

## **BUREAU DE COORDINATION DES ÉTUDES**

### **Fiche d'identification de la mise à jour**

**COMMISSION :** Commission d'étude des questions afférentes à l'accèsion du Québec à la souveraineté.

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**Titre :** Réparer les pots cassés : libre-échange, le scénario de rupture

#### **MISE À JOUR**

**Auteur :** Gordon Ritchie (Strategico inc.)

**Titre :** Voir commentaires

**Commentaires :** Avec l'accord du coordonnateur du Bureau, l'auteur a réalisé sa mise à jour sous forme d'une lettre adressée au coordonnateur.

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Dear Professor Corbo:

I regret that the pressure of other commitments has meant that I have taken so long to get back to you with a confirmation of my current analysis of the issues discussed in my earlier study of the free trade implications of Quebec separation. I have prepared this note in the same language as my original study but would, of course, be prepared to review a translation if you judge it appropriate.

**I have reviewed the earlier report and am of the view that, while there have been changes, some significant, in the details, the broad thrust of the analysis remains unchanged.** Permit me briefly to recap the line of analysis, noting significant changes as they arise.

The starting premise, for purposes of analysis, was that following a clear expression of the will of a significant majority of Quebecers to separate from the current political arrangement with the rest of Canada, both parties would seek to negotiate the economically optimal arrangement to govern their future relations. The parameters of such negotiations have been elaborated since my original study by the Supreme Court Reference and by the Parliament of Canada with the Clarity Bill. As I noted in my original study, the situation would obviously be very different, and much more destructive for all parties, if such a separation had, instead, broken off relations under emotionally charged circumstances. **My analysis is instead intended to chart the most favourable possible result of successful negotiations among responsible partners.** I should reiterate that I have no idea who would serve as the interlocuteur for the rest of Canada beyond observing that it would certainly not be the current federal government.

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**Under any realistic scenario, that most favourable result would inevitably result in some economic losses.** At present, the citizens of all provinces, particularly Quebec and Ontario, benefit from the economic union within Canada. Despite its imperfections, this union does generally provide for the free movement of goods, services and people across provincial boundaries---which economic theory strongly demonstrates is the optimal arrangement for the inhabitants of any geographic region. In addition, Canada enjoys the benefits of a so-called "free trade arrangement" with the United States, and to a lesser extent Mexico, which is not as economically optimal as a true economic union with the United States but is more favourable than if these trading relationships were governed by the much lower common denominator of the most favoured nation provisions of the World Trade Organization (WTO - successor to the General Agreement on Tariffs and Trade). In my earlier study I reviewed some of the attempts to quantify these benefits but was not prepared to go beyond the directional conclusion that (i) the economic union between Quebec and the rest of Canada was close to optimal; (ii) the trade arrangement with the United States also brought substantial economic benefits by comparison with (iii) the "floor" of benefits procured under the WTO.

In the separation scenario, what would be the most we could hope to achieve through constructive negotiations among the affected parties?

**First, it would be misleading to suggest that the arrangement between Quebec and the rest of Canada, even under this most favourable scenario, could be as beneficial as the existing economic union.** The only way in which the benefits of that economic union could be preserved would be if both parties agreed to be governed by an integrated arrangement that established common monetary, fiscal and economic policies. For example, it would mean a common policy on tariffs and quotas on such products as milk and textiles, policies which irrefutably impose a substantial cost on consumers, principally in the rest of Canada, to the benefit of a small number of producers, principally in Quebec. Political rhetoric aside, it is very hard to see how such an arrangement could be acceptable to both parties: if decisions were made by giving equal weight to the interests of Quebec and the much larger, rest of Canada, this would require the citizens of the rest of Canada to give, in effect, more than triple weight to the votes of Quebecers; if, on the other hand, Quebecers agreed to be governed by the policies set by the larger partner, they would have "gained" independence only to lose control over important levers over their own affairs. The situation is precisely analogous to that which would be faced if a united Canada were to seek to negotiate economic union with the United States, as some have been proposed. Obviously, the most likely outcome would be that policies would be set in Washington by Americans---an outcome that most Canadians would view as a major loss of sovereignty.

**Second, I am nonetheless optimistic that a high proportion of the economic benefits could be achieved through the negotiation of a less than optimum arrangement, that is, some form of free trade arrangement.** I believe that it would clearly be in the interests of both parties, that is, Quebec and the rest of Canada, to negotiate such a free trade agreement between them and, if that were successful, that it would be relatively feasible to encompass Quebec under the existing North American Free Trade Agreement.



Some have claimed that this would be an automatic right of an independent Quebec but this argument is clearly spurious. It would be a matter for negotiation, a negotiation in which Quebec and the rest of Canada would have to reach a mutual accommodation of interests and then, together, face the rigours of negotiation with the Mexicans, but above all, the Americans who would bring their own, aggressive agenda to these negotiations.

Such an arrangement would capture some, although not all, of the benefits Quebeckers, Ontarians and other Canadians achieve under the existing economic union. There would, however, be costs. For one thing, border posts would need to be established to police the rules of origin under such a free trade agreement---just as they currently existing under the free trade arrangement between Canada and the United States--- unless Quebec and the rest of Canada were able to agree on an identical and common external tariff and quota policy, which I have explained is extremely improbable. For another, trade laws with respect to foreign imports would now apply to the commerce between Quebec and the rest of Canada. This would open the door for countervailing and anti-dumping duties to be applied to products crossing the border between Quebec and the rest of Canada, just as they now apply at the border with the United States (Cf. softwood lumber). These costs would be significant and they would be borne most heavily by, first, Quebeckers, second, Ontarians, and third, citizens of the Atlantic Provinces. (Citizens of Manitoba, Saskatchewan, Alberta and British Columbia would feel almost no adverse effect.)

**Third, if such a Canada-Quebec free trade agreement were reached, I am confident that together the two parties could negotiate Quebec's accession to the NAFTA.** The Americans, in particular, could be expected to bring some very difficult issues to the table, including "unfinished business" from the earlier negotiations. They could be expected aggressively to raise issues of alleged systemic subsidization, notably in Quebec, state trading (from dairy councils to liquor monopolies), cultural protectionism, etc. Specific issues, such as softwood lumber, would be raised by the Americans who would demand agreement to satisfy their interests. It would not be an easy negotiation but, in my judgment, provided Quebec and the rest of Canada were united in purpose I would expect them to succeed. If they were to fail, that would, of course, impose substantial additional costs on Quebeckers (citizens in the rest of Canada continuing, obviously, to enjoy the benefits of the existing NAFTA).

**Finally, I would not foresee any great difficulty in negotiating a separate Quebec's accession to the World Trade Organization,** particularly with the support of the rest of Canada (and, hopefully, the United States and Mexico). Although the great bulk of Quebec's exports find markets within the rest of Canada and the United States, the value of WTO participation would be to provide most favoured nation access to the rest of the world. That has become more valuable since my original study was prepared as the negotiations which founded the WTO also succeeded in narrowing the gap relative to the access provided under NAFTA---that is, the costs of failing to enter NAFTA while still significant would be somewhat reduced provided Quebec did accede to the WTO.

In summation, the direction of my earlier analysis remains unchanged by events although some of the magnitudes have been reduced by, in particular, the successful completion of the founding WTO negotiations. **It is clear that the separation of Quebec, even under the most harmonious circumstances, would impose economic costs on Quebeckers and the citizens of certain parts of the rest of Canada, notably Ontario and the Maritime Provinces.** These costs should be entered into the assessment individual Quebeckers and other Canadians make about the preferred future course although for many they will be far outweighed by other, more fundamental, considerations.

Yours truly,

A handwritten signature in dark ink, appearing to read "B. Taylor" followed by a stylized flourish or initials.

Gordon Ritchie