



# FASTFACTS



Canadian Centre for Policy Alternatives-Mb • 309-323 Portage Ave. • Winnipeg, MB • Canada R3B 2C1  
 ph: (204) 927-3200 • fax: (204) 927-3201 • ccpamb@policyalternatives.ca • www.policyalternatives.ca/mb

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## Let's Make a (New) Deal

**T**he U.S. decision to ignore another NAFTA panel ruling on softwood lumber, and pocket \$5 billion of ill-gotten Canadian money, has ignited a populist firestorm in Canada. Letters to the editor are overflowing with anti-American anger. And a goodly chunk of the Canadian political establishment seems to have suddenly signed up with the Council of Canadians.

Industry Minister David Emerson says it's time to "take their number." The *Globe's* Jeffrey Simpson says Canada has "no serious option but trade retaliation." Lloyd Axworthy decries the Americans' "exercise of raw power." Even many of the deal's architects now denounce the work they wrought.

This is all well and good. Just a year ago, Ottawa geared up its official propaganda machine to praise NAFTA's 15-year record at stimulating trade and boosting efficiency (seemingly oblivious to the almost-weekly headlines bemoaning Canada's poor productivity performance). Now, quickly, most Canadi-

ans (even in official circles) acknowledge the painful truth: this trade deal is a dud.

The question for Canadians, however, is: Now what? We're in the same boat as Americans who now realize they invaded Iraq on false pretences. After a requisite period of self-righteous anger, the tougher question is:

How do we get the troops home? Canadians face the same challenge: The presumed foundation for signing the 1988 deal – secure market access and binding dispute settlement – has proven as surreal as Saddam's weapons of mass destruction. But now we're in, how do we get out? All fluff about "mutual efficiency gains" aside, the original FTA rested on a central, cynical

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trade-off: the Americans wanted guaranteed access to our energy, and we wanted guaranteed access to their market. The mutual elimination of already-low tariffs (a process fully described in just 17 of the original document's 315 pages) was almost beside the point.



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We've delivered on our half of that devilish bargain, big-time. Under free trade, Canadian crude oil production has grown 64 percent. But our oil exports to America are up by four times as much. Canadian oilfields actually pump less crude for Canadians than two decades ago, despite growing production.

Natural gas developments are even more dramatic: our net production doubled, while exports quadrupled. For both fuels, about one-third of production was exported to the U.S. in 1985 (when negotiators first dreamed up the infamous "proportional sharing" clause that requires us to supply the U.S., even in an emergency). Today, exports consume two-thirds of production. In other words, if that emergency clause were enacted, Americans would get twice as much of our own petroleum as we would.

On the other hand, everyone now knows that the American market access promise – their half of the original bargain – wasn't worth the paper it's printed on. Positioning themselves for the coming election, the Liberals are happy for the time being to tilt from the left on the softwood issue. Their concrete actions, however, will never match their rhetoric: they've walked out of further softwood talks, and threatened to "explore" tit-for-tat retaliation on specified U.S. imports (from California wine to Harley Davidson choppers). That's the diplomatic equivalent of a hissy fit: all show, no real action.

Here's how we could really start to fix the mess. First, give the required six-month notice of our intention to withdraw from NAFTA (including the energy-sharing provisions that only Canada – not Mexico – was silly enough to accept). Second, impose a ceiling on energy exports to the U.S. They will be frozen at current levels pending a (long and leisurely) review by the National Energy Board of Canada's long-run energy supply-demand balance.

Once we've got their attention, we'd open real negotiations with the Americans over what will replace NAFTA. Preserving the zero-tariff structure would be a no-brainer (given the magnitude and mutual benefit of two-way trade flows). If out of spite the Americans refused, then tariffs would snap back to (low) WTO levels; compared to the 30 percent run-up of our dollar since 2003, exporters would hardly notice. (Indeed, any costs to exporters would likely be more than offset by a post-NAFTA correction in our loonie.)

We should abandon the pipedream of winning special exemption from U.S. trade law (Uncle Sam don't play that game, in any subject area – especially not since 9-11). And in turn we'd win back some of our sovereignty, in areas like energy and investor rights (abolishing NAFTA's unconstitutional Chapter 11, for example). We could even negotiate targeted sectoral deals where they made sense – like a new North American Auto Pact, for example (since the U.S. and Mexican auto industries are crumbling even faster than Canada's in the face of burgeoning, one-way imports from Asia).

This strategy would represent a serious, honest rethinking by two partners with an immense mutual stake in getting along. Our goal would be a more genuine and productive deal than the current free-trade sham. It will spark serious outrage in Alberta – whose energy giants have been the major Canadian winners under the existing deal. They might build one or two less oil sands plants (that would be a good thing, actually), but they'll still profit massively from existing exports.

As for the rest of Canada, we'd be much better off with a new trade arrangement that actually does what it says.

- Jim Stanford

*Jim Stanford is a Senior Economist with the Canadian Auto Workers. A version of this commentary was originally published in the Globe and Mail.*

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ph: (204) 927-3200

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www.policyalternatives.ca/mb

CAW 567  
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