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Discussion Following the Remarks of Mr. William Dymond and Professor Fred Thompson

Discussion

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Discussion Following the Remarks of Mr. William Dymond and Professor Fred Thompson

QUESTION, Professor Henry T. King, Jr.: Mr. Dymond, what are the dimensions of these transition periods in terms of years? What time is going to be necessary to integrate a free-trade agreement into each country's economy?

ANSWER, Mr. Dymond: An appropriate transition period will have to be decided upon. There are some examples which indicate the U.S. view on the subject, such as the U.S.-Israel agreement. But I think the result between the U.S. and Canada would not, in the end, be uniform.

There would probably be a more rapid transition in the U.S. than in Canada; Canada's duty rates are generally higher than in the U.S. and the impact of the adjustment would be proportionately greater. We would want to look at an asymmetrical transition period, which would vary for each sector.

Transitional periods are, to a great extent, a matter of comfort for the private sector. Where other countries have entered into similar arrangements, there has been a general absence of problems because the agreement itself conveyed a clear signal to the business community, which made adjustments in its investment and marketing decisions, anticipating the market situation after implementation.

ANSWER, Professor Thompson: We have observed, in the United States, transitions to deregulation in a substantial number of industries. These have been both slow-phased and rapid. It seems unambiguous that the way to minimize the cost of transition is to make it as fast as possible. (Note, we must keep separate the costs of making the transition from the adverse consequences of the transition, which also have a cost attached to them.)

An extremely important part, in the mitigation of transitional costs, has to focus on those employees that are dispossessed because of the necessary economic adjustments due to the government action. These consequences have to be mitigated not just for humanitarian reasons, but because most of the benefits of protectionism do not inure to employees.

The C.D. Howe Institute has estimated that Canadian consumers pay \$325,000 to maintain one job in the shoe industry; clearly the employees aren't being paid this amount. 50% of it is being capitalized in local property values and stock value of the firms. The owners of these are politically powerful. They have an interest in maintaining these protectionist programs and are likely to be more effective and persuasive if

they can cloak their private interests in an altruistic concern for the workers, who will lose their jobs if the programs are dropped.

QUESTION, The Honorable Donald S. Macdonald: Mr. Dymond, assuming there is a positive result from trade negotiations—substantial tariff reduction and agreement over procurement—what do you do about the GATT? Since there is not an interim agreement leading to a free-trade arrangement, there is difficulty fitting into Article XXIV. Also, the European Commission may exact heavy demands under Article XXV.

ANSWER Mr. Dymond: An answer to that enters into some speculation about the ultimate results of the Quebec Declaration. The first question to ask is whether the two countries want to declare a free-trade area, keeping in mind the large amount of duty-free trade now existing.

It might be possible, with some salesmanship, to get a few more free-tariff sectors through the GATT, but that is not the issue for Canada. Canada, in terms of its relationship to the GATT, is concerned with what gains would be achieved by bringing the whole trading relationship under a bilateral system of management, thus losing the protective multilateral cover. The disparity in economic power between Canada and the United States becomes a serious issue in this context. If, after a tariff-free relationship were concluded in a bilateral agreement, there was a problem, Canada would no longer have access to the GATT dispute settlement system. The key to bringing in an agreement under the GATT is that it must be straightforward, and encompass a credible and effective management system.

On the second question: how is an agreement to be squared with the GATT?—first, it has to be a free-trade agreement; to deal only with a percentage, however small, is to open a new preference and this would serve to erode further the GATT multilateral system.

The point to be remembered is that no common market or free-trade area has ever been accepted by the GATT. Nor has one been rejected. They've resulted only in working parties with no agreement. But, it is important to remember that the real argument which will be present will be over the rules of origin in the agreement. In other words, is the agreement intended to be trade creating or trade diverting?

The European Community and the EFTA (European Free Trade Area) countries gave themselves a highly restrictive set of rules of origin. The GATT requires that the rules and regulations of an agreement not be more restrictive than those which prevailed before the agreement was entered. The U.S. and Canada will have to be careful in devising these rules.

Finally, I'm persuaded that the volume of trade between the two countries is so large, along with the degree of liberalization of the tariff and the inclination of both governments to engage in sophisticated rule setting, that the GATT compatibility will fall into place.