SPECIAL ISSUE
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BRITISH COLUMBIA INDUSTRIAL DEVELOPMENT BULLETIN

OUTLOOK

Consumer spending and the impact from increased exports will keep the recession at bay in 1988. The October 1987 market crash has not inflicted as much damage on the global economy as had been previously feared. On a positive note, the stock market "adjustment" has helped avert an overheated U.S. economy. An overheated economy might have resulted in higher interest rates to temper inflation and a stronger U.S. dollar resulting in an increase in protectionist measures against the U.S.' trading partners. At this point in time the "meltdown" is beginning to look like a veiled blessing.

The stronger U.S. economy should bode well for Canadian exporters of goods and services to that market. Following a fourth quarter drop of 2.5% in U.S. consumer spending, (a less severe drop than originally forecast), we expect first quarter 1988 growth to come in at +3.0%, more than compensating for the fourth quarter decline.

Consensus thinking has the Canadian dollar continuing to trade in the $0.79 to $0.81 range in the near-term as a result of the enthusiastic response to Canadian dollar Eurobond issues, up over 30% from April 1987, and the lowering of key British interest rates. The dollar has gained over 5% against its U.S. counterpart and should remain there for the near future.

But, the monthly release of the unadjusted U.S. trade figures continues to wreak unnecessary havoc on currency markets. February 1988 trade figures came in at a disappointing -$13.8 billion. But the resulting panic was short-lived.

The G-7 countries met on April 13, 1988 to discuss a defendable level for the U.S. dollar. Regardless of any level-setting, the fact that the world's central banks are flush with U.S. currency as a result of previous dollar defenses means that the market for the dollar will remain flat as the central bankers slowly release their U.S. funds onto the market.

The U.S. Omnibus Trade and Competitiveness Act of 1987, currently being debated, is facing an impending Presidential veto. The protectionists' leverage dissipated after the "crash" and Representative Gephardt's failures in the primaries have convinced policy makers that a protectionist stance on trade is not the hot political property it once appeared to be. The vetoing of the Bill should not have an adverse impact on the passing of the Canada-U.S. Free Trade Agreement by the U.S. Senate and House of Representatives. Although delay is a distinct likelihood if the Omnibus Bill is further amended.

GATT, the world trade body, is forecasting **a 4% increase in world trade in 1988.** Continued calm in the world's stock and money markets could add further strength to this growth.

What's inside

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Sectoral trends and industry issues

This issue of the Bulletin will comment on the impact of the Free Trade Agreement (FTA) on the British Columbia economy. The industries under examination are those which are critically important to the economy and which, on balance, will benefit through the principles of the Agreement. The commentary focusses upon these broad principles and their intended influence on industrial growth. The perspective taken here is sector-wide and cannot account for the manner in which the FTA may affect individual firms.

Forest Products

Long term net benefits will accrue to the forest products industry as a result of the Free Trade Agreement.

The industry has suffered from protectionist measures and has no desire to incur the further wrath of a concentrated U.S. lobby. The industry can more than compete with its U.S. counterparts and the FTA will help it exploit comparative advantages to the fullest.

Until recently the major portion of the exports of this dominant sector have moved unfettered between Canada and the U.S.. But June 1986 saw the imposition of a 35% duty on Canadian shakes and shingles, and December 1986 saw a 15% Canadian tax on softwood lumber as a result of U.S. actions. These U.S. actions emphasized the need for defined trading rules and a dispute resolving mechanism. The forest industry is generally satisfied that the FTA has met these requirements.

It comes as no surprise, given that 56% of 1986 forest production exports were destined for the U.S., that the forest product sector has been a large supporter of the free trade talks from their onset. **As a result of the FTA the industry will enjoy a more secure access to the U.S. market.** This access should allow the industry to exploit more fully its competitive edge.

The industry was very concerned that the "Machinery Duty Remission Program" (MDRP) would be extended to include the U.S. This extension would have meant that for machinery to be eligible for duty free admission into Canada it would have to be unavailable in North America. This extension may have imposed significant costs on the industry. The final text of the FTA states that the MDRP will remain in its pre-agreement form. This ensures that B.C. firms will continue to enjoy duty-free admission on equipment that is not manufactured in Canada.

The FTA leaves the control of log exports to the individual governments, as requested by the industry.

The agreement called for a panel of experts to examine the Canada Mortgage and Housing Commission findings on U.S. C-D plywood's potential for use in the Canadian construction industry. CMHC has since stated, in a report, that U.S. plywood does not meet Canadian standards. Canadian plywood producers continue to watch these developments carefully.

The pulp and paper sector is supportive of the FTA but realize that there are product areas that will need some time and some investment to adjust to free trade. The industry is aware of the requirements and many firms will be seeking capital to enhance product lines, improve technology and ensure a smooth transition period.

The specialty wood products sector continues to expand its investment in new products and processes. The FTA will afford the sector more favourable and secure access to the largest consumer and commercial market in the world. With this access and investment in place the sector can continue its contribution to diversification within the forest industry.

The FTA can act as a catalyst to investment and productivity growth in the years to come. It can serve as well as an insurance policy protecting the investment and employment base of this important sector.

Mining

The B.C. mining industry has concluded that it will benefit from free trade. The industry has long supported the concept of free trade. The terms of the FTA will provide a positive opportunity to improve trade between Canada and the U.S. as well as signalling the basis for improvements in trade worldwide.

The key area of the FTA is the removal of tariffs on the value-added products of the industry. U.S. tariffs greatly affect the export of such products as refined lead and zinc, zinc alloys and molybdenum compounds. **The elimination of these tariffs will provide the impetus for the industry to integrate forward** to capture all the benefits of the opening up of the U.S. marketplace. Investment in technology and new manufacturing processes is thereby encouraged to take advantage of this opportunity. This provision puts Canada on an equal footing with those countries that receive duty-free access to the U.S. under the General System of Preferences.

Another aspect of tariff removal is the cost-saving associated with the duty-free entry of equipment and machinery. This saving can contribute to an even more cost-effective mining industry in the years to come.

The industry also agrees that the FTA could discourage the flow of Canadian firm expansions into the U.S.. With long-term access to the U.S. market assured there is no longer the need to locate in the U.S. to avoid tariffs. This should provide greater investment opportunities in B.C. and across Canada.

The FTA will also facilitate the work of professionals entering the U.S. temporarily for market development, servicing and the management of subsidiaries and affiliated companies. This provision will also affect the transfer of technology across borders. Most major mining and consulting firms have been troubled by the restrictions on their access to the U.S. Those restrictions should be eliminated.

Recent times have seen the revival of the B.C. mining industry. The industry is buoyant as a result of the upward trend in prices. This trend when combined with the FTA-instilled confidence could result in renewed investment in the industry and a much-welcomed boost for the key firms in this large component of the British Columbian economy.

Services to Business

The majority of professional service groups have expressed agreement with the principles of the FTA. **These groups foresee enhanced business opportunities and revenue generation potential as they continue to tap the lucrative U.S. market.** Canada and B.C. in particular enjoy the reputation of having world class expertise in these service areas and, coupled with our lower cost structures, the industry expects a new and significant business opportunity as a result of the agreement.

For years U.S. consultants and other service groups have enjoyed much easier access to Canada than Canadian groups entering the U.S. Under the FTA the two governments will adapt immigration rules that will facilitate business travel. These steps will help ensure that business people and enterprises will have the necessary access in order to sell their goods and supply the necessary after sales service.

Another critical issue is the licensing and accreditation of professionals. Currently most provinces and states control the licensing of professionals, which makes the ability to do business across regions quite complex. Both countries realize that the only criterion that should apply is the competence or ability to provide the service. **The FTA encourages each country to move towards the mutual recognition of licensing and certification requirements** for the provision of services. For example, architects will be among the first to make recommendations on mutual recognition.

The FTA stipulates Canadian and American providers of commercial services covered in the Agreement will be given national treatment in each other's country. This

will eliminate the need for these services to be established in the other country to enable the bidding on contracts within that country.

This improved access notwithstanding, firms will still have to become more creative and innovative in their service delivery to attract new business. With this creativity and with the fact that Canadian professional fees tend to be lower than U.S. fees, the Canadian business services sector can reap fundamental benefits under the FTA.

Electronics and Telecommunications

Free trade in the electronics and enhanced telecommunications industries in B.C. has existed prior to the FTA and the industries have grown rapidly under this scenario. The FTA will ensure that this growth continues.

The terms of the agreement provides both industries with easier access to the U.S. as a result of the easing of border crossing delays. B.C. specialists will now be able to plan a trip to the U.S. to market themselves, their demonstration samples, and to supply after sales service to their customers without fear of not moving freely across the U.S. border.

The FTA will also reduce tariffs on key components imported from the U.S. This reduction will help B.C. electronic and telecommunication companies prosper since they will be able to buy leading edge U.S. technologically advanced equipment, with the exception of defence-related products. Without this technology B.C. companies could not compete. These cost reductions will also free up capital for further investments.

The overall effect of the FTA on the electronics industry in B.C. is a modest increase in volume production of goods for industrial and commercial markets. For the telecommunications industry, it will be increased R&D activity and growth in the existing niche product markets.

DID YOU KNOW?

Percentage of Canadian goods currently exported to the U.S. duty free: 80

Percentage of U.S. goods currently entering Canada duty free: 65

Percentage of Canada's exports of industrial and consumer goods sent to the U.S. in 1987: 77

Percentage of income accruing to Canada from exports to the U.S.: 30

Percentage of jobs in Canada depending on trade with the U.S.: 30

Value of Canadian investment in the U.S.: $18 billion

Value of U.S. investment in Canada: $50 billion

Tariff charges to Canadians in 1986 for consumer goods imported from the U.S.: $2.1 billion

Per capita charge in Canada: $80.00

Percentage of Canadian forestry exports already trading freely with the U.S.: 85

Percentage of Canadian forest products exported in 1986: 50

Percentage bought by the U.S.: 75

Value of Canadian farm products exported to the U.S. in 1986: $4.0 billion

Value of Canadian farm products exported to all other countries combined: $5 billion

CANADA-U.S. FREE TRADE AGREEMENT: A NEW ERA OF OPPORTUNITY

The comprehensive Canada-U.S. Free Trade Agreement was signed on January 2, 1988. The FTA makes an important contribution to reinforcing a trade liberalization philosophy that is crucial to our long term economic growth. It seeks to confront the protectionist sentiments that are unquestionably growing in the U.S.; it affirms the belief that world trade problems are best solved through expanding trade. This expansive commitment to liberalization is perhaps clearest in the landmark principle that is embedded in the dispute settlement provisions of the FTA. The provisions establish the principle that the exporting country now has a right to be involved in interpreting the laws of the importing country. This right can work to eliminate or reduce future unfair application of trade legislation.

The FTA has set out several goals which are the basis for continued industrial growth of this Province. These goals include: eliminating barriers to trade in goods and services; ensuring fair competition within the free-trade area; and, stimulating cross-border investment. Some of **the major principles of the FTA will, in turn, influence our industrial competitiveness and innovation, technological growth and export of goods and services:**

Reduction of Trade Impediments: Cross border tariffs will be removed in gradual phases. Domestic industry will have periods of time, up to ten years, to plan and adjust to the new regimes. With the generally reduced barriers to trade, there will be industries facing new competition but the FTA should also encourage improvements to productivity in the manufacturing sector throughout the Province as firms move to introduce new products and processes on a larger scale, geared to a larger market.

Dispute Settlement: The Agreement provides for an appeal mechanism against arbitrary U.S. decisions made under U.S. law. Such an appeal has been sought for some time (recall the U.S. countervail case on B.C. lumber). Our market access is jeopardized as long as U.S. trade law is interpreted under an atmosphere of protectionism. An effective appeal process puts Canadian interests on a more equal footing with those of the U.S.

Investment: The Agreement provides for treatment of Canadian investors, under future measures, on a basis no different from that afforded U.S. domestic investors, and vice-versa. This "national treatment" combined with expanded opportunity is intended to boost investment in both countries.

Trade in Services: Service is the fastest growing sector of our economy. The FTA has, for the first time, described equitable rules for the future trade in services which will ensure that our domestic firms benefit similarly from "national treatment" in the U.S. For equipment suppliers and consulting firms in particular, the new rules are welcomed as providing better market access, added impetus to growth.

Energy: The FTA seeks better access to U.S. energy markets, while at the same time ensuring fair treatment should the need for controls arise. We gain the opportunity for enhanced hydro-electric and gas exports to the U.S. Assuming favorable world-wide energy prices, this market access will be important to stimulating future energy investment.

Industry conceeds the value of the FTA in the present trade context with the U.S. It is not a matter of choice between the FTA and the status quo. The alternatives are of the sort found in the omnibus trade bill being debated in the U.S. Neither is it a simple matter of choice between the FTA and a more favorable GATT mechanism: GATT is no guarantee of security (recall the West Coast fisheries ruling); it is cumbersome; and, in any case, the FTA is consistent with GATT.

It is healthy and natural that questions arise on the FTA: is it favorable for industry in this province? Has value been created? Are we better off than before? Have we met and overcome any imminent threats? **Our key industries judge that the FTA is a positive and encouraging basis for trade growth into the future.**

Calendar of selected events

"COMDEX Spring 88: Computer Software/Hardware", May 9-12, 1988, Atlanta, Georgia. Contact John Wiebe at (604) 661-2228.

The Vancouver Enterprise Forum presents "Robotic Systems International Ltd., May 10, 1988, Discovery Theatre, 760 Pacific Blvd., Vancouver. Cost $12.00. A New Enterprise Forum to Promote Technology Companies! Contact (604) 430-3533.

"Air/Space America 88: International Aerospace Trade Exposition", May 13-22, 1988, San Diego, California. Contact C.G. Barker at (619) 294-8808.

"Canada - India Opportunities", May 18, 1988, Hotel Meridien, Vancouver. Cost $35. Contact the Canadian Manufacturers' Association at (604) 685-8131.

"Western Business Outlook", May 25, 1988, The Westin Bayshore, Vancouver. Contact Ann-Marie Galla, Conference Board of Canada at (613) 526-3280 ext. 240.

"Opportunities in British Columbia Seminar", May 25, 1988, B.C. Enterprise Centre, Discovery Building, Vancouver. 5pm - 7pm "Effective Networking", 7pm "Achievers Seminar Program". Cost $69.00 (group rates available). Contact (604) 585-2191.

"Food Pacific '88", August 30 - September 2, 1988, B.C. Place Stadium, Vancouver. Contact (604) 276-2277.

"Aquaculture International '88", September 6-9, 1988, at the Vancouver Trade and Convention Centre. Contact Bill Ellwyn at (604) 641-1411.

"Demo/Silvilog 88 (forest machinery)", September 15-17, 1988, Quebec City. Contact Department of External Affairs' Trade and Tourism Development Division at (613) 993-6566.

"Wood Expo", September 22-24, 1988, B.C. Place Stadium, Vancouver. Contact Georgena Good, (604) 433-6125.

"Biotech 88", November 14-16, 1988, Santa Clara, California. Contact Department of External Affairs' Trade and Tourism Development Division at (613) 993-6566.

"The 1988 International Business and Investment Exposition", November 22-24, 1988, Vancouver Trade and Convention Centre. Contact John Bavlovich, (604) 669-3818.

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