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Discussion following the Remarks of Mr. Philip Trezise and Mr. Simon Reisman

Discussion

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Discussion Following the Remarks of Mr. Philip Trezise and Mr. Simon Reisman

QUESTION, Professor Henry King, Jr.: One question I think is quite important in terms of trade integration, whether it be sectoral or comprehensive, is what safeguards, if any, can be provided for those who will be hurt during the transition period?

ANSWER, Mr. Trezise: There is obviously going to be some adjustment if free trade is really taken seriously and duties are in fact eliminated; some people will lose jobs, some capital is going to lose value. Since the government will have forced the action, it seems proper that it take the responsibility for seeing that the adjustment is as painless as possible. But there will be some pain nevertheless.

There are two major possibilities here. One is what we did in the AutoPact agreement: to provide special adjustment assistance, primarily for the workers. You could devise a scheme, using public funds, to make managing the adjustment easier.

The other possibility is to go to free trade in all sectors—all traded goods and, to the extent possible, all services—and to negotiate either a sufficiently long transition period or to stagger the entrance into duty-free status among the sectors. If a sector is given five years before it will face loss of its tariff protection, that ought to be sufficient for adjustment in most cases.

ANSWER, Mr. Reisman: I agree with that answer. The adjustment assistance provided in the AutoPact worked well, but it was not used as much as we anticipated. A transition period will be more traumatic for Canada, coming out of 100 years of a protective system to compete with world-class industries. There will certainly be an asymmetry in this aspect of any U.S.-Canada trade agreement.

QUESTION, Professor Jack Quinn: The point that Mr. Reisman makes about the asymmetry in the transitional process seems to logically lead to the question whether an agreement should cover antidumping and countervail. We have the same asymmetry in that interrelationship between the two countries: countervail and antidumping is very hard on Canadian industries, but retaliation doesn't inflict a proportionate damage on U.S. firms. My concern about a free-trade agreement that included antidumping and countervail is the possible loss of incentives for investment in new plants and new technology in Canada.

Canada needs to attract new investment in technologies and facilities that will make it a world class competitor. But, as long as firms see these measures which are not constrained by U.S. foreign policy, they

won't build in Canada. Doesn't this make a strong case for changing the rules on antidumping and countervail in a U.S.-Canada trade agreement?

ANSWER, Mr. Trezise: I think it would make sense to arrive at an understanding about countervail and antidumping under a free-trade agreement. But I don't know if what you would arrive at would be any better than what is already on the books. It will not be possible simply to advocate no antidumping or countervail measures; Congress will insist on something in that area. And, a carefully drafted measure of a limited type of countervailing duty arrangement could be desirable for both sides.

Subsidizing exports is not a sensible way to conduct an economy and selling goods at below cost for any period of time is going to bankrupt you, so there is not much sacrifice in giving up the right to dump or to subsidize. I don't think this is a very big problem. If there is respect for the "injury test," there will not be many companies that will be deterred from investing in Canada based on the possible abuse of the countervail or antidumping statutes.

ANSWER, Mr. Reisman: I believe there should be no countervail or antidumping in either country with respect to each other's goods. There are not that many instances to begin with. Where there is a case, it is where a firm is taking advantage of a protected price at home to increase the profit margin relative to the export market. This is not likely to be very extensive, since it is not a good business practice. When the Canadian countervail law was drafted, we thought everyone needed that kind of law, but we have hardly ever used it.

If there is a transitional period, as there was under the AutoPact, there may be an interval where there will be need for special assistance in a particular situation. This should be recognized, particularly by the United States, and countervail should not be used in that situation.

Further, there may be a need for special regional programs—where assistance is given as a deliberate public social policy. As long as this is used to help poorer regions reach cost parity, and is not providing an advantage to promote exports, there should be no trade repercussions. These are social problems, not trade problems.

COMMENT, Professor Robert Hudec: There are two lines of analysis that have to be followed with the question of countervail and antidumping and what would persuade Congress to enter an agreement that would abolish these with regard to Canada.

Concerning countervailing duties, the way out of the subsidy problem is to negotiate an agreement concerning what each government can or cannot do regarding subsidies. Concerning antidumping, since most of it exists where there is a price protection in the market, the solution is to eliminate the protection and let reciprocal dumping take care of it—provided there is access into the dumper's market through antitrust.

QUESTION, Professor Andreas Lowenfeld: Mr. Reisman, about this

impressive idea you have about bringing Canadian water into the United States, will the money come from Canada or the U.S.? And, will it be government money or private money, or some combination, through tax-free bonds for example?

ANSWER, Mr. Reisman: Large capital projects in Canada are often financed in the United States through the private capital market. What lies under the assumption that the proposed water project would be financed at all is that a valuable commodity is being dealt with, and the costs of producing it will be low enough for a reasonable price to be charged to the users. Most of the capital will come from the United States because that is the context of the North America capital markets at this time.

QUESTION Professor Lowenfeld: Mr. Reisman, to have a continental water policy, perhaps allied with an attack on pollution and acid rain, seems like a marvelous idea. What is bothersome about your presentation is that it seems you want Canada to “buy” free-trade with the U.S. with the water America supposedly needs.

ANSWER, Mr. Reisman: Whether or not it is articulated, the United States has always linked trade with other issues, and they have linked the abrogation of agreements with other issues. The 1854 Reciprocity Treaty is a good example of this. America’s willingness to negotiate the AutoPact was, in good part, a function of its overall relationship to Canada—looking towards a more comprehensive relationship. I want to convince a recalcitrant Congress to give Canadian goods and services national treatment. Tying it to another issue may be the way to do it.

ANSWER, Mr. Trezise: Concerning the idea of the water project, if this proved to be environmentally acceptable and the engineering to be practical, I think there would be a considerable interest in the United States. If the water could be gotten down to the southwest, where it is really needed, a \$100 billion price tag should not be too difficult a hurdle. Some type of intergovernmental regime would be necessary, but I think Congress would be receptive to the idea. And it probably would facilitate a broader trade agreement. But any trade agreement must still be both fair and reasonable by itself.

COMMENT, Professor Earl Fry: I don’t think a linkage is necessary—there can be a comprehensive free-trade arrangement without the water inducement. The water issue is still a few years off; for now, it’s still a regional issue, not a national one. The regions which have been losing population to the southwest will want to have those people and businesses return and may use water as the inducement.

COMMENT, Steve Lyons: I disagree with some points made regarding the water issue. It will not necessarily cement the Canada-U.S. friendship; following that logic, the U.S. should be very good friends with the Middle Eastern countries which control part of its oil supply. To make part of the United States dependent on a foreign country for its

water supply could cause some real friction that is not present now. But, if handled properly, it could bring the two nations closer together.

It will be necessary to have an authority over the water which is more than just a bilateral commission. It would have to be a controlling body with enforcing power that could make cost and supply determinations and deal with potential shortages.

COMMENT, Professor Jack Roberts: It's important to remember that national security arguments are very effective with the U.S. Congress. When there were diplomatic tensions between the U.S. and Canada over the Alaskan pipeline, the one convincing argument that made certain the pipeline would be built was the national security argument. If the time comes when the United States needs water and has no alternative, this project may well be built.

COMMENT, Mr. Reisman: I want to make clear that I think each of these propositions—the water project and a comprehensive free-trade agreement—must stand by itself. They should be linked only if by linking them they can reinforce each other. The difficulty is in convincing the U.S. Congress to make some movement on such issues as escape clauses, countervail, antidumping, etc., which are serious concerns in Canada because their use or threat of use inhibit investment in Canada.

Canada is looking for restructuring, new investment and improved productivity. These won't occur on the scale required unless the risks are lowered and there is certainty and stability in its trading relationship.