



At the FarmTech conference, former Prime Minister Brian Mulroney called for “a generous phase out of our supply management programs in dairy and poultry.” Canada 2020 photo

## Verbatim: Canada, Trade and Trump in a Changing World

Brian Mulroney

*The former Prime Minister addressed the FarmTech conference in Edmonton on February 2, telling Canada’s agricultural producers that he’s sanguine about the Trump administration on trade and calling for an end to the country’s supply management system.*

I am not here today as an expert in farm technologies. If I were, that would make for a very short speech.

What I really want to offer is a comprehensive vision of agriculture, one that stresses the importance of more open trade to Canada’s economic wellbeing, of preserving the vital market access we enjoy and of pursuing new horizons for exports of Canada’s agri-food products.

After all, agriculture is a real asset, a sustainable asset for the Canadian

economy, one that contributed more than \$108 billion to our GDP in 2014, more than half of which—58 per cent—was exported and more than half of that went to one market—the United States. Agriculture employs one out of eight Canadians, more than 2.3 million in total.

We should never underestimate the importance of commodities—agriculture and energy in particular—to the wellbeing of our economy. They constitute more than one third of Canada’s GDP. I believe that there are lessons from my time in government that may help us meet threats from protectionism, especially in our most vital market—the U.S.—and embolden us to negotiate access to promising growth markets in Europe as well and most notably in Asia.

Thirty years ago, Canada negotiated the Free Trade Agreement (FTA) with the U.S. and five years later Mexico joined in the North American Free Trade Agreement (NAFTA). The combination has delivered unprecedented benefits in terms of growth and employment in Canada. By reducing tariffs across the board, as well as other barriers to trade on our continent, we also dramatically improved the efficiencies and productivity of many sectors of our economy, including agriculture.

The theory was that if we could compete fairly and effectively on our own continent we would be better able to compete globally. That premise is even more compelling today, especially as we see increasing signs of protectionism on many fronts.

The U.S. will continue to be the major market for all of our exports and should be the overriding priority on trade. Geography does give us a vital advantage but we have to be ever vigilant in safeguarding our access to that market. The discriminatory labels that were put on Canadian beef are just one illustration of the persistent resonance that protectionism has in Washington. That labeling practice hurt our pork industry as well and reversed the integration of North American livestock industries that had been forged by

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NAFTA. The U.S. has lost repeatedly on this dispute at the World Trade Organization to complaints from both Canada and Mexico and the panel actually found that the “solution” the U.S. had introduced compounded the violation. While this issue has been resolved, I do not have to remind any of you that the threat these days of more damaging protectionism from the U.S. is very real. We need to do everything we can to ensure that we do not become a target, accidental or otherwise.

I know you must be wondering about how Canada will fare with the new Trump administration. On balance, I am convinced that there are more opportunities for constructive partnerships than for differences or concern.

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Let history, not conceit or sanctimony be your guide. I made a conscious effort to establish a close and constructive relationship with President Reagan and with his successor, George Bush, Sr. I said at the time that I would give the Americans “the benefit of the doubt” from time to time and I did exactly that. That personal commitment helped us conclude vital agreements on trade, on the environment and on our shared security concerns on this continent. All of which produced mutual benefits.

I genuinely believe that there are lessons to be drawn from that history

that would be helpful in meeting the challenges we face today in the early days of the Trump Administration. The key is to find avenues of common ground and common purpose while managing differences—and in a relationship this complex there are bound to be differences—in a pragmatic, diplomatic fashion. Not simply to demonstrate a penchant to be different.

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The litmus test for success in any negotiation between governments is that the result must be a demonstrable win for both sides. Negotiators seldom get everything that either side may have wanted but they need to agree on enough that will enable both sides to gain significant advantage from the result—and at minimal cost. That is key to any successful negotiation.

The FTA and NAFTA more than met that objective. The proof can be found most prominently in the numbers. Trade between Canada and the U.S. exploded, more than tripling in

the first 20 years alone—more than \$1 million now every minute of every hour, every day. More than \$2 billion in total each and every day of every month of the year. More than \$800 billion in total. The largest bilateral trade exchange between any two countries in the history of the world, generating almost five million jobs in Canada alone. As you well know, even many of our fiercest critics at the time have become supporters.

I am confident that, with astute management, these agreements will continue to provide a solid, healthily balanced foundation for future trade and investment between us.

These agreements were possible because, as leaders of our respective governments, Presidents Reagan and George H. W. Bush and I were determined to succeed and to guide each negotiation every step of the way. Not to get a deal for the sake of getting a deal but to conclude agreements consistent with our basic objective—making trade relations, environmental and border management significantly better for both countries.

Should we be concerned about protectionist impulses gaining attention today from the new Trump Administration? Of course we should. We need to be persistent and rigorous in defending access to our most vital market, reminding our neighbour at every opportunity that the best measure of success is the two-way benefit from trade flows and from the highly integrated nature of our two economies.

If there are ways to improve trade and investment, we should examine them on their merits. If there are aspects of existing agreements that warrant adjustment, we should be ready to examine them as well. After all, the internet had not been invented when I negotiated the FTA with President Reagan. What we cannot do is stick our heads in the sand and hope that the protectionist pressures will abate on their own.

Turning to other markets, the Com-

prehensive Economic and Trade Agreement (CETA) with the EU, once ratified, will offer significant promise for Canadian agriculture. Our exports to the EU averaged \$2.8 billion annually between 2013 and 2015, led by durum wheat, soybeans, non-durum wheat and other seeds, canola seeds and lentils.

But Canadian exporters face high tariff rates on agriculture products throughout Europe. With CETA, most of those tariffs will disappear. We will gain duty-free access for specified amounts of beef, pork and bison—a real breakthrough—and preferential access for processed food products and beverages. It is estimated (conservatively) that our agri-food exports to the EU will increase by \$1 billion annually.

The agreement has been signed but ratification is still needed by each of the 28 EU member states and that will not be a slam-dunk precisely because nationalist, protectionist pressures are looming on several fronts, as are elections.

We also need to plan for a post-Brexit trade agreement with the U.K.—our largest, European trade partner and one of the top markets for our agriculture exports.

Impressive as these trade agreements are, Canada needs to do even more on the trade front. We should not allow complacency to prevent us from being a leader instead of a laggard in markets where we have the capacity to excel.

The most dramatic developments since the negotiations of free trade with the U.S. has been the remarkable transformation of the global economy with power shifting to China—soon to overtake the U.S. as the world's largest economy—and to emerging markets more generally in the Asia-Pacific region.

Canada cannot afford to stand on the sidelines and ignore the opportunities that are emerging from fast-growing markets and from the wonders of buying and selling via the internet. We need to take better advantage of

these trends and our agricultural capabilities should be a genuine comparative advantage for Canada.

Canada's FTA with Korea was certainly an important step in the right direction for all of our exporters who were otherwise losing market share to those who had gained privileged access before we did. (Canada's exports dropped by one-third during the first year of the Korea—U.S. FTA!) It is, I believe, a model that should be emulated more broadly in the Asia-Pacific region.

Agriculture was, as I am sure you know, the most heavily protected sector in Korea with tariffs averaging more than 50 per cent and with some as high as 900 per cent.

Duties on beef and pork in Korea are now being phased out over a period of five to 15 years so that Canada will quickly be on a level playing field with our principal competitors. For exporters of wheat, canola, frozen French fries, ice wine and rye whisky, duties have already been eliminated. Exports of our agricultural products to Korea increased by more than 20% in the first 11 months of 2016.

Agricultural producers should continue to be major beneficiaries but my question to you is how many are planning strategically to take advantage of this new access? If you do not upgrade and invest in your technology for seeds or software how will you expect to benefit from the new market access offered by Alibaba and similar service ventures?

Trade agreements on their own simply open new doors. To generate value and stimulate employment businesses, producers and exporters alike need to gear up, invest and develop marketing strategies in order to capture new opportunities.

Success in agriculture may start with what comes out of the ground but the value chain for prosperity is much broader and more sophisticated.

We may very well be living in what may become "China's century". In 1985, China was the world's 32nd

most important exporter. Today it is number one. Spectacular economic growth underpins aspirations for great power status and respect. China is growing today at a seven per cent clip and is expected to provide almost 40 per cent of global growth this year. It is clearly in the driver's seat regarding commodity markets.

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The task of sustaining economic growth while maintaining strict political stability only becomes more difficult as more people in China acquire more things. Obviously, we would like to see more in the way of political reforms and human rights in China and a growing middle class will stimulate demands in that direction. But, before we offer too many lessons to China, we in the West could also do a better job demonstrating that our system of government and the values enshrined in it are better able to meet the demands of our own citizens.

Because of our rich commodity base, Canada is better positioned than many to take advantage of the emerging opportunities for economic expansion, not only in China but throughout the Asia-Pacific region.

The GDP of Asia now exceeds \$30 Trillion. (By comparison, the U.S. economy stands at \$18 Trillion). We obviously need to exploit promising huge markets like China and India. And, with TPP in limbo, we should also strike to salvage on a bilateral basis what has already been negotiated with promising markets like Japan, Malaysia and Vietnam. Each is a significant market for Canadian agriculture.

Above all, we need a broader vision on trade and the audacity to pursue it, not to replace but to complement access to what will be our most vital market for decades to come. The more balance, the better.

We could also use a little audacity right here at home. Agriculture is unquestionably the most protected and politically sensitive sector for many countries, including Canada. But we are *not* the lone outlier. The U.S. has its own supply management for sugar and peanuts as well as massive subsidies that distort trade prospects globally and notably for developing countries.

When governments try to “manage” any form of trade they inevitably undermine both the efficiencies and productivity that healthy competition can inspire. There needs to be more of a balance, one that ensures a measure of stability without stifling innovation.

**T**hat is why, in anticipation of either a regional or multilateral consensus on serious reductions of practices that distort agricultural trade, I believe we should give some thought to the consideration of a careful, innovative and generous phase-out of our supply management programs for dairy and poultry.

I recognize the political allergies on this issue in Canada but cannot help but think that we tend to ignore both the benefits for Canadians and the enormous export potential that could be derived if we were to unshackle these sectors in a sensible manner, provided of course that other countries are prepared to make

similar moves to dismantle their restrictive regimes.

Supply management is a double constraint not just for consumers but also for exporters and food processors who are obliged to locate plants and production for global export in countries where inputs are cheaper.

The Australian and New Zealand examples of success are frankly compelling. We should be prepared to consider a similarly pragmatic transformation, one that allows for some consolidation as well as generous compensation packages and would position Canada to be an efficient exporter as well as a dominant, more efficient domestic supplier. We also need to move forward expeditiously on new infrastructure that will enable us to ship our resources to promising markets beyond North America.

The fact that the Trump administration has approved the Keystone XL pipeline is a salutary “better late than never” piece of good news for Canada. But we need more of the same positive decisions on infrastructure to serve access to global markets. If we are stymied by endless protests and court challenges we will not have the financial resources to support the social and educational needs of our own society. It is time we Canadians acknowledged that reality.

Whether we implement a bolder vision on trade or similarly bold policy action here at home it is ultimately a question of confident, persistent political leadership. That is the most precious asset of all. Consultations in the absence of leadership will never be sufficient. Leadership that not only anticipates the need for change but is brave enough to implement change.

History demonstrates convincingly that, when we get our act together with vision, confidence and leadership, beneficial results will follow. **P**

*Former Prime Minister Brian Mulroney negotiated the Canada-U.S. FTA in 1987, and the NAFTA with the U.S. and Mexico in 1992. He is now a senior partner at Norton Rose Fulbright.*