

Verbatim

“Confidence in the ability of Canadian firms to compete on a level playing field”

**BRIAN
MULRONEY**

Brian Mulroney checks his speaking notes for his keynote address to the Free Trade @ 25 Tribute Dinner in Toronto on October 3. “The politics of free trade were always much more daunting – as Sir Wilfrid Laurier learned first-hand in 1911”, he said. “For some Canadians any negotiation with the US could easily be portrayed as a prescription for disaster.” *Inside Policy* photo by Adam Scotti.

On the 25th anniversary of the negotiation of the Canada-US Free Trade Agreement, former Prime Minister Brian Mulroney delivered a major keynote address at a Toronto Tribute Dinner, following a symposium organized by the Munk School of Global Affairs. The Macdonald-Laurier Institute was Think Tank Partner for the evening event.

À l'occasion du 25^e anniversaire de la conclusion de l'Accord de libre-échange canado-américain, l'ancien pre-

mier ministre Brian Mulroney a prononcé un important discours lors de la réception ayant clôturé un symposium organ-

isé par l'École Munk des Affaires internationales. L'Institut Macdonald-Laurier était partenaire de la soirée.

This date, October 3, brings back very vivid memories of what transpired 25 years ago tonight. The deadline for the US administration to report to Congress on whether it had the basis for a free trade agreement with Canada under fast track authority was midnight. At just about this time that evening I had received word that negotiations were still at an impasse on the issue of dispute settlement, which had been the *sine qua non* condition of success for Canada.

For many months leading up to the events of October 1987, the US team had focussed primarily on resolving trade and investment “irritants” with Canada and not the prospect of a comprehensive agreement. It was only when the Americans at the highest level recognized that this approach would not be sufficient for Canada that a broad gauged negotiation gained traction and firm political direction.

President Reagan wanted a free trade agreement with Canada, and when a US president signals this clearly, the administration responds. The powerful Treasury Secretary Jim Baker had been designated by the president to bring the negotiation to a successful conclusion. He was determined to deliver for his president and proved to be the right man at the right time.

Baker’s counterpart during the final rounds of negotiation was my equally determined and talented chief of staff, Derek Burney.

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From the start, our basic objective had been to secure and enhance access to our major market. At a time of rampant protectionist actions by the US Congress, securing that vital access on a more confident platform for Canadian exporters was essential. That is why a binding dispute settlement mechanism was the crunch issue for Canada.

How could it be otherwise? With an economy 10 times the size of ours, the US could crush us in any dispute unless we were assured of fairness by some recognized instrument of judicial equality in resolving disputes. I had told our team “no dispute settlement process, no deal.”

Throughout the two year negotiation, the other fundamental instruction I had given our negotiating team was that the agreement had to “significantly improve” our trade relationship with the US. Equally, we had resolved that “no deal would be better than a bad deal” and that certainly guided our tactics up to the very end.

We of course also recognized fully that such an agreement had to be good for both sides or it would in the end fail in any ratification process or the court of public opinion.

In a decision that startled the US administration, I had recalled our chief negotiator, signalling our deep discontent with the progress of negotiations. The appointment of Secretary Baker was President Reagan’s response and this was a godsend for both parties.

In the final moments on October 3, Baker had been networking strenuously with key Congressional players and several on his own negotiating team to accept a formula for dispute settlement that would meet Canada’s bottom line. He was under no illusion that we would accept a deal that did not include binding, binational dispute settlement.

At about 9.30 pm, Baker called me in my Langevin Block office in Ottawa to tell me that, while we were very close to an agreement, he doubted that he could get the dispute settlement mechanism because congressional leaders argued it would dilute their constitutional sovereignty in matters of international trade.

I thanked Baker and told him that, as the talks were now in danger of imminent collapse and failure, I was going to call President Reagan, then at Camp David, to ask him one question. “And, what is that?” asked Baker.

“Well, Jim”, I replied, “I’m going to ask the president, how is it that the US can negotiate a major nuclear reduction treaty with its worst enemy, the Soviet Union, and can’t negotiate a free trade agreement with its best friend, Canada?” Baker replied, “PM, can you give me 20 minutes?”

At about 10.00 pm that evening, Secretary Baker burst into the anteroom to his Treasury Office in Washington, which was being used by the senior Canadian delegation. He flung a handwritten note on the table and declared “All right, there’s your goddamned dispute settlement mechanism. Now can we send the report to Congress?”

Some years later there was a general and independent confirmation of this determination at the highest levels of the US government to adopt a constructive approach to issues of importance and concern to Canada by Frank Carlucci, President Reagan’s National Security Adviser and Secretary of Defence.

Carlucci described in an oral history project at the University of Virginia how testy Reagan became when his officials continued to stall and stymie our government on issues ranging from acid rain to Arctic sovereignty to free trade.

According to a recent account by Professor Jeffrey L. Chidester, Research Director for Presidential and Special Projects at the University of Virginia, before entering 24 Sussex during a state visit in 1987, Reagan took Carlucci aside and said “I think we should do something for Brian.” [Carlucci] said, “Mr. President, we’re doing well holding our positions on acid rain, the free trade agreement, and the Northwest passage.” “Oh, no, no, no,” said Reagan, “we ought to do something.”

After lunch, Carlucci continued to push for the American position. “[N]o, no, we’re holding to our positions. These are well established positions.”

As Carlucci later said: “It was the only time I saw Ronald Reagan lose his temper. He turned to me and said, ‘You do it. Now.’”

Chidester writes that Carlucci went right from the meeting and grabbed Derek Burney, Mulroney’s chief of staff, and asked, “Derek would you re-iterate your positions [on acid rain, free trade, and the Northwest Passage?]” When Burney asked why, Carlucci said, “Because they’re our positions now.”

Immediately after that exchange President Reagan sat with his cabinet officials and senior advisers behind closed doors in the living room at 24 Sussex and amended his speech to Parliament slated for that afternoon.

For the first time ever, he wrote that he “agreed to consider” a bilateral agreement with Canada over acid rain and added a promise “to inject new impetus” into talks regarding recognition of Canadian sovereignty over the Arctic.

Professor Chidester concluded: “Personal diplomacy was the only way to break the bureaucratic inertia on these issues.”

Only if you have seen the dramatic manner in which a signal from the president galvanizes an entire administration into action, can you fully appreciate the significance of such leadership.

It did again that evening, a quarter century ago.

Anyone who tells you that personal friendship doesn’t count in the conduct of foreign affairs – that nations only have interests and nothing else – does not know much about how government or business is done.

Derek quickly called me in Ottawa and reported that “we may have a deal after all”, including “binding dispute settlement”. I asked whether his team, which included Ministers Michael Wilson and Pat Carney, all agreed that the document would meet our basic objective – “that Canada would be significantly better with it than without” and, one by one, the group of eight Canadians strongly agreed.

These negotiations had definitely been a roller coaster experience with many ups and downs along the way. Success was what Baker himself described in his memoir as a “near run thing.” But the support of my cabinet and caucus never wavered and that in itself speaks eloquently to our resolve to stand firm even when the prospects seemed grim.

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To say that the free trade negotiations had been controversial in Canada would be the understatement of the evening. Debates about the pros and cons were unrelenting all across the country and culminated in a riveting and fiercely fought 1988 election campaign.

The economics of free trade were never in doubt. Study after study, both within government and without, had concluded that liberalizing trade between Canada and the US would bring substantial dividends to both economies. The Macdonald Royal Commission in 1985 added new currency and timely intellectual rigour to these analyses along with its recommendation that Canada take a “leap of faith” and seek such a comprehensive agreement with the US.

The politics of free trade were always much more daunting – as Sir Wilfred Laurier learned first hand in 1911. For some Canadians, any negotiation with the US could easily be portrayed as a prescription for disaster.

Prime Minister Pearson eloquently described a chronic problem facing any Canadian chosen to negotiate with Americans. “The picture of weak and timid Canadian negotiators being pushed around and browbeaten by American representatives into settlements that were ‘sellouts’ is a false and distorted one. It is often painted, however, by Canadians who think that a sure way to get applause and support is to exploit our anxieties and exaggerate our suspicions over US power and politics.”

I appointed tough, experienced Simon Reisman as ambassador and chief negotiator and he put together a first class team of public servants who delivered an agreement that served the national interest in exemplary fashion.

Canadians were also told repeatedly that we could not compete with a country 10 times our size. My government had more confidence in the ability of Canadian firms to compete on an even playing field and we contended further that, if we could not compete successfully in North America, we certainly could not compete in the world.

Critics of the initiative in Canada went to bizarre lengths to try to scare Canadians into believing that the sky would fall under free trade. Medicare, old age pensions, our water resources, and culture – all were said to be at risk. We faced a toxic cocktail of latent anti-American and narrow, protectionist sentiments. They really pulled out all the stops on this one. As a prominent opposition spokesman said at the time, “We will blame every sparrow that falls on free trade.”

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pete with a country 10 times our size. My government had more confidence in the ability of Canadian firms to compete on an even playing field and we contended further that, if we could not compete successfully in North America, we certainly could not compete in the world. Fortunately, when confronted with a clear choice, Canadians rallied to our position and we won the election, again with a strong majority.

My government saw these negotiations as a major building block for our future prosperity. We wanted an agreement that would provide conditions for trade that were significantly better for Canada in the American market than the status quo. Most of all, we wanted to restrain the forces of protectionism in the US Congress where every trick in the book was being used to restrict legitimate flows of goods and services from Canada into the US market.

The statistics alone speak to the success of the FTA. Trade volumes more than tripled in less than 20 years – from \$235 billion in 1989 to \$743 billion in 2008. Trade exploded into the largest bilateral exchanges between any two countries in the history of the world, creating millions of new jobs and record prosperity on both sides of the border, only recently diminished in the US by domestic factors there.

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The FTA proved to be precisely the jolt out of complacency that our firms needed. The economic results were even more positive than anyone envisioned at the time.

In the two hours or so that we will be together this evening, more than \$200 million in goods and services will be exchanged by Canada and the US. That is more than \$1 million every minute of every hour of every day. Almost \$2 billion in total, each and every day of every week of every month of every year.

Of course, the best compliment of all is that many of our harshest political critics became, in time, fervent champions of both the FTA and NAFTA.

I would like to think that the FTA provided a maturing tonic of sorts for Canada as well. We demonstrated, in no uncertain terms, that we could compete successfully in North America.

That confidence inspired similar support for broader trade liberalization initiatives around the world.

Free trade was one in a suite of economic policies that worked in tandem to better situate Canada in the world. It wasn't a panacea on its own. However, the psychological fact of free trade was enormous, as it touched our historic uncertainty about identity, ability, and sovereignty. That's why free trade fuelled such an emotional national debate and why, ultimately, its adoption was so critical to Canada. Yes, it brought Canada into a much larger economic space, essential to our long-term prosperity. But it also cleared the air of the old doubts and fears about our capacity to grow and prosper as a mature, distinctive country living as we do cheek by jowl next to the richest and most powerful nation in world history. It required a change in our mentality – from defensive and fearful to confident and ambitious.

Twenty five years means that a whole generation of Canadians has grown up in the context of free trade and investment, and in the context of this more confident and ambitious identity. The impact of free trade on our character and working assumptions is as profound as anything it specifically did to our economy.

The FTA was also critical in establishing the ground for NAFTA, which has been even more transformational to Mexico and subsequently Latin America (economically and socially). The legacy of the FTA extends to many more people in this hemisphere than to Canadians and Americans alone.

It also proved to be a catalyst for the Uruguay Round of multilateral trade negotiations which gave rise to the World Trade Organization, and enshrined dispute settlement provisions very similar to ours, which incidentally, was the last multilateral trade negotiation successfully concluded.

As we look to the future, Canada has many reasons for optimism. At recent G8 and G20 meetings our government stood tall, a beacon of fiscal rectitude in a turbulent world with one of, if not the strongest economies in the industrialized world by most objective criteria.

How did this happen? Well, it did not happen overnight nor under one government or one political party. It happened because, for the better part of almost 30 years, four governments of different political stripes followed similar economic policies that generated stable economic growth, solid job creation, sensible public financing, and a more confident national fabric.

Foundational initiatives by our government such as the Canada-US FTA and NAFTA, along with a wave of privatizations, extensive deregulation, historic tax reform, a low inflation policy, dramatically reduced program spending while trimming the deficit, laid the basis for growth and enabled Canada to compete vigorously in a rapidly globalizing world.

Jean Chrétien had very important decisions to make when he formed the government in 1993. He could have repudiated our trade agreements and tax reform because he had campaigned vigorously against each. Instead, Mr. Chrétien put



Mulroney receives a standing ovation after an introduction by Finance Minister Jim Flaherty, who quoted from the last speech of Thomas D'Arcy McGee: "He who seeks after popularity builds upon a shifting sand." *Inside Policy* photo by Adam Scotti.

campaign rhetoric aside and sustained both the trade and tax initiatives as pillars of record prosperity for Canada.

To his credit, Mr. Chrétien, aided by Finance Minister Paul Martin, used the great economic benefits from free trade and the proceeds of the GST to eliminate the deficit over time and begin the process of paying down the debt in an orderly fashion.

By acting as he did, while slashing government spending and making large investments in university research and significant advances in R&D generally and searching out new avenues for international trade, Mr. Chrétien ensured the continuity of policies that were neither Tory nor Grit, Liberal nor Conservative. They were Canadian, designed to serve our national interest and strengthen our national sovereignty.

This was followed by important measures by the Martin government and by the present Harper government, with its sound and impressive management of the economy, along with beneficial changes to corporate and personal taxes introduced by Finance Minister Flaherty. All of which strengthened our public finances and allowed us to withstand better than most the ravages of the recent economic crisis.

Prime ministers are not perfect. Mistakes are made. I certainly made my share.

But it was this continuum of sensible and effective policies under four different governments led by prime ministers of different political stripes – avoiding the erratic policy lurches of the past – that changed Canadian attitudes and provided the solid economic foundation on which Prime Minister

Harper was able to stand when he welcomed world leaders to Canada a few years ago.

The essential continuity of governments from Mulroney through Chrétien and Martin to Harper explains a great deal of what is right about Canada today.

No one should underestimate the value of this continuity. Serious public policy can only be conceived and practised over decades – not four year terms. We have had the great good fortune to see governments of different stripes “pass and accept the torch” over the past 30 years, rather than stop, and then try to start a new game based on discredited ideologies or personal agendas.

Twenty five years ago tonight, Canada took a bold step to safeguard and bolster trade and investment with Canada’s major market. The FTA was born out of a need to seek strategic advantage in the national interest. It inspired Canadian companies to innovate and network in a much more competitive and potentially rewarding setting.

The challenges Canada faces today demand a similar mix of leadership, courage, and commitment. We can no longer depend exclusively for future prosperity on domestic and US markets.

As Bank of Canada Governor Mark Carney, among others, has pointed out, much of global growth is now being driven by a group of dynamic economies led by China, Brazil, and India along with Colombia, Mexico, Korea, Turkey, Vietnam,

and Indonesia. All have rapidly growing middle classes, high savings rates, and stable regulatory regimes.

Some have suggested that the global economy is experiencing a major transformation larger in scope and scale and on a much faster track than the Industrial Revolution.

Canada is a distinctly minor player in these fast growing markets: less than 10 percent of our exports and less than 4 percent of outward investments go to these emerging markets. We are no longer in the top 10 of global trading nations. We barely make the top 15.

The good news is that the demand for commodities, everything from minerals and energy to agri-food products, offers huge potential for Canada. These markets also include a strong demand for Canadian high-tech products (aircraft, smart phones, software services, autos, energy technologies, entertainment) and world-class services in banking, insurance, and consulting. For example, more than 20 Canadian architectural and design firms are already active in China.

But we cannot sit back and wait for opportunity to knock at our door. We have to work for it, engaging a unique and coherent partnership between government and the private sector.

What many of these emerging markets have in common is the extent to which the “visible” hand of government is directing economic policy. Conventional rules for trade and investment that carried us through the last half of the 20th century will not be sufficient.

Our negotiators will need to be nimble and determined as they leverage and exploit our comparative advantages to specific, strategic objectives that will safeguard and enhance vital market access, and preserve intellectual property rights and the sanctity of a rules-based trading system.

The challenges are daunting but the opportunities are enormous. Tangible moves to more open trade and investment are still the best tonics for the global economy and should be encouraged by all with a stake in our future prosperity.

Of course there will be risks. There is no success in business or in government or in life that is entirely risk free.

Business needs to look beyond quarterly earnings and build and nurture relationships that will pay long-term dividends. Corporate balance sheets are more than sufficient to enable firms here to upgrade plant and equipment and especially IT capabilities – the springboards for innovation and productivity.

From government, we need a sharper focus on which markets should command priority for trade negotiations and why.

Whether on trade agreements or foreign investment approvals, the judgements by governments inevitably reflect a balance between economic theory and political reality. In other words, between what makes sense economically and what can be sustained politically. The choice ultimately hinges on leadership – the most precious commodity for any government.

Leadership is the process, not only of foreseeing the need

for change, but of making the case for change. Leadership does not consist of imposing unpopular ideas on the public, but of making unpopular ideas acceptable to the nation. This requires a very solid argument for change, and a very strong ability to make the argument, over and over again.

In a brilliant address delivered some years ago in Toronto, Theodore Sorenson – himself a skilled observer of powerful leaders as special counsel to Presidents Kennedy and Johnson – said: “Once in office those who wish to stand up and stand out and leave something enduring behind must build new institutions, not new images. They must look to the next generation, not merely the next election. They must talk in terms of fundamental values, not merely costs. They must appeal to our hopes as well as our needs, to what we long to be and what we know is right. That’s leadership.”

The impact of significant public policy decisions is often unclear in the early years. It sometimes takes a considerable period – frequently decades – before the full consequences of an important initiative become apparent.

As Reinhold Niebuhr reminded us, “Nothing worth doing is completed in our lifetime; therefore we must be saved by hope. Nothing fine or beautiful or good makes complete sense in any immediate context of history; therefore, we must be saved by faith.”


It is in this perspective that great and controversial questions of public policy must be considered.

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A generation of Canadians has grown to maturity over the past 25 years under the assumptions of liberal economics and international integration for Canada. This is now a Canada that is confident and ambitious, not just in relationship to the United States, but in relationship to the world.

The policies that created this stance have influenced the character of Canadians themselves. Our citizens are now more habitually at ease with themselves as Canadians, demanding of themselves as Canadians, and outward looking as Canadians.

This is perhaps the most profound of all the material legacies of 25 years of practice since free trade and its suite of visionary policies brought so much practical change and prosperity to Canada. 

Delivered at the Free Trade @ 25 Tribute Dinner, Toronto, October 3, 2012.