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RE: NAFTA NEGOTIATION

The Strategy of the US President

I watched a TV photo-op on CTV news in November 2017 of Justin and Sophie Trudeau with Donald and Melania Trump. The occasion was a meeting between the Leaders which included talks on NAFTA. A reporter asked if the Agreement would continue to which the President replied that we will see. The expression and tone lead me to believe that he had already given you the answer- it will not!

He wants Canada on side as a “Minor Player”. He is revitalizing the economy of the United States by taking back the Jobs exported through imbalanced trade policies with other Countries. Getting started with the expected long negotiations required Canada to be the same page. It was to be an easy kick off to tackling the real problem countries which have absorbed tens of millions of American Jobs- China and Mexico. Your continued defiance by insisting on a three way agreement and denial of his request for a Bi-lateral Agreement between Canada and the USA is blind disrespect. The Tariff on Steel and Aluminum is simply a shot across the bow.

Do you really think poking the bear is the solution?

What does the Renewal of NAFTA mean to Canada

Wikipedia describes NAFTA as “the largest free trade region in the World with a 2014 GDP of C\$20 trillion with a market encompassing 474 million people. Building on that success, Canada has concluded free trade agreements with more than 40 Countries.” This is the art of political doublespeak, stating the achievement of “success” without definition. Further, stating our level of trade has surpassed \$1 trillion is also a meaningless measure of “success”. Importing Auto parts from the US and components from Asia, assembling them then counting the value of the finished vehicle shipped to the US as the value of trade is deceitful. The value of trade is only the wealth received by Canadians in the form of Wages, the sale of Canadian manufactured parts, infrastructure development and ancillary services.

This “Free Trade” Agreement, in fact, has lead to Trade deficits with both the US, for 2016 \$12 billion and Mexico, for 2016 \$20 billion and massisve Job loss. The gradual reduction of Tariffs on Chinese goods has ballooned the trade deficit to over \$40 billion annually. Without major changes, this country will continue on the path of exporting Jobs which is decimating both manufacturing and agriculture. The inevitable loss of the goods producing sector will bankrupt the Country from massive irreplaceable Job losses. Ontario is Canada’s leader with the ongoing closures of factories which are relocating and

the shift to low labour, low profit grain crops. The Business environment in Ontario is caustic with high operating costs and a high cost of living created by a massive claw back of Incomes from Taxes to excessively reward Government Employees. Government Policies have also contributed from the Cap and Trade Carbon Tax, the Minimum Wage Bill 148, Green Policies, WSIB Rates and claims, Investment in high cost, high maintenance, intermittent Electric Power from Solar and Wind which created the highest rates in North America. To weigh the consequences, consider the Auto Industry where 15% of the North American Auto production Jobs were in Canada that has fallen to 125,000 or just 6% while Mexico now has 43% of the Jobs! Comparing vehicle purchases in 2016, the US purchased 17.6 million or 90%, Canada 1.9 million or 10% and Mexico purchased 192,000 or less than 1%. We can not afford to pay, as with Toyota, \$500,000 per Job to keep them here!

Mexico is an Unbearable Burden on the American Society and Solutions are a Priority

Isolating Mexico financially is the beginning of forcing change. Mexico not only has been a massive siphon of US Jobs but has promoted and profited from the massive migration to the southern US border. The Drug Cartels control crossing the border illegally and the dispersion of Migrants to various US cities. The multi-billion dollar revenue generator from human trafficking has a higher rate of return than moving Drugs. If the group crossing is caught and turned back, they pay to try again. It is estimated that between 14 and 20 million got past the Border Patrol and are living illegally in the USA. In 2005, approximately 900,000 were apprehended and immediately returned by US Border Patrol under the “expedited removal process”. Fear of being caught by ICE and deported has pushed some groups into Canada in growing numbers. Then there is the flow of drugs from Mexico. This US President has promised Voters that he will succeed in stopping this illegal Border traffic.

Allowing China to take over American Industry is threatening the US Economy

NAFTA is only a small part of the overall strategy to return the standard of living to the middle and lower class and resolve the US Debt crisis by raising the level of employment. This means leveling the market with China using Tariffs and the Exchange Rate. To return to domestic production the impact will be to raise prices, reduce consumption, shift wealth by creating more populous better paying Jobs and trading Partners will be not to be used to access the US market. The US administration recognizes that Canada is being used by the Chinese as a conduit to compete against US companies in materials such as Steel or embedded in products for example in the Auto sector. The Chinese pose a greater threat to the Canadian Economy.

RE: THE FREE TRADE AGREEMENT FIASCO

It is a political myth that a Trade Agreement will benefit both Parties equally.

A country will promote trade with a target country if it has a commodity, labour or exchange rate advantage. The expectation is a growth in business activity and the transfer of wealth, a transfer of Jobs and ownership from the target country. A benefit will only occur to both countries if a traded item which competes directly against domestically produced product sells at the same price for relatively the same quality.

Thirteen Governments of Canada have provided protection of Canada’s goods production with

Tariffs recognizing the overwhelming benefits and challenges of internal development. The denial of the end result of “commercial union” began with Prime Minister Lester Pearson. The mechanisms that level the market place are the combined effect of the Exchange Rate and an application of Tariff. However, even a high Tariff barrier can be nullified by an exchange rate, market pricing, union demands and market supply/demand changes. For example the 23% US tariff on Soft Wood Lumber initially dropped shipments to the US by 90%; but a series of natural disasters jumped US demand and prices. Today shipments are within 10% of pre-tariff volume. Chrystia Freeland, now Minister of Foreign Affairs spoke at a 2016 conference, “western industrial societies have begun to fear very profoundly that ... globalization may have been good for a narrow elite but not for most people.”

The Destruction of Our Economy and the Loss of Income Earning and Skills

- 1) International Trade Agreements have not favoured Canadian industrial survival. In fact, the removal of Tariffs and unfavourable Exchange Rates in the last thirty years have virtually wiped out entire Sectors of Goods Production that took 200 hundred years to build. Gone from Manufacturing are for example, Tires, Clothing, Shoes, Furniture, Textiles, Tools, Machinery, Small Appliances and Large Appliances. Also, gone from domestic production is 45% of our food supply, for example Canning, most Frozen Processing and most dry Products. Millions of Jobs have been exported with a loss of the middle class, a loss of skills, loss of knowledge and a new dependence on foreign products. The Labour market has shifted to Service which is mostly split into over paid Government Jobs and lower paid, lower skill Retail Jobs.
- 2) Canadian Academic Economists lined up through the 1970's and 1980's to study the effects of Free Trade on Canadian Industry leading to two distinct camps. Some argued the narrow self serving, “cheaper goods” view that “Canadians should be prepared to take a leap of faith” and pursue more open trade with the United States. While others argued, the long view which has been the historic foundation of Policy until 1965, that although Products would be cheaper, a “commercial union” with the US or outright export of Jobs would irreparably damage the Canadian economy leading to a necessary political annexation with the United States.
- 3) One measure of the unhealthy direction of the Economy and almost a direct measure of Job export is the displacement of domestically produced products by imports. The percentage share imports occupy of the goods available in a country is called the “Import Penetration” which in 1992 was 45.7% but by 2015 the level reached 64.5%. Almost half the increase came from China of which 99% was manufactured products and the change in our product source was so rapid that it is called the “China Shock”. The Canadian market was opened to China by Pierre Trudeau following his 1973 trip and official recognition of the Communist government.
- 4) In a recent Bloomberg North panel discussion by Economists, on the consequences of a , “Liberal International Order”, a new term for Globalization, it was concluded that in the last thirty years:
 - a) **Manufacturing sharply declined in Developed Nations and the loss of Domestic Production has lead to high Unemployment and Skill loss.**
 - b) **Canada is now dependent on Commodities and Debt to sustain the Standard of Living.**
 - c) **The top 20% of Income Earners are better off; the top 1% are significantly better off.**
 - d) **80% of Income Earners were not better off and a majority were worse off financially .**

- e) **The Income gap has widened significantly increasing social tension and anger directed toward the “Entitled Haves”.**
- f) **Democratic Governments have lost relevance to the general population who mistrust Politicians as part of and supporting an Entitled Establishment riding on their backs.**
- g) **The free movement of Capital has lead to the loss of Ownership of Business, Loss of Intellectual Property and the skewing of Real Estate into a speculative Commodity.**
- h) **Lack of internal focus on Skill needs to carry on with our current level of Economic activity is worrisome. Responsibility for Society will fall on the Next Generations even if they do not want and are unprepared to accept it.**
- i) **The primary winner and promoter of a “Liberal International Order” economic model has been a Non Democratic Totalitarian Country- China.**