



EBTC INFORMATION BULLETIN

DATE: October 12, 2007

SUBJECT: Canadian Minister's View of the Border

SOURCE: Ottawa Citizen

Canada's international trade minister views the post-Sept. 11 security mentality that has gripped the United States as a greater threat to Canada's access to the rich U.S. market than the strong Canadian dollar.

Not only will a dollar that has risen beyond parity be less painful than it would have been in the past, it's a vote of confidence in Canada's economy by those "who put their money where their mouth is," and a positive challenge that will make Canadian industry stronger, David Emerson said in an interview. In contrast, he said, the threat posed by U.S. security fears -- legitimate and otherwise -- is significant.

"There's no doubt it's a challenge," Mr. Emerson said. "If you look at the flow of people, it's been quite a difficult few years since 9/11, in the impact of passport requirements and so on.

"It's really had an impact on cross border flows whether its tourism or business-related travel ... ," he said.

The atmosphere that followed the 2001 terrorist attacks in the U.S. has also permeated other sectors, he added, saying that Canadian defence industry contractors complain that they are being frozen out of the bidding on U.S. military contracts.

"It is becoming quite a substantial problem," he said. "We've been quite fortunate that we've had such a strong economy to ride through this" To help counter U.S. border security concerns, he said the Canadian government has been heavily involved in working with the U.S. on joint security regulations, such as putting in place the technology and infrastructure to screen shipping containers and to clear freight and people crossing the border.

"That's going to be critical because the post-9/11 trumping of security over economics has had a negative impact," he said.

Adding to that impact, and despite evidence of wide public support by Americans for the free trade deal with Canada, he noted that there have been some U.S. politicians and media commentators who have been "shrill" in their calls for tighter border controls that verge on a new call for U.S. "isolationism," he said.

"That I think has got to be a concern, and I hope as we get closer to a U.S. election that people will gravitate back to the middle ground and not allow some of this poorly thought out rhetoric to drive policy," he said.

In contrast, Mr. Emerson predicted the threats posed by the strong dollar or a U.S. economic slowdown are temporary and less than they would have been in the past.

He doesn't deny that the dollar, now trading at more than \$1 U.S., will be painful for some firms or that it will result in the closing of some plants as claimed by the manufacturing industry, which has already shed 250,000 jobs since the dollar began its rise from a record low of just over 60 cents U.S. four years ago.

"You're always going to get plant closures," he said, adding that there were Canadian factories that shut down when the dollar was much lower.

"And we had lots of them -- believe me, I was in the lumber business," he said, adding that many factors can play a role in plant shutdown and job losses, including the need to consolidate or rationalize to remain competitive.

"Exchange rate appreciations are going to be one more straw that could break the camel's back in the case of a marginal plant," he said. "My own view, though is a couple years out you're going to see stronger Canadian industry, and I would not think that exchange rate by itself is the fundamental killer.

"It'll hurt for a while but I think at the end of the day, three years from now, five years from now, companies are going to be in much better shape," he said.

Not only are they being forced to be more competitive, but the strength of the currency is also allowing them to buy at fire-sale prices the machinery, equipment, technology and the foreign assets needed to help them become more productive, he said.

Further, because of the nature of trade today, the fact that it's globalized and that the parts and technology that go into a product flow back and forth across the border, there's an "exchange rate wash." Mr. Emerson also played down concerns about the impact of a weakening U.S. economy on Canadian trade.

"I think it will have an impact," he said, noting that three-quarters or more of Canada's exports are to the U.S. "But I do not think it will be as strong an impact as we might have traditionally had because a lot of our strength comes from resource development of one kind or another." While it remains to be seen what impact the relatively strong currency, a

weaker U.S. economy, or that country's security fears will have in Canada, it also remains to be seen whether Mr. Emerson will be around to deal with them.

The former Liberal industry minister -- who sparked outrage among his former Grit supporters in his British Columbia riding last year when he crossed the floor after the election to join the Conservatives as a member of Prime Minister Stephen Harper's cabinet -- faces his own political challenges.

While he wouldn't say whether he will run again after the bitter personal attacks on him following his floor-crossing, he indicated that he is interested.

"I'm having fun now," he said, adding that the controversy that surrounded his defection to the Harper government has left him with the thicker skin he'll likely need to get through another election campaign.

"What doesn't kill you makes you stronger."