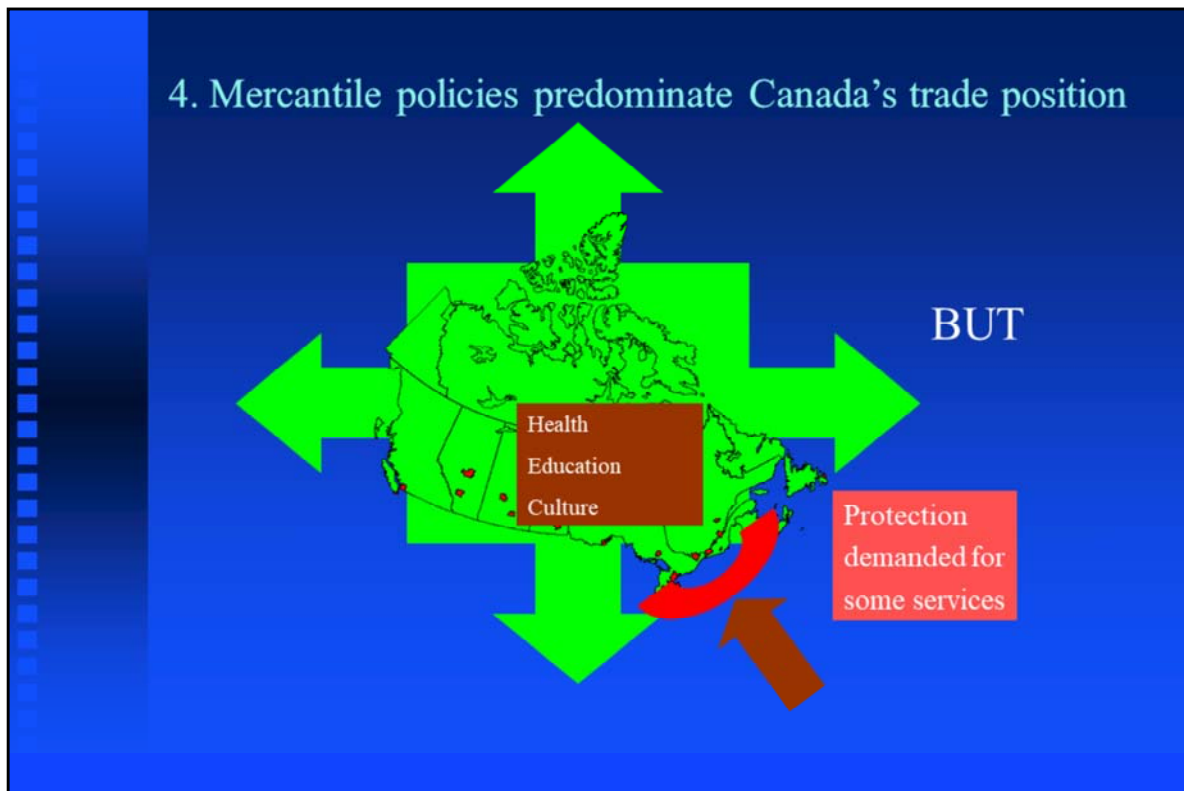
- Their highest level was in 1971 (37.6%)
- 1973: Foreign Investment Review Act (FIRA) - reduced level of foreign ownership
- 1985: FIRA abolished, replaced with Investment Canada
- level of foreign ownership rising
- Foreign companies have fared better than Canadian companies
 - growing faster (between 1990 and 96: revenues grew by 51.6%, whereas Canadian corps. grew 27.6%)
 - perhaps because they relied less on domestic markets, or because they are usually bigger, with the support of a parent company elsewhere
- Most of the foreign investment (98.5%) is for takeovers, not new business investment (1.5%)
- Result:
 - difficult to take a strong position on the protection of domestic interests
 - companies threaten to move to other locations
 - giving more control to the private corporate sector means giving more control to foreign interests (Rural Canada I, not Rural Canada II)

3. Canadian industries are concentrated



Canadian Industries are concentrated and concentrating

- 8 leading firms in selected industries related to natural resources
- Agriculture-related:
 - agricultural implements (69.5%)
 - Petroleum products (93.7%)
 - Dairy: fluid milk (78.4%); other dairy products (76%)
 - Flour: cereal grain flour (91%); prepared flour mixes and cereal foods (92%)
 - Beverage industries: soft drinks (86.7%); distillery products (98.4%); brewery products (96.4%); wine (87.1%)
 - Fisheries: 50.7%
 - Forestry: 31.3%; pulp and paper high (74%)
- Result: Concentration means (for rural Canada):
 - lower local incomes from rent
 - land values suppressed
 - equity-based investment more difficult
 - pressure on the environment



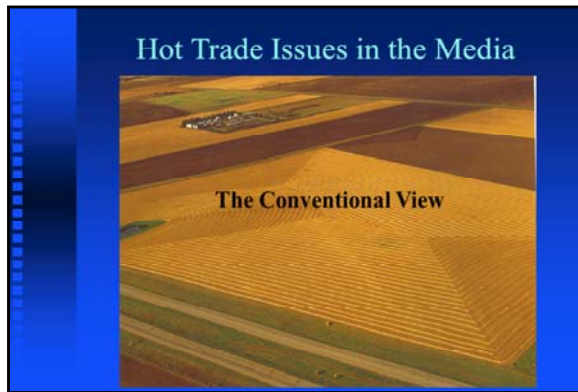
Canada's Dilemma

- Mercantile commitments dominate Canada's trading positions
- Results in pressure for opening up opportunities for Canada to export to other countries
 - especially natural resources and services
- But these conflict with the increasing pressure for the State to protect common property and fair access to social services.
- Result:
 - On the **world** stage, Canada must position itself as a champion of free trade, but
 - on the **domestic** front, it must appear to be a bastion against open competition within health, education, and cultural services.
 - i.e.: a conflict of interest in the State's obligations



Summary -The Context for discussion of Canadian trade issues

- The USA is our dominant trading partner
- Relatively high level of foreign ownership
- Our industries are concentrated and concentrating
- Mercantile approach to trade predominates



Hot Issues in the Seattle Round of WTO talks

- Many of the issues reflected in the media are there because conflicts have arisen in trade relations or political agendas
- These don't necessarily reflect the importance of the issues from:
 - the government's point of view, or
 - from the rural (CRRF) point of view
- We will divide the discussion in 2 ways:
 - conventional approach: sectoral and single issue focus
 - rural lens: non-sectoral - reflects more accurately how the issues affect rural people

Water: Conflicting Positions

- CANADA: Bulk water policy is an environmental, not a trade issue
- USA: Trade in bulk water is explicitly permitted by the NAFTA
- Government Position:
 - separate bulk from processed water
 - exclude bulk water from free trade

Hot issues at the WTO - Water

- This is a hot issue because of recent events and rulings:
 - Ontario tried to sell bulk water to the USA, but the outcry made them back down
 - recurring problem with shared water systems (Manitoba-North Dakota / Garrison diversion plan): complicates the issue of trade with pollution and environmental aspects
 - California company demanding compensation from BC for canceling a water export contract (under federal pressure)
- NF wishes to sell its water internationally
- Canada argues that trade in bulk water is not part of the Free Trade agreement (water in its natural state is excluded from NAFTA, but water which has been manipulated is covered)
 - Canadian government introduced new legislation last month banning bulk water sales to the USA
- USA argues that trade in water is provided for in the NAFTA
- meanwhile, the trade of bottled water continues (Coke buys Naya)
- Government position:
 - bulk water policy should be determined by environmental concerns, not trade
 - separate bulk from processed water
 - keep bulk water out of free trade



Hot Issues in the Seattle Round of WTO talks - Agriculture

- marketing of agricultural products
 - international pressure to dismantle the Canadian Wheat Board (the sole seller of most grains for Canada)
 - considered a monopoly from point of view of others (USA is supported by EU)
 - shared by some farmers (especially those near the USA border) who would like to be able to sell their grain without going through the Board
 - considered essential in order to compete in the international context since we are such a small player
- Canadians wish access to European markets
 - but they have many subsidies and restrictions
 - their supports act to lower world prices
- pressure to deregulate grain transportation
 - Crow rates eliminated
- dismantling of dairy protections
 - especially in Eastern Canada (QC)
 - quota system established to protect dairy farmers and rural communities (consistent with QC rural policy)
 - substitution of tariff protection on dairy products for the previous quota system (supply management)
 - tariffs to be gradually reduced over the next 15 years
 - without other action, will mean the disappearance of rural communities
- Cattle
 - USA added tariff since Canada was accused of dumping beef (International Trade Coalition supported Canada)
- Genetically modified organisms (GMOs)
 - significant public (consumer) issue
 - Canada does not identify GMOs on its consumer labeling
 - few limitations on imports - utilize the “precautionary principle” (review scientific evidence, then apply an educated opinion whether it will be harmful or not)
 - some adjustments made for export limitations (introduction of systems of standards)
- Government position:
 - eliminate export subsidies for agriculture
 - steep reductions in production subsidies
 - reduce tariff and non-tariff barriers to trade
 - generalize the “precautionary principle” for GMOs

**Transportation:
challenging bilateral agreements**

- USA/Canada Auto Pact
- Subsidies for foreign competitors

- Government Position:
 - expand access to USA and foreign markets
 - revise bilateral deals if necessary

Hot Issues - The Automobile Industry

- USA/Canada Auto Pact has harmonized the automobile industries in the USA and Canada (Big 3 US automakers must build as many cars as they sell in Canada in exchange for not duties)
- Has generally been good for the ON and Canadian economy: many parts produced in Canada with many multiplier effects
- Supported rural communities (ON, QC) - provided jobs in small enterprises
- Now:
 - protectionist pressure from Japan and the EU to revise pact
 - pressure against the pact from the rest of the world since it is viewed as bilateral protectionism
 - combined effect is to revise the pact (sometimes with different objectives)
 - Canada has lost all cases put to the WTO regarding the pact
- Devastation of rural economies as the branch plants closed (since they were no longer protected)
- Continued pressure against 'assembled in North America' requirements for the automobile industry
- Conflict over 'subsidization' of jet industry by Brazil (Bombardier)
- Government position:
 - not a priority item for Seattle - will have final ruling in January
 - in general, maintain and expand our access to the USA market

Forestry

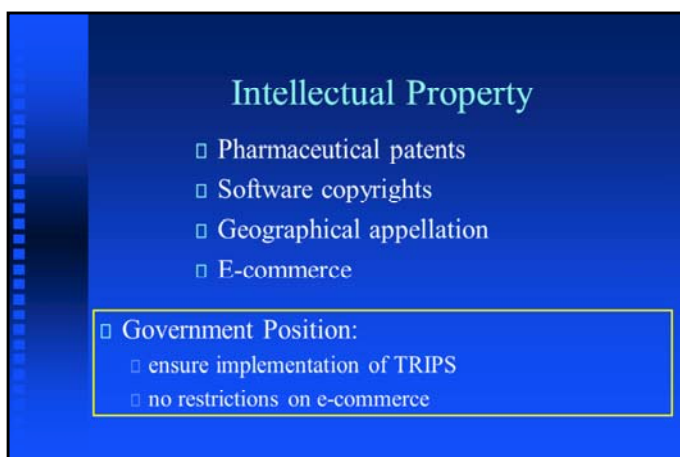
- Softwood lumber limits
- Stumpage fees as subsidies
- Environmental lobby

□ Government Position:

- remove trade restrictions in software lumber
- expand access to markets through free trade

Hot issues at the WTO - Forestry

- softwood lumber agreement expires April 2001 (Canada has duty-free exports capped at 14.7 billion board feet)
 - The agreement has divided the Canadian lumber industry
 - there has been considerable conflict regarding this agreement and NAFTA
- USA argues that the stumpage fees (royalties for cutting timber in Crown land) amount to a hidden subsidy
- pressure on the industry from the environmental lobby
- incompatibility between present practices and the preservation of local amenities
- long-standing sustainability a problem since it is difficult to compete with more temperate climates
- Note: Canada is one of the world's largest exporters of wood and paper products
- Government position:
 - improve market access through free trade
 - remove trade restrictions in softwood lumber in the long term



Hot issues at the WTO - Intellectual Property

- Primarily focused on
 - pharmaceutical industry (patents)
 - software (copyrights)
- Not much media attention to other aspects which are important for rural:
 - geographical appellation (identifying origin/ processing standards)
 - trademarks
 - e-commerce
- We feel this is an important issue since the establishing of standards for products and services, the enforcement of those standards, and dispute settlements could be a crucial mechanism whereby the rural disadvantage in the market can be significantly reduced.
- Government Position:
 - increase the opportunities for trade in intellectual services
 - uphold intellectual property rights under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)
 - (extend the moratorium on the application of the non-violation provision of the intellectual property agreement)
 - permanent moratorium on tariffs on the international transmission of digitized information (e-commerce)
 - BUT: this implies challenges to Canada's re. culture

Services: a new issue

- GATS - a work in progress
- 'Goods' versus 'Services'

- Government Position:
 - increase our access to foreign service markets
 - limit access to our health, education, cultural services

Hot issues at the WTO - Services

- Agreements on trade in services just being developed
 - General Agreement on Trade in Services (GATS)
- Agreements are not based on all services, but only those which the countries place on the table - therefore, there are many tradeoffs and substitutions.
- Trade in knowledge-based services is one of the fastest-growing industries in Canada
 - therefore Canada would like to get greater access for our service industries
- However, the government is under considerable pressure to protect public health care and education
- The definition of what is a 'good' and a 'service' is a point of contention
 - e.g. software, music, books, movies: traditionally viewed as goods are now offered as services through the Internet
 - important because it will affect whether the item is guided by GATT or GATS
- Government position:
 - equivocal
 - get greater access for our service industries (esp. developing countries)
 - expand the range of services to be open to trade
 - protect health, education, culture



Hot issues at the WTO - Social Policy

•Trade issues hold important implications for several aspects of social policy in Canada. Health, culture, and education are 3 of the most important.

•Health

- USA argues: universal medicare provides an advantage to employers since they do not have to provide this as part of their employee benefits package
- USA argues: prohibitions against private medicine is a barrier to the market in health services
- Pressure from provinces to open up health care system to private players (latest move from AB is to hire surgeons at medicare rates)

•Culture

- Regulations in the print, film, radio, and television media limit the extent of foreign (i.e. USA) distribution in Canada
- Several attempts to get around these regulations (e.g. special magazine inserts for distribution of magazines in Canada) have met with resistance.
- Part of a long-standing concern among Canadian nationalists and in another form, Québec nationalists

•Education

- Industry Canada interested in developing trade in knowledge-based economies, training contracts, distance learning, students, R&D

•Potential for a coalition: environmentalists, anti-GMF, Canadian nationalists?

•Government position

- Canada must maintain the right to regulate and promote “Canadian values” in strategic sectors such as health, education, culture, and environmental protection
- seek recognition of the importance of preserving and promoting cultural diversity
- equivocal statements re. Such policies conflict with economic policy of trade liberalization



Hot Issues in the Seattle Round of WTO talks- the Conventional View

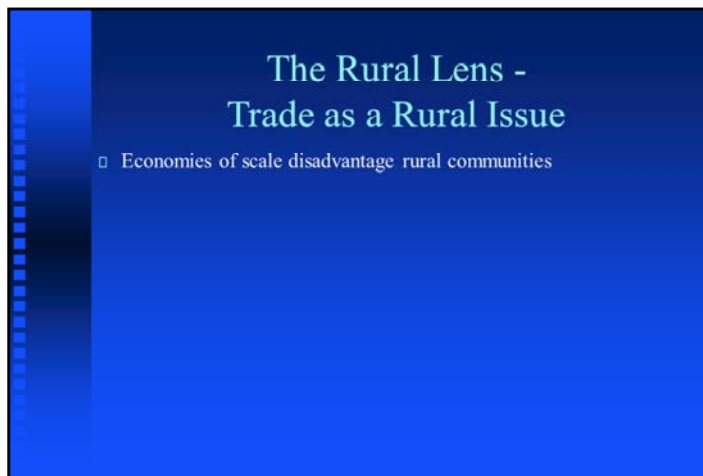
- This classification represents the ways in which the issues are discussed in the media and by government negotiators
- It emphasizes administrative distinctions into sectors and issues that distort the ways in which these issues interact in the rural context
- Therefore, we would like to contrast this with an approach that is more rural focused
 - i.e. highlights these interactions and interdependence of the issues
 - it is what we call the 'Rural Lens'

The Rural Lens

- Self-organization is the key to a strong rural economy
- Industrialization in the Canadian context has undermined the capacity to self-organize
- Trade policies giving priority to efficiency disadvantage the capacity to self-organize

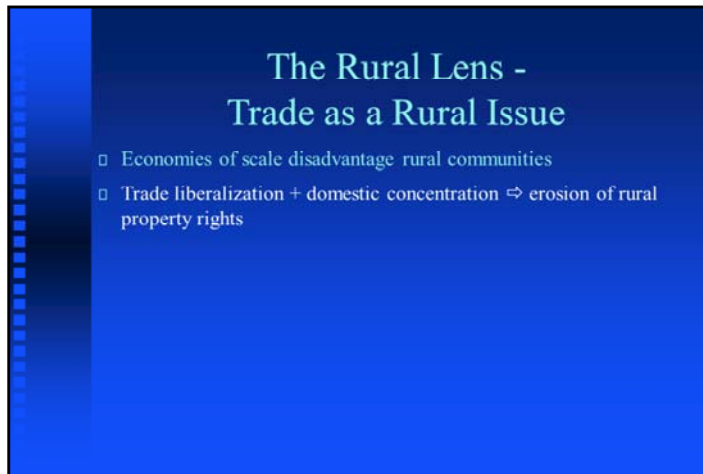
The Rural Lens - Trade as a Rural Issue

- What is the relationship of these issues to rural Canada?
- We assume:
 - A strong rural Canada is crucial for a strong economic and social Canada
 - This strength comes from the ability of rural people to self-organize
 - Building rural capacity to self-organize therefore becomes a priority of our proposals
 - Unconstrained industrialization of rural activities in the Canadian context has undermined the ability of rural people to self-organize
 - i.e. in a context of an export-based economy (natural resources), high concentration, high foreign ownership, mercantile policy
 - e.g. reduced populations
 - removed artisan approaches to production
 - forced outmigration
 - Trade policies that give priority to efficiency over quality, sustainability, and social or environmental impacts support these short-sighted industrial objectives



The Rural Lens - mercantilism

- The commitment of the Canadian State to a mercantile role means that it cannot address the social, environmental, and cultural aspects of its mandate in the new rural economy
- The conditions under which commodities are traded determine the social, political, and environmental opportunities in rural areas
 - mercantile approach for commodities aims to maximize efficiencies -> sensitive to economies of scale -> therefore disadvantages rural communities
 - they can't compete because transaction costs are higher
 - their dependence on commodities means that processing and manufacturing industries don't develop (especially where foreign markets impose restrictions on processed goods - e.g. Britain, USA, Japan)
- Proposal - support codes of practice for quality and sustainability (e.g. ISO 14,000)
 - smaller places can meet these criteria
 - larger producers will become less demanding on the environment
- If Canadian state supports efficiencies in trade, economies of scale means that rural communities are disadvantaged over urban



The Rural Lens - trade liberalization, concentration, and foreign ownership

- Trade liberalization under conditions where there is a high concentration of domestic industries places rural industries at a disadvantage
 - The rural economy is characterized by small and medium sized enterprises, and an artisan organization of production (and identity)
 - Concentration of suppliers and marketers means that these enterprises are vulnerable to opportunistic practices
 - Given as well that much of this concentration is under foreign control, little attention has been given to local support
 - the sharing of mercantile interests between the state and private sectors in Canada therefore means it is a sharing of interests between the state and foreign interests
- If commodity trade is liberalized, rural communities disappear
 - protection of grain, dairy, and automobile industries in the past has meant the survival of small farms and rural communities
 - elimination of that protection has meant a drastic decline in rural population and the shift of that population to larger centres
 - local organization of resource production moves to contract servitude and marginalization (fish, forest, agriculture)



The Rural Lens - the sectoral bias

- The strong sectoral basis of Canadian trade encourages a focus on narrow interests and susceptibility to pressure from those interests
- Becomes aggravated by the institutionalization of sectoral approaches in separate government departments
 - makes it more difficult to consider interaction effects between policies of the various branches
- Promotes a view of natural resources as commodities to be traded, not as amenities to be enhanced, biodiversity to be protected, or heritage to be preserved.
- Pressure against price supports and tariffs has forced the social policy aspects of sectoral policies to be abandoned
 - frequently done in the name of “reducing distortions in the market”
 - If social, environmental, and cultural aspects are not considered part of the market, then they are necessarily “distortions”
- There is significant conflict between current resource exploitation and the protection of rural amenities.
 - A sectoral focus creates conditions for a confrontational approach to these conflicts rather than creating a forum where mutual interests can be identified and developed
- The sectoral focus is insensitive to the artisan basis of rural communities, social relations, and identity
 - Artisan: favors apprenticeship, trial and error, diversity over technical and scientific training, and specialization
 - Note: Japan, France are more sensitive to the value of this element of economic and social life (market products with regional identity)
- If policies and institutions are focused on sectors, diversity and rural identity is lost



Toward a Trade Policy for Rural Canada I

- Establish policies and priorities appropriate for all sectors (resource sectors and the 3 rural Canadas)
- Support trade, but only under conditions where it will enhance our vision for rural Canada
- Some of these suggestions address the issue of trade directly and some of them address the conditions under which the new global economy places rural Canada at a disadvantage (e.g. concentration, dependence, sectoral focus)
- All of them involve discussions with urban Canadians:
 - therefore we need a Rural Charter
- **Rural Canada I**
- Give priority to codes of practice (e.g. ISO 14,000) over efficiency for trade
 - reduces the advantage of economies of scale that undermine rural communities and natural resource environments
 - provides an institutional and economic mechanism for the recognition of social, environmental, and cultural interests
- Support industry-wide backup for trade disputes
 - to reduce our vulnerability to foreign control
- Establish a stronger competition policy
 - to reduce the concentration that disadvantages rural enterprises



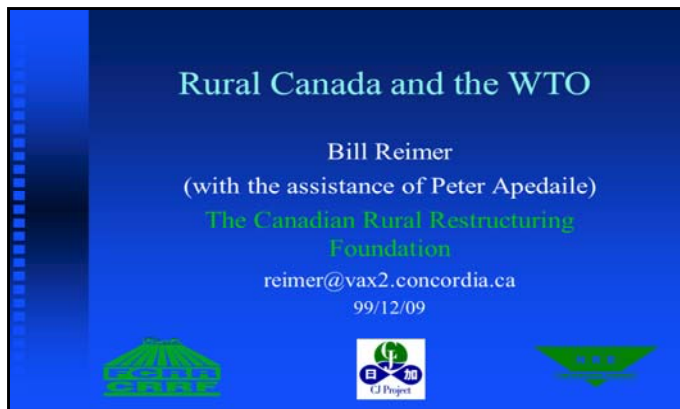
Toward a Trade Policy for Rural Canada II

- Move rural Canada II out of the resource commodity business
 - has resulted in the undermining of communities
 - build services, knowledge-based, and amenity enhancing activities
- Support NGO global networking
 - to increase the access to world markets and opportunities
- Develop new local property-owning institutions (e.g. citizen development corporations)
 - to de-concentrate the rural economy
- Support import substitution projects (e.g. promote local products)
- Restore local rural banking services
 - to provide local access to capital and information for tradeable ventures
- Invest in infant business ventures
- Invest in the development of a local learning culture
 - to increase knowledge about the changing economic and social conditions
 - to explore and prepare appropriate responses to those conditions
- Reorganize rural governance to make it less susceptible to patronage and more inclusive of all rural Canadians
 - reduce its dependence on the mercantile model



Toward a Trade Policy for Rural Canada III

- Support collective economic activities (credit circles, user groups, cooperatives, credit unions)
 - they provide the means for marginalized people to initiate projects, learn, and develop social supports
- Build human capacity through literacy, education, apprenticeship, and training programs
 - to develop the skills for participating in the new rural economy
- Facilitate networks among SMEs and between entrepreneurs
 - to increase access to information and support for trade and other opportunities
- Provide affirmative action programs for access to special property rights
 - to increase the opportunities for rural Canada III to develop sustainable returns



Rural Canada and the WTO

- All of these proposals reflect our belief that trade issues cannot be separated from social and environmental issues
- The Canadian situation is a good example:
 - the consequences of a trade policy will be different depending on the social and economic circumstances of the trading partner
 - trade liberalization in a context of dependency is likely to disadvantage the weaker partner
- Our proposals identify some of the more critical consequences of trade liberalization for rural Canada and attempt to respond to the most negative aspects
- not by eliminating trade liberalization, but by:
 - identifying some of the points where liberalization might be harmful
 - identifying some of the Canadian conditions that make it harmful, and
 - proposing ways in which all types of rural Canadians can build their capacity to recognize and take advantage of the new opportunities emerging in the new international context
- It may also help our trading partners to recognize the consequences of their own policies for themselves and for other nations.
 - E.g. Japanese protectionism has been:
 - good for commodity trading
 - bad for development of a more diverse and sophisticated economy
- We hope that one consequence of this increased understanding is the maximization of mutual benefits in our negotiations.

Dōmo arigatō gozaimasu