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Does Canada Need Trade Adjustment Assistance?

Dmitry Lysenko and Saul Schwartz

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Alors que le Canada s'emploie à mettre en œuvre d'importants accords commerciaux comme l'AECG (avec l'Union européenne) et le Partenariat transpacifique, la question des programmes d'aide à l'ajustement commercial revient à l'avant-plan.

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Summary

Trade liberalization offers long-term economic benefits, but trade agreements can entail difficult adjustments for some firms and workers. To aid this transition process, some governments offer trade adjustment assistance (TAA) programs — for instance, by providing affected workers temporary income replacement and subsidies for retraining or relocation. Advocates argue that such assistance helps compensate those harmed for their losses, redirect economic activity toward more productive uses and enhance the political viability of trade liberalization.

Canada's last formal TAA program was eliminated in the 1980s, but some of its major trading partners, including the United States and the European Union, have dedicated TAA programs. As Canada seeks to implement two major trade deals — the Canada-EU Comprehensive Economic and Trade Agreement and the Trans-Pacific Partnership — the issue of whether and how to design compensation and adjustment packages has moved front and centre. Because trade agreements increasingly require a broad Canadian political consensus on negotiating positions across a range of issues that cover both federal and provincial jurisdictions, new policy approaches might be required, perhaps including trade adjustment assistance.

Based on a thorough review of the evidence and interviews with several provincial trade negotiators, Dmitry Lysenko and Saul Schwartz conclude, however, that Canada does not need a new, stand-alone TAA program, because

- ▶ such programs have not been particularly effective in encouraging economic adjustment (though they seem to have played a compensatory role);
- ▶ determining eligibility is arbitrary in practice since it requires judgments about which jobs or firms are negatively affected by a specific trade deal;
- ▶ future trade agreements are unlikely to lead to severe labour market dislocation — for instance, liberalization of highly sensitive sectors is typically only partial and spread over long phase-in periods; and
- ▶ a broad-based TAA program is not needed to overcome political opposition to trade agreements, since the federal government has addressed concerns about specific trade deals using ad hoc promises of TAA-like compensation.

However, although the current policy approach has secured political buy-in, the authors identify a critical shortcoming: by rewarding the most critical and vocal stakeholders, trade-related compensation decisions are based largely on political, not necessarily economic, considerations. This means that one-off assistance for one stakeholder leads others to demand similar treatment.

The authors argue that a better way forward for the new Liberal government would be to adopt a more comprehensive policy approach to enhance the adaptability of Canada's economy. The ultimate goal should be to help workers adjust to important longer-run structural changes in the labour market — whether caused by specific trade agreements, technological change, strong economic growth in emerging economies or other factors.

Résumé

La libéralisation des échanges procure des avantages économiques à long terme, mais les accords commerciaux peuvent imposer des ajustements difficiles à certaines entreprises et à leurs salariés. Pour faciliter ce processus de transition, quelques pays offrent des programmes d'aide à l'ajustement commercial (PAAC) qui soutiennent notamment les salariés touchés en leur versant un revenu de remplacement temporaire et en prévoyant des subventions de formation ou de réinstallation. Les défenseurs des PAAC estiment que ces programmes permettent de compenser les parties lésées, de réorienter l'activité économique à des fins plus productives et d'accroître la viabilité politique de la libéralisation du commerce.

Le Canada a officiellement supprimé son dernier PAAC dans les années 1980, mais certains de ses grands partenaires commerciaux, dont les États-Unis et l'Union européenne, ont maintenu ou créé les leurs. Alors que notre pays s'emploie à mettre en œuvre deux accords majeurs — l'Accord économique et commercial global (AECG) Canada-Union européenne et le Partenariat transpacifique —, l'intérêt de tels programmes revient toutefois à l'avant-plan. Les accords commerciaux nécessitant plus que jamais un vaste consensus politique au pays sur nos positions de négociation dans un grand nombre de domaines, qui sont de compétence à la fois fédérale et provinciale, de nouvelles approches comme l'aide à l'ajustement commercial pourraient donc sembler nécessaires.

Mais après avoir soigneusement examiné les données sur la question et consulté plusieurs négociateurs provinciaux, Dmitry Lysenko et Saul Schwartz concluent que le Canada n'a besoin d'aucun nouveau PAAC, pour les raisons suivantes :

- ces programmes ont été relativement inefficaces en matière d'ajustement économique (même s'ils semblent avoir joué un rôle compensatoire) ;
- leurs critères d'admissibilité sont arbitraires puisqu'ils reposent sur une évaluation partielle des entreprises et des emplois qui seront négativement touchés par un accord donné ;
- les futurs accords ne devraient pas perturber sérieusement le marché du travail, notamment parce que la libéralisation dans des secteurs sensibles est souvent partielle et s'étend sur de longues périodes ;
- il n'est pas nécessaire de créer un PAAC à grande échelle pour surmonter l'opposition politique aux accords commerciaux, puisque Ottawa a promis des mesures compensatoires adaptées à chaque entente.

Mais si l'approche actuelle fait politiquement consensus, les auteurs jugent qu'elle souffre d'une importante lacune : en dédommageant les intervenants les plus critiques et les plus influents, les mesures compensatoires sont souvent décidées en fonction de motifs politiques plutôt qu'économiques. Ainsi, l'aide ponctuelle offerte à l'un peut en inciter d'autres à réclamer le même traitement.

Pour accroître l'adaptabilité de l'économie canadienne, estiment les auteurs, le nouveau gouvernement libéral serait mieux avisé d'adopter une approche globale. Elle permettrait d'aider les travailleurs à s'adapter aux importants changements structurels qui modifieront à long terme le marché du travail, que ces changements soient provoqués par des accords commerciaux, de nouvelles technologies, une forte croissance économique dans les pays émergents ou d'autres facteurs.

Does Canada Need Trade Adjustment Assistance?

Dmitry Lysenko and Saul Schwartz

In 2008, only four free trade agreements (FTAs) were in force in Canada. Since then, Canada has brought into force seven more agreements, and three others await ratification¹ — including the Comprehensive Economic and Trade Agreement (CETA) with the European Union, and the recently concluded Trans-Pacific Partnership (TPP), an agreement among 12 countries that includes the United States and Japan.²

Although it is widely recognized that greater international trade brings net benefits over the long term, there are always concerns about the potential effects on specific groups of firms and their employees. Those effects can be the result of stronger import competition caused by specific provisions in a trade agreement (such as lower tariffs) or other factors such as rapid economic growth in emerging economies. For example, CETA has caused concern because of the potential for the expanded import quota for European cheese to hurt Canadian cheesemakers (Grant 2013) and because enhanced intellectual property rights in the pharmaceutical sector might hurt generic pharmaceutical companies in Canada (Lexchin and Gagnon 2013). The TPP also involves some contentious trade concessions in supply-managed agricultural sectors as well as automobiles (Keenan 2015; McGregor 2015).

Theoretical trade models suggest that, for countries to benefit from trade liberalization, labour and capital must move between and within sectors of the economy. Some industries and firms will expand and others contract. The transition process for the economy entails adjustment costs and takes time. Workers, for example, might lose their jobs and be unable to find new ones quickly. Firms might lose market share to competitors that use more advanced and efficient production processes. Some communities might even face catastrophic economic decline if an industry that is the backbone of the local economy loses its market. And although some effects of trade liberalization are temporary, others can be permanent, with some firms and workers experiencing lower incomes not only during the transition period but on a long-term basis.

Trade adjustment assistance (TAA) is government-provided aid to those negatively affected by import competition — be they workers, firms, sectors, regions or communities (Francois, Jansen and Peters 2011; World Trade Organization 2008). Historically, TAA programs were narrowly defined and addressed increased import competition caused by specific trade agreements negotiated by governments. Over time, however, some programs have been expanded to help firms or workers deal with increased import competition without attempting to sort out its causes. Different countries have had various forms of TAA at different times, but the main focus has been on support for workers in the form of temporary income replacement and subsidies for retraining or relocation. Aid for firms has been less extensive, typically taking the form of government loan guarantees, government loans or technical assistance, all intended to help firms compete against new rivals.

In Canada, the first TAA program was created in 1965 in response to the Automotive Products Trade Agreement (“Auto Pact”) with the United States. Various programs then operated in fits and starts until the late 1980s, when the last federal program was phased out. In this study, we ask whether Canada needs to reintroduce trade adjustment assistance in response to the intensification of trade policy. An immediate question is: Why would special programs be needed to help those negatively affected by import competition when such programs are not available to those negatively affected by other economic shocks, such as fluctuations in commodity prices, technological innovation or climate change?

Three justifications for TAA programs are particularly important. First, assistance is justified as *compensation* for losses imposed on the few so that the majority can benefit from trade. In traditional programs, TAA-as-compensation provides monetary transfers to those deemed to have been made worse off because of the increased trade resulting from government action. In practice, harm caused by variations in factors such as commodity prices or technological change might be even greater than that caused by trade, but the responsibility for their effects is often more diffuse. Temporary income support can be seen as compensation for jobs lost because of trade agreements, but it can also be seen as a way to give laid-off workers more time to find new jobs.

Second, assistance is justified on *efficiency* grounds if it facilitates the faster movement of labour and capital from declining industries or firms to expanding ones. For workers, TAA-as-adjustment might include income support and job search assistance or retraining that aims to reintegrate trade-affected people back into the labour market. For firms, it might include financial and consulting assistance to make them more competitive. Clearly, there can be substantial overlap between TAA-as-compensation and TAA-as-adjustment.

Third, assistance is seen as a way to enhance the *political viability* of trade liberalization, which might depend on the support of key actors such as unions, employer associations and provincial governments. In Canada, all trade agreements — and especially the newer ones — depend to some extent on provincial governments to implement important provisions; TAA might be the price to pay for their cooperation.³

Currently, three important Canadian trade partners have TAA programs: the United States, the European Union and South Korea. For trade-affected workers, the 50-year old US program includes income support, wage insurance, allowances for training and relocation, job search assistance and a health-coverage tax credit (United States, n.d.) at an annual cost of US\$600 million (United States 2014). The United States also has a TAA program for firms that helps to cover the costs of technical assistance provided by consultants or other experts (Trade Adjustment Assistance Centers, n.d.). The EU Globalization Adjustment Fund, introduced in 2007, provides assistance only to workers (European Commission, n.d.), and has an annual budget in the range of US\$170 million. The mix of benefits provided to workers is case specific, with member states deciding which measures are most effective in each case. South Korea’s small TAA program, introduced in 2007, provides firms with financial support to restructure their business or to take other measures to ensure their competitiveness; provisions for workers are limited (Kang 2013; Park 2014).

Although Canada currently has no TAA program, a number of new developments in Canadian trade policy-making motivate us to re-examine this policy choice. For one, the provinces have become more important political players in trade policy. CETA, for instance, dealt with many issues under provincial jurisdiction, and the provinces were involved in the negotiation process to a far greater extent than in previous trade agreements. We argue that CETA has demonstrated that the federal government views compensatory transfers to the provinces as a way to reach federal-provincial consensus. In late 2013, for example, Newfoundland and Labrador was promised up to \$280 million from the federal government in return for the province's commitment to remove its minimum processing rules in the fish industry, as required by the EU in the CETA negotiations. Furthermore, since the agreement's stronger intellectual property rights in pharmaceuticals likely will increase the cost of provincial drug plans, the federal government has agreed to provide compensation to provincial governments. Indeed, Ontario has already said it would seek compensation for any negative effects of CETA, particularly on drug costs, cheesemakers, winemakers and distilleries.⁴ Provincial requests for compensation are likely to continue as Canada negotiates "new-generation" FTAs that include provisions to increase regulatory cooperation among the FTA partners. Many of these "behind-the-border" issues are under provincial jurisdiction, and therefore can be blocked by provincial legislators. This new development adds to provincial bargaining power in seeking compensation.

Another reason to re-examine the need for TAA programs is that Canada is experiencing greater international pressure from its FTA partners to liberalize its supply-managed products (Grant et al. 2014). Canadian producers of these products — eggs, poultry and dairy — are highly protected from international competition by means of tariff rate quotas,⁵ and benefit from government regulation of domestic supply. CETA expanded the quota on imports of cheese from the EU, and thus created an important precedent for reducing the protection of supply-managed products. Canada then took another step toward opening the supply-managed sector in the TPP by allowing duty-free access to 3.25 percent of its dairy market and somewhat smaller percentages of other supply-managed products (Yakabuski 2015). In general, because supply-managed products are highly protected, trade liberalization in this area might imply substantial adjustment costs (relative to the size of the sectors). Trade adjustment assistance could provide temporary relief, helping some firms or farmers survive import competition and become internationally competitive. At a minimum, it could provide some compensation to those who cannot adjust.

To preview our conclusions, we do not think that Canada needs a special TAA program for workers and firms affected by recent trade agreements. None of the potential roles of TAA — whether compensatory, efficiency enhancing or political — seems to us to be important in the current Canadian context. In particular, the recent experiences in the CETA and TPP negotiations suggest that a broad-based TAA program is not necessary to overcome political opposition to trade agreements. Such agreements are no longer as controversial among firms and workers as they once were; current debates are certainly less heated than those about the Canada-US Free Trade Agreement in the late 1980s. Debates now centre instead on specific sectors, and the federal government has tried to address these issues with ad hoc promises of TAA-like compensation. Thus far, this seems to have been an acceptable solution to the provinces and affected industries, including producers in supply-managed sectors.

Nonetheless, as the Canadian economy has become more firmly integrated into the global economy, we think there is a need for an improved approach to aid workers permanently damaged by structural changes, whether those changes are caused by trade agreements, technological change or strong economic growth in emerging economies. Unemployment insurance benefits can help workers adjust in the short run, particularly in a relatively brief recessionary period, but we think that Canadian workers permanently damaged by structural changes in the world economy are not well served by the current set of labour market programs.

A Brief History of Canadian TAA Programs

The Canadian government has never unreservedly embraced the idea of trade adjustment assistance. The first such program, known as transitional assistance benefits, was introduced in the context of the 1965 Auto Pact. Few workers were eligible for the benefits of the program, which operated essentially as a low-cost top-up to unemployment insurance (UI). A second TAA program was implemented in the wake of the Kennedy Round of the General Agreement on Tariffs and Trade (GATT) negotiations, largely to provide assistance to the declining Canadian textile, clothing and footwear industries. In the early 1980s, the program evolved into the Labour Adjustment Benefits program, which focused on vulnerable older workers. The early programs had components that provided loans to firms and income support to workers, whereas the 1980s program focused only on workers.

Throughout the archived records of cabinet memos and discussion papers, there is a marked ambivalence about these programs that grew from the recognition that — as stated explicitly in the Memorandum to Cabinet concerning transitional assistance benefits — other industries facing the need to adjust because of government policy changes might reasonably argue for similar assistance programs. Moreover, the persistent practical difficulty of determining which workers and firms had been injured by government action was clearly acknowledged. It was argued that a generous unemployment insurance program was a better way to facilitate adjustment, even as the specific programs were being created. Indeed, Robertson and Grey, writing for the Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission), summarized the general situation by saying that, “in most cases, national policy instruments (for example, unemployment insurance and training and mobility programs) have provided sufficient assistance to deal with adjustment difficulties arising from trade” (1985, 187).

Programs for workers and the Auto Pact

The TAA programs established in conjunction with the 1965 Auto Pact set Canada on a path that heavily influenced future such programs. However, the economic context created by the Auto Pact was far different than that in which later programs were created. The terms of the Auto Pact, which helped to establish an integrated North American automobile industry, were quite favourable to Canada, and led to a large increase in employment and substantial investment by the major US automobile companies and their Canadian subsidiaries. The Auto Pact allowed duty-free trade between US and Canadian producers in automobiles and their component parts, subject to important restrictions. For example, because some products covered by the agreement could include imported inputs, duty-free imports were allowed only in goods at least 50 percent of whose content was produced by a partner of this bilateral treaty, in order to prevent

third-country imports from simply being routed through Canada to the United States or vice versa. The pact also allowed the Big Three producers — General Motors, Ford and Chrysler — to rationalize production between their US production facilities and their Canadian subsidiaries. In addition, the Big Three agreed, in supplemental letters of undertaking, to increase their investment in Canada and the Canadian content of the cars they produced. Anastakis writes that, for the Canadian federal government, “the auto pact had substantially fulfilled all of its objectives — increased production, exports and employment — by 1968” (2005, 131).

Inevitably, however, the Auto Pact caused dislocation for some workers and firms. For example, Canadian firms that produced parts for Canadian subsidiaries of the Big Three now faced competition from US parts producers. Some survived, but others did not. The US General Accounting Office indicated that between 150 and 200 firms in the Canadian auto sector were either purchased by other manufacturers or shut down from the time the Auto Pact took effect in 1965 to 1977 (United States 1979). Moreover, some firms faced dislocation that accompanied an improvement in their economic position. For example, by the middle of 1965, Ford had laid off 1,500 workers as it adjusted its facilities to expand and retool, expecting that those workers would be recalled early in 1966 (“Ottawa Fund Plan for Car Workers Protested by Ford” 1965).

The federal government was not keen to establish a program for displaced workers, despite the position of the Canadian arm of the United Auto Workers (UAW). The UAW had made the creation of such a program a condition of its support for the agreement, but failed to convince the federal government to act on the issue. In January 1965, the unions were informed that “[t]he government would not...provide safeguards against the expected initial dislocation of workers as the two industries were integrated, claiming that only a very small percentage of workers in the industry would be affected” (Anastakis 2005, 102). Despite protests from the head of the Canadian UAW, no TAA program for workers was created until June 1965, and only then, according to Anastakis, because of the announcement of pending US legislation that would create a TAA program for displaced US workers. The Canadian program, called the transitional assistance benefits (TAB) program, operated from 1965 to 1976 (Robertson and Grey 1985, 188).

Like the programs that came later, the TAB program was neither particularly costly for the federal government nor particularly generous to displaced workers. Its most important limitation was the provision that workers who were eligible for the supplementary unemployment benefits (SUB) programs that the unions had already established with the Big Three automakers would not be eligible for TAB unless their employer agreed to pay into a government fund an amount equal to what they would have paid from their own SUB funds. The employer could opt out of that requirement, but its displaced workers would then be ineligible for TAB. In effect, TAB would work only as a minor top-up to SUB. Moreover, TAB was not to be paid in addition to the workers’ unemployment insurance benefits. None of the Big Three automakers agreed to pay into the government fund, however, so their workers were not eligible for TAB, leaving only those workers displaced from firms not covered by the SUB programs eligible for the program.

The TAB program offered a benefit equal to 62 percent of the eligible worker’s take-home pay, plus an additional 2.5 percentage points for each of the worker’s dependents, up to a maximum

of about \$75 per week (\$560 per week in 2014 dollars), an amount only slightly higher than SUB benefits. TAB was normally available for only one year after layoff and after UI was exhausted. Requiring SUB and UI to be “used up” before TAB was paid limited government expenditures on the program so much that, “by the end of the year, with over 3,000 workers out of work because of the agreement, the government had paid out a grand total of \$4,559 on the TAB” (Anastakis 2005, 116). However, the path that was chosen in the early years of the Auto Pact became the starting point for subsequent TAA programs for workers.

Programs for workers in the 1970s

Canada’s participation, in the late 1960s, in multilateral trade negotiations led to greater access to foreign markets for Canadian exporters and greater import competition for domestic Canadian firms. Apart from the effects of the trade negotiations, several industries — clothing, textiles and footwear foremost among them — were under pressure from low-cost foreign producers whose more modern factories and lower labour costs enabled them to undercut domestic prices even with import tariffs in place (Mahon 1984; Pestieau 1976). The need for measures to safeguard domestic production is a concern for all countries engaged in trade liberalization. Because a large proportion of Canadian production was destined for export, the opening of foreign markets to those exports was clearly a high priority for the federal government, but making provisions for the severe dislocation that some industries might experience was also deemed important.

The Adjustment Assistance Program, in place between 1971 and 1982, was a TAA program primarily for textile workers. The program was largely compensatory in nature; provisions for training or relocation were virtually nonexistent (Pestieau 1976). Workers who had been permanently laid off could apply to the Textile and Clothing Board, an agency set up to deal with issues in that sector. If the Board determined that the layoff was trade related, workers who were under 55 years of age were eligible for supplementary unemployment benefits. These benefits were designed to disappear when an anticipated increase in the generosity of UI came into effect. Workers who were over 55 were eligible for a preretirement benefit after they had exhausted their UI claim, though few made use of this part of the program.

Programs for older workers in the 1980s

Targeted support for the most vulnerable trade-affected workers continued into the 1980s. Support was expanded through the 1982 Labour Adjustment Benefits (LAB) program. The program covered only older and more vulnerable workers — those between the ages of 54 and 65 who had “no present prospect of employment” or who had accepted employment with relatively low earnings — and provided them preretirement benefits (Labour Canada 1990, 4). In addition, an important change in the certification process made it easier to investigate the effects of import competition. Whereas the programs in the 1970s had certified employees if the particular firm for which they were working was being damaged by import competition, the LAB designation process looked at whether import competition was causing damage to industries, rather than to individual firms.

The only Canada-wide designations were given to the textile, clothing, footwear and tanning industries. These designations subsumed the TAA programs, such as the Adjustment Assistance

Program, that were active in these industries in the 1970s. The remaining designations were given to various industries in specific regions. During the period that the program existed (1982-90), about 23,000 workers' claims were approved. The total expenditure of the program over that period was about \$600 million, or between \$970 million and \$1.4 billion in today's prices (Labour Canada 1990).⁶ These numbers indicate there was demand for these programs, albeit within narrowly defined groups of workers. By 1988, however, all designations of industries had expired and no new ones had been made. Further, the LAB was replaced by the Program for Older Worker Adjustment, under which workers could obtain benefits regardless of the reasons for their job loss. That was the end of trade adjustment assistance for workers in Canada.

Programs for firms

In the mid-1960s, parallel to TAA for workers, Canada introduced the Automotive Manufacturing Assistance Regulations, a program for firms hurt by the Auto Pact (Canada 2015a). A firm in the auto sector was eligible for loans if its production was, or threatened to be, reduced because of the Auto Pact or if it needed capital to increase its scale of production to become viable in the new environment created by the pact (GATT 1966). The US General Accounting Office (GAO),⁷ in a review of international experience with TAA programs in the late 1970s, indicated that by the program's end in 1973 Canadian programs had provided considerable aid to the sector. About 92 firms had received around \$100 million in loans, or between \$550 million and \$750 million in today's prices. The program also turned out to be beneficial for the federal government. According to the GAO, it was a "money-making operation" for Ottawa because it charged commercial rates of interest and incurred losses in only a few cases (United States 1979, 38).

Another program, the General Adjustment Assistance Regulations (GAAR), was introduced in 1967 to assist manufacturers who were hurt by import competition resulting from the Kennedy Round of GATT negotiations as well as those who wanted to exploit export opportunities. Under this program, manufacturers received government loans or government insurance on private sector loans. From 1969 to 1977, the federal government insured approximately \$285 million of private sector loans, or about \$1.0 billion to \$1.8 billion in 2014 dollars, but issued no direct government loans (United States 1979).

In 1977, the GAAR was replaced by the Enterprise Development Regulations. These regulations helped firms to adjust to the Tokyo Round of the GATT, which concluded in 1979, and, like the GAAR program, allowed for direct government loans or for government insurance on loans by private lenders. A number of provisions also focused on export expansion, improving the international competitiveness of firms and increasing Canadian manufacturing activity. No applications under the Enterprise Development Regulations were accepted after 1983, and no other federal TAA program for firms has been developed since that time.

The discourse on TAA programs in the 1980s

Roughly speaking, Canada's TAA programs stopped operating around the time that the Canada-United States Free Trade Agreement (FTA) was negotiated in 1987. Discussions of the possibility of that agreement and its subsequent negotiation in the 1980s had been accompanied by a serious national conversation about the adjustments in the Canadian economy that such an agreement

would cause. The report of the Macdonald Commission, published in 1985, pushed for freer trade with the United States, along with a Transitional Adjustment Assistance Program to help workers adjust. The program the commission suggested, however, was targeted at workers displaced for a variety of reasons, not because of freer trade in particular. Indeed, the commission held a dim view of the TAA programs for textiles, clothing and footwear in the 1970s because they had been designed “in large measure, to postpone, rather than to facilitate, adjustment” (Royal Commission on the Economic Union and Development Prospects for Canada 1985, 241). The commission believed that protecting these sectors from international competition by high tariffs and quotas, along with subsidies to firms to enable them to modernize, kept workers in their previous jobs, rather than facilitating adjustment. In the commission’s view, these policies did not take advantage of new economic opportunities for displaced workers and capital.

In 1988, the federal government set up an Advisory Council on Adjustment, chaired by A. Jean de Grandpré, then chairman of Bell Canada Enterprises. The council subsequently published a report entitled *Adjusting to Win*, which stated that “[t]he potential to direct specific assistance to individuals adversely affected by the FTA was exhaustively explored. A fundamental obstacle in this regard is the problem of distinguishing between the effects of the FTA and those of the larger, global economic environment. It is virtually impossible, in the council’s view, to clearly and conclusively attribute any particular economic event — such as a plant closure — solely to the effects of the FTA” (Advisory Council on Adjustment 1989, xvii). The council also pointed out that, because the agreement would have a variety of subtle effects, any job loss could potentially qualify for targeted TAA. If it were impossible to determine accurately whether a particular job loss should qualify for the assistance, any “arbitrary rules” aimed to produce “rough justice” would be unfair and discriminatory (xvii). The council, like the Macdonald Commission, therefore recommended adjustment programs to help workers who had been harmed for any reason, not just for trade-related reasons.

These experiences raise the question of why the evolution of TAA programs in Canada differed so much from similar programs in the United States, which not only survived but thrived. One study (Lysenko 2013) attributes that difference to the need for the US president to get authority from Congress to bring new trade agreements into force with less difficulty. Trade adjustment assistance apparently was part of the price Congress exacted.⁸

TAA in the United States, the European Union and South Korea Evaluation benchmarks

The economic effects of TAA programs can be evaluated against at least two benchmarks. One is the situation before the liberalization of trade. From this perspective, TAA-as-adjustment is successful if, as a result of a program: (a) assisted workers are employed, and their earnings are reasonably comparable to their preliberalization earnings; and (b) while unemployed, workers receive income support roughly comparable to their preliberalization earnings. TAA-as-compensation is successful if assisted workers are “made whole” for any welfare reduction they suffer as a consequence of liberalization. Because the loss of a job can involve considerable nonmonetary costs, however, fully compensating displaced workers is extremely difficult.

The second benchmark is the situation after the liberalization of trade. From this perspective, TAA-as-adjustment might be deemed successful if the postliberalization earnings of assisted workers are higher than they would have been had the program not existed. TAA-as-compensation is always successful from this perspective because unemployed workers would have received no compensation had the program not existed. In any case, supporters of trade liberalization might deem a TAA program a success, regardless of its economic impact on workers or firms, if it helped win the political battle to liberalize trade.

As we discuss later, displaced workers generally suffer permanent losses as the result of their displacement — whatever the cause — even if they find new jobs. In attempting to reduce these losses, training programs offer displaced workers a chance to acquire new skills and, it is hoped, new, well-paying jobs. Because training is an important component of trade adjustment assistance, we start by looking at the overall effectiveness of training for displaced workers.

The effectiveness of training displaced workers

The evidence on the effectiveness of training programs for displaced workers is mixed. One factor that seems to influence its effectiveness is the duration of training. A review by Frenette, Upward and Wright (2011) generally shows the ineffectiveness of short-term training provided by US TAA programs.⁹ In contrast, the authors find substantial benefits from longer-term training in Canada: displaced workers who attended post-secondary institutions had annual earnings about \$7,000 higher in their new jobs than those who did not attend such institutions. Jacobson, LaLonde and Sullivan (2005) report a similar positive result on the effect of college training on earnings of displaced workers in the United States; they also show that the nature of the training is important, with more technical programs of study bringing larger returns to workers.

Unfortunately, studies that focus on longer-term training are rare, and only more research would allow more definite conclusions. That said, there are also uncertainties about the supposedly negative effects of short-term training, one of which is that such training might bring larger benefits over the longer term. For example, Card, Kluve and Weber (2010) conclude that classroom and on-the-job training have positive effects in the medium term even though their short-term effects are insignificant or negative.

TAA in the US

TAA for workers

The largest and most recent evaluation of a TAA program for workers is that conducted by Schochet et al. (2012) of the US TAA program as it operated under the *Trade Act of 2002*. By 2002, the program had moved well beyond providing temporary income support and had become an active labour market policy. Income support — in the form of a Trade Readjustment Allowance (TRA) — was given only to workers in the manufacturing sector who have not returned to work before exhausting their unemployment insurance benefits and who are in training (or who have received a waiver from the training requirement). The amount of TRA was the same as the worker's unemployment insurance benefit. The program funded up to two years' training for certified workers. Workers could also receive a refundable tax credit, the Health Coverage Tax Credit, which refunds 65 percent of health insurance costs and various relocation and job search

services. Finally, the *Trade Act of 2002* established a wage insurance program for workers over age 50. That program, called Alternative Trade Adjustment Assistance for Older Workers, paid 50 percent of the difference between the worker's wage at the time of the layoff and the wage at a new job. To be eligible for the program, workers had to be covered by a petition approved by the US Department of Labor that deemed the job loss to be the result of import competition.

To evaluate the program, Schochet et al. (2012) implicitly use the postliberalization benchmark, estimating a counterfactual economic situation by constructing a matched sample of unemployment insurance recipients who were not eligible for the program.¹⁰ The comparison group for TAA participants consists of workers who collected regular unemployment insurance benefits in the same period as did those eligible for TAA.¹¹ The timing of workers' eligibility for the program is important to the evaluation because the recession of 2008-09 was part of the follow-up period. Those in the TAA treatment group were covered by petitions certified between November 2005 and October 2006, and might have started receiving unemployment insurance benefits at any time between September 2004, and October 2008.¹² Using data from an initial and a follow-up survey, plus administrative data, Schochet et al. (2012) calculate several outcome measures (such as quarterly earnings and employment) for the TAA-eligible group and for the matched recipients of unemployment insurance benefits. The outcome data were generally collected for four years after the start of the unemployment insurance claim.

Although the TAA program has a number of postliberalization goals, the most important is to increase the employment and earnings of participants above what they would have been had the program not existed. The primary mechanism through which higher employment and earnings are intended to be realized is enhanced education and training. Over the four years of the follow-up period, about two-thirds (66 percent) of TAA participants, but only 27 percent of the comparison group, received some form of occupational skills training. Over that same period, TAA participants spent an average of 49 weeks in training, while the comparison group spent only 6 weeks in training. The quarterly effects on training were greatest in the initial two follow-up years, but persisted to some extent throughout the four-year follow-up period.

Because of the focus on training, the researchers expected that the employment and earnings of TAA participants would be lower while they were in training, but would then catch up and exceed the comparison group later in the follow-up period. The dip in employment and earnings occurred as expected, but the recovery did not — at least not during the four-year follow-up period. By the end of that period, the TAA participants were working as much as the comparison group, but their earnings in the final follow-up year were a statistically significant and economically important US\$3,300 less than those of the comparison group. A caveat to this largely discouraging result is that the recession of 2008-09 likely had important effect — some of those who were in training during the four-year follow-up period were re-entering the job market at a time of high unemployment, while their matched comparison group members were more likely to have gone back to work before the recession.

Given the mixed results in the literature on the effectiveness of training in general and this disappointing result on the effectiveness of the US TAA program, the effectiveness of trade adjustment assistance is questionable. Several notes, however, are in order. First, Schochet et al. evaluate the

TAA program as it existed under the *Trade Act of 2002*. Since then, although the program has been substantially amended and expanded, particularly in 2009 and 2011, there has been no comprehensive evaluation of the current version.¹³ According to the most recent GAO report on trade adjustment assistance for workers, the 2009 and 2011 changes have benefited workers, but it is too early to draw any conclusions about the program's outcomes (United States 2012a).

Second, Schochet et al. focus on the TAA program's overall effectiveness, not on its particular elements. The program includes important compensatory provisions, such as income support for a period after unemployment insurance benefits are exhausted, wage insurance and a health insurance tax credit. These measures definitely make workers better off than would be the case if workers who lost their jobs got no compensation, so although the program might not be successful from the perspective of efficient adjustment, it at least plays a compensatory role.

Third, it is difficult to evaluate the program's ability to secure political support for trade liberalization. Kletzer and Rosen argue that political support for trade adjustment assistance was weak, with unions referring to the TAA program as "burial insurance" (2005, 318) because it focuses on those who lose jobs and provides them with only modest assistance. Unions worried that their support for TAA would undermine their position against trade liberalization, a concern shared by some congressional Democrats. At that time, only a small group of Democrats in Congress favoured trade liberalization and thought that adjustment assistance was necessary to move forward on it. Congressional Republicans, in contrast, tended to express strong support for trade liberalization, and considered TAA as a "side payment" that they wanted to minimize (Kletzer and Rosen 2005, 318).¹⁴

Moreover, any overall assessment of trade adjustment assistance should also cover the process of its delivery. Most relevant to the question of whether Canada needs such assistance is the challenging issue of which displaced workers should be eligible. Over time, the eligibility requirements of the US program have been broadened to reflect the increasing integration of the US economy into the global economy and the increasing variety of channels through which workers are affected by trade.¹⁵ The conventional TAA eligibility criterion for workers is that their employer is hurt by increased imports of products that are similar to its output. But because many firms increasingly are organized into supply chains and participate in only a specific stage of production, rather than producing finished products, the United States TAA program now covers those who work for suppliers of intermediate inputs to directly affected firms or for firms that source their inputs from directly affected firms. Although it is always problematic, determining TAA eligibility is now more complicated as businesses increasingly become organized into complex and geographically dispersed production networks.

To summarize, trade adjustment assistance for workers in the United States has not been particularly effective as an adjustment program or as a program that mitigates political conflict, but it does seem to play a compensatory role.

TAA for firms

Another important TAA program in the United States provides aid to trade-affected firms. The program began by providing loans and loan guarantees, but, since 1986, it has focused only

on technical assistance. In 1970s, it had become clear that firms were not using the financial assistance they received through the TAA program to become more competitive but as income support (for example, to pay late bills), and therefore the assistance was not contributing to the firms' long-term viability (United States 1979). In the current program, a number of TAA centres help firms design customized projects to recover from harm caused by import competition. The projects may touch on various operational areas, including marketing, management, engineering and information technology systems. Implementing these projects is partially financed by the TAA centres, with the restriction that the funds can only be used to hire third-party consultants to help implement the projects. Firms pay about 50 percent of the cost of larger projects and 25 percent of smaller ones.

The US TAA program for firms is much smaller than the program for workers. Between 2009 and 2012, program funding for firms was only US\$15.8 million annually, while in 2010 alone funding for workers was US\$1.8 billion (United States 2012a,b). According to the Economic Development Administration annual report to Congress on the TAA for firms program (United States 2013), only between 79 and 330 firms were certified annually over the 2009-13 period, but the average amount of assistance per firm was a substantial US\$53,000 to US\$62,000.

Notwithstanding its smaller scale, the TAA program for firms appears to have been a successful program. The most recent comprehensive evaluation by the GAO (United States 2012b), using data for firms that participated in the program from 1998 to 2010 and controlling for firm-specific, industry-specific, macroeconomic and trade factors, suggests that participation in the program increased sales by 5 to 6 percent and productivity by 4 percent. The effect of participation on employment was not statistically significant. The results also show that participation in the program allowed firms to take better advantage of growth in their markets.

These positive results are in line with those of an earlier study by the Urban Institute (1998), which shows that program participation improved firm survival, employment and sales performance. That study compares firms that participated with those that were eligible but did not participate; thus, the study uses an implicit postliberalization benchmark. Based on interviews with TAA staff and other stakeholders, the study attributes the program's success to features that include the large amount of funding per firm, the fact that firms self-select for the program, the incentive effects of the cost-sharing requirement and the tailoring of projects to each firm's unique circumstances.

The European Union's Globalisation Adjustment Fund

At the start of 2007, prior to the global recession of 2008, the European Union created a Globalisation Adjustment Fund (EGF), which initially aimed to help workers laid off "as a result of major structural changes in world trade patterns due to globalisation." After the financial crisis began, the EGF's mandate was extended to include workers laid off "as a result of the global economic and financial crisis" (European Commission, n.d.).

EGF funds are generally restricted to cases where at least 500 workers have been laid off. Projects run for two years, and are managed by national or regional governments. Sixty percent of the

funding is provided by the European Commission, with the remainder provided by the member state. A key provision is that the aid is customized to the worker and to the context of the layoff, in contrast to support from broader social programs such as unemployment insurance or pension plans.

As an example, the European Commission proposed at the end of October 2014 to provide the Italian government with €1.8 million to aid 608 workers who were laid off when a Whirlpool refrigerator factory closed down in Trento. The Italian government would contribute an additional €1.3 million, reflecting the 60-40 EU-national funding formula. The workers would be in line to receive individualized counselling and guidance, skills assessment, retraining and vocational training and help with starting new businesses (European Commission 2014).

In 2011, the British consulting firm GHK undertook a midterm evaluation of the EGF (GHK 2011) that includes 15 case studies of EGF projects that began between 2007 and 2009. The consultants conducted interviews with 80 program managers and 46 beneficiaries, a relatively small number that falls well short of the serious evaluation of the US TAA program by Schochet et al. (2012). Because of limitations in the data, the GHK evaluation involves little systematic, quantitative study of outcomes. Although the consultants were able to calculate re-employment rates at the end of the project for 11 of the 15 cases one year after the project ended, little information about the demographic characteristics of the workers was available, and virtually nothing is known about the interventions received. Moreover, the analysis conducted by consultants did not involve constructing a counterfactual group of workers who did not have access to EGF projects.

With those caveats in mind, the GHK evaluation finds a great deal of heterogeneity in the re-employment rate of participating workers: in some projects, it is abysmally low, while in others it is above the national average of the particular EU member state. As well, the delay between the application for a project and its approval is very long — for instance, in 2014, a Romanian project was approved two years after the application was submitted (Anyfantis 2014). Finally, the stakeholders — largely government officials charged with designing, managing and implementing the projects — have a largely positive view of the program, with most feeling that the projects' accomplishments would not have occurred without the EGF funding.

South Korea's TAA program

South Korea's TAA program is small and largely ineffective.¹⁶ Moreover, there does not appear to be a social consensus about its purpose, roles or function (Heo 2013). At this writing, however, reform efforts are apparently under way.¹⁷ In 2014, the total amount of TAA allocated for firms — to help them transform themselves in response to trade developments — was only about US\$9 million, mostly in the form of loans.¹⁸ When the program began in the mid-2000s, only manufacturing firms were eligible, and more than 40 percent of the beneficiaries were in the meat-processing sector (Kang 2013). From 2008 to 2011, only eight companies applied for support, and seven of them received benefits. However, because South Korea made some significant concessions in its trade agreement with the EU that entered into force in 2011, there was a greater demand for assistance afterwards (Park 2014). From 2012 to September 2014, the number of companies that applied for

support grew to 57 and the number of beneficiaries to 39 (South Korea 2014). This growth was also related to looser eligibility conditions, including simpler documentation processes (Heo 2013; Kang 2013). Firms that have received benefits do not seem to have succeeded in changing their basic structures; instead, similar to what occurred under the US TAA programs for firms offered in the 1970s, they appear to have used the aid to continue their existing operations (Heo 2013). Paradoxically, then, South Korea's TAA program is now helping to maintain marginal businesses, rather than encouraging structural change, as intended.

Financial support for workers under the South Korean TAA program is almost nonexistent. Indeed, Park (2014) reports that no workers have received benefits from the program and that even some businesses that have received TAA support are unaware of the support available to workers.

Summary

Most evaluations of existing TAA programs in other countries do not allow clear-cut conclusions about their effectiveness. One reason is that trade adjustment assistance plays several roles: adjustment, compensation and political compromise. Another reason is that program designs differ greatly in practice. If a general conclusion can be drawn, it is perhaps that the effectiveness of a TAA program depends on its design, not on the nature of such assistance per se, as shown by comparisons of designs of TAA for workers and for firms. The novel program design of the EU program, which targets individual workers' circumstances, has yet to be comprehensively evaluated. Were Canada to reintroduce a TAA program, therefore, its design should be evaluated, perhaps with a randomized trial, before its broader adoption. Determining program eligibility remains an important issue, but that challenge has not precluded the continued existence of TAA in the United States, suggesting that the unfairness and discrimination implied by "rough justice," as Canada's Advisory Council on Adjustment termed it, is within an acceptable range as far as that country is concerned.

Federal-Provincial Relations in Trade Negotiations

The need to achieve federal-provincial consensus during trade negotiations is a key reason — albeit a political one — why Canada might need to implement trade adjustment assistance once again. Because the role of the provinces has steadily increased in Canadian trade policy-making in recent decades, it is useful to review the literature on the provincial role in FTA negotiations, and especially in the CETA negotiations.¹⁹ We supplement that discussion by reporting the views of five provincial negotiators who were directly involved in the recent negotiations and whom we interviewed in summer 2014.

The legal framework for international trade agreements

In Canada, the authority to negotiate, sign and ratify international trade agreements belongs to the executive branch, with the Department of Foreign Affairs, Trade and Development (DFATD) playing a key role (Barnett 2012). Before a trade agreement is ratified, Parliament must adopt the legislation required for its implementation. Upon ratification, Canada is bound by the agreement and, in most cases, once countries have exchanged the ratification instruments, the agreement is in force and the federal government is responsible for compliance. Nonetheless, legislation adopted by Parliament cannot intrude in areas of provincial jurisdiction, and only

provincial legislative assemblies can change their legislation to comply with international trade agreements. That situation results from a decision by the Judicial Committee of the UK Privy Council in the 1937 Labour Conventions case.²⁰

CETA and the provinces

The role of the provinces before CETA

International trade agreements increasingly deal with issues under provincial jurisdiction, such as the regulation of services, provincial and municipal procurement, agricultural policies, regulation of the sale of alcohol, health and safety standards, and labour and energy policies (Kukucha 2013; Paquin 2013). These issues fall under the general heading of nontariff barriers, and as tariff levels — which are the sole responsibility of the federal government — have fallen over the past several decades, the reduction of nontariff barriers has become more important in trade negotiations.

Brown (1993, 107) notes that, until the Tokyo Round of GATT negotiations began in 1973, the provinces were not involved “in any systematic way” in Canadian trade policy-making. The agenda of the Tokyo Round, however, covered a number of nontariff barriers — including, for example, government procurement — that involved provincial jurisdiction. Accordingly, during the six years of the round, from 1973 to 1979, several federal-provincial committees were created for consultation and information sharing. Near the end of the round, in 1977, a Canadian Coordinator for Trade Negotiations was appointed to coordinate input from industry, various government departments and the provinces. In the mid-1980s, the Macdonald Commission deemed the procedure of federal-provincial consultations during the Tokyo Round “successful,” and recommended its adoption in the upcoming bilateral negotiations for a Canada-US FTA.

During those negotiations in the late 1980s and the subsequent talks about a North American Free Trade Agreement (NAFTA), the federal government “actively sought the support of the provinces,” as Paquin (2013, 548) notes. A “seat at the table” during these negotiations, however, was not one of the mechanisms for provincial inclusion; instead, a number of committees were used as forums for federal-provincial consultations. A Continuing Committee on Trade Negotiations was established and led by Simon Reisman, Canada’s chief negotiator in the Canada-US FTA talks. Although the need for provincial approval of the terms of both that FTA and NAFTA was limited (Paquin 2013), the mechanisms for consultations that had been established evolved into one particular feature of the current system: regular meetings, known as C-Trade meetings, between the federal and provincial governments on ongoing international trade agreements and other issues.

The role of the provinces during the CETA negotiations

As a number of authors have discussed,²¹ during the CETA negotiations, much greater provincial involvement was necessary than before because of the broad nature of the negotiations. Moreover, the EU demanded, from the beginning, that the provinces be closely involved in the negotiations (Panetta 2013). The greater provincial role was also influenced, according to one of our interviewees, by the early involvement of Jean Charest, Quebec’s premier at the onset of the negotiations.

At an early stage, the provinces and the federal government agreed on a list of issues that required provincial participation at the negotiation table and issues that were within the federal

realm only. The delineation of issues was made early on, and was not controversial. For issues that primarily involved provincial jurisdiction, provincial negotiators were able to be “at the table,” meaning that they were in the room but did not actually engage in the direct negotiations. Federal negotiators briefed the provincial officials on a daily basis on issues discussed when not all provincial negotiators were in the room. All of our interviewees felt that the ability to observe and to be briefed daily greatly facilitated their understanding of the issues and their ability to contribute to the quality of the eventual agreement.²² Throughout the process, the provinces and the federal government actively exchanged negotiating positions, consulting with each other bilaterally and multilaterally and discussing situations as they arose. Quebec alone submitted around 140 position papers, covering a wide range of issues, to the federal government. Provinces could express their positions to the federal government on any issue under negotiation, not only on those that were of direct interest to them.

Our interviewees demonstrated a general consensus that federal-provincial relations during the CETA negotiations were generally cooperative, with provincial concerns taken into account and addressed. As one trade negotiator told us, “The relationship between the federal government and provinces and territories in trade policy is evolving. In CETA, the federal government has sought agreement on issues of provincial jurisdiction, but there is a recognition that for all jurisdictions there will be tradeoffs, and opposition to any one proposal has to be measured in the context of an overall agreement. On those occasions, when a province has been clear in opposition to a position and the federal government persuaded that they would not accept the obligations in a CETA with the inclusion of that position, it has been changed.” An exception to this generally cooperative relationship, however, was the situation, discussed in greater detail below, involving the minimum processing rules that Newfoundland and Labrador was asked to give up in exchange for cuts in EU tariffs on Canadian fishery products.

Thus, the role of the provinces differed from what it had been before CETA. Being at the negotiation table, being debriefed daily, communicating negotiation positions and finding compromises with the federal government brought the provinces deeper into the negotiations.²³ Now, as Canada negotiates a series of new FTAs that likely will cover issues under provincial jurisdiction, our interviewees generally agreed that the provinces are willing to continue contributing to these negotiations, especially now that they have acquired significant expertise — although, as one provincial trade official put it, that expertise remains underused by the federal government.

Provincial compensation for CETA

TAA programs were not a central focus of the provinces in the CETA negotiations. Generally, provincial governments viewed a trade agreement between Canada and the EU as a desirable development. Therefore, the focus of provincial government adjustment efforts, to the extent that they existed, was on trade facilitation, the creation of infrastructure and support for businesses seeking to expand their trade with the EU.

At the same time, in the case of CETA, some areas were of particular concern to the provinces, and there was a sense that some form of assistance would be needed to counterbalance concessions made in those areas. However, the number of such areas was limited, and in the end,

the federal government made commitments of assistance in only three cases — cheese imports, pharmaceutical patent rights and the Newfoundland and Labrador fish fund. There was no sense, however, at least among those we talked to, that the desire to help affected workers or firms was the major rationale for these offers of assistance. Instead, they thought that each of the three cases was motivated by a unique set of concerns. In each case, the federal government proposed compensation to provinces to reach an agreement in a number of sensitive areas, which, in turn, would allow the overall deal to be reached.

Newfoundland and Labrador and the minimum processing requirements

Paradoxically, at least from an economic perspective, one of the three cases of compensation in CETA involves the fish and seafood industry. In this industry, Canada has little fear of import competition, Canadian tariffs on imported fish and seafood are almost zero and Canada imported just \$55 million of fish and seafood from the EU in 2013. On the other hand, Canadian exports to the EU were \$390 million in 2013, despite facing relatively high tariffs.

Nevertheless, near the end of the CETA negotiations, the federal government committed itself to provide up to \$280 million to set up a fishing industry fund in Newfoundland and Labrador. The story of this fund begins with the minimum processing requirements (MPRs) that have been in place in Newfoundland and Labrador since 1992. The MPRs limit the export of unprocessed fish — in effect, they require that fish landed in Newfoundland and Labrador be processed before export.²⁴ Throughout the preceding years of negotiations, Newfoundland and Labrador consistently refused to drop its MPRs, arguing that the benefits of greater access to the EU market would not outweigh the costs of abandoning the requirements.²⁵ In 2013, when Canada advised the EU that Newfoundland and Labrador was insisting that its MPRs be exempted from the agreement, EU negotiators responded that some of the parameters of the previously agreed package on the market access for fish would have to change.²⁶ Newfoundland and Labrador's insistence on retaining the MPRs, combined with the EU's strong position, left federal negotiators in a challenging situation.

These developments are documented in a number of publicly available letters exchanged between the province's Minister of Innovation, Business and Rural Development and the federal Minister for International Trade in late May and early June 2013.²⁷ According to these letters, a fund was to be established and the money spent partly on compensation for harm done by the removal of the MPRs and partly on modernizing the fishing industry. The size of the fund — up to \$400 million, with up to \$280 million coming from the federal government — seems disproportionate to the damage likely to be caused by eliminating the MPRs on exports to the EU. In 2013, 86 active fish and seafood processing plants employed about eight thousand people in the province (Newfoundland and Labrador 2014), while its exports of fish and seafood to the EU, which amounted to just 14 percent of its exports to non-EU countries, were only \$117 million (Global Trade Information Services 2014).

Establishing a \$400-million fund to help an industry adjust to a change in regulations that would affect just \$117 million of its annual exports cannot be justified in economic terms. Instead, the fishing industry fund is better understood in terms of a negotiating strategy. As one of our interviewees claimed, Newfoundland and Labrador's tactic was to extract every possible

benefit from the federal government, and establishing the fishing fund demonstrated its success. Indeed, Premier Kathy Dunderdale later claimed: “We have levered everything we could possibly bring to the table to maximize benefits for the people of the province and we’ve done that, I think, in spades” (Bailey 2013). In late 2014, controversy erupted when the federal government seemed to renege on promises made in the ministerial letters, asserting that the fund could be used only to compensate for “demonstrable harm” as the result of the removal of the MPRs. As of this writing, the controversy is unresolved, and Newfoundland and Labrador has said it will not remove the MPRs.²⁸

Patented drugs

CETA extends the rights of companies that manufacture patented drugs in ways that lengthen the period before generic producers of the patented drugs can enter the market. Lexchin and Gagnon (2014) delineate three ways in which CETA will further protect patented drugs: (1) providing extended patent protection; (2) lengthening the period before generic manufacturers can use data generated by the patented drugmakers to seek approval for generic equivalents; and (3) expanding the rights of patented drugmakers to appeal a decision by Health Canada to allow the entry of a generic equivalent. As a result, the cost to provinces of patented drugs provided to patients covered under provincial health plans will likely increase, as will the cost to patients whose drug needs are not paid by a provincial health plan.²⁹

According to our interviewees, the provinces requested compensation for these increased costs during the CETA negotiations, with some provinces, including Quebec, writing formal letters. The federal government agreed to provide compensation, and informed the provinces of the decision in a letter from Minister of Health Rona Ambrose. Because the changes apply only to new drugs, it is not expected that the price increases will occur until 2025 or so.

Cheese

CETA raises the import quota on cheese from the EU from roughly 13,500 tons to roughly 31,000 tons. According to the agreement, this will occur gradually, over the course of six years. Two fears are related to this provision, which presumably was offered in exchange for increased EU import quotas on Canadian beef and pork. One is that the increased inflow of EU cheese will threaten the burgeoning group of artisanal Canadian cheesemakers. But perhaps the greater fear is that the provision is a sign that the long-standing Canadian supply management system that regulates the production of milk, eggs and poultry might be reformed in future trade negotiations.

The first fear seems unfounded. Domestic consumption of cheese is about 405,000 tons, of which 380,000 tons is domestically produced (Agriweek 2013), so the increase in the EU quota does not seem catastrophic. Because the increased imports are likely to be in the high-end cheese market, however, they might have a greater impact on Canadian producers of these cheeses, but even though the Europeans have a long history of producing fine cheeses, not everyone believes they will displace their Canadian competitors. For example, Afrim Pristine, a cheese retailer interviewed by the *Toronto Star*, said he thought Canadian producers could withstand the new competition: “I’ve seen the evolution of the cheese industry in Canada. I’m blown away by Canadian product. I don’t see this as a threat” (Flavelle 2013). Nonetheless, the federal government has promised to “monitor impact and, if needed, provide compensation

should a negative impact be observed” (Foreign Affairs, Trade and Development Canada 2013a, 10). It is not yet clear if this would take the form of compensation for affected firms, affected workers or affected provinces.

The greater fear is that Canada’s system of supply management is under threat. The system protects milk, egg and poultry producers from imports (particularly from the United States) by tariff rate quotas. With production and price controls further limiting supply, the result is higher prices for Canadian consumers. However, the benefits include stable incomes for producers and greater control over quality. Nonetheless, as a report from the Conference Board of Canada has stated,

In trade negotiations, dairy interests are gradually being traded off against export-orientated agricultural sectors. In the case of CETA, some European dairy access to Canada was traded off for Canadian beef and pork access. More generally, agricultural interests are being traded off against other interests, such as manufacturing and trade in services. This explains why Quebec and Ontario, traditionally the strongest supporters of supply management, have come out in favour of CETA despite the impact on their dairy sectors. Market and political realities have put the supply-managed dairy sector on the defensive. Expect more of the same as Canada now sets its sights on a Trans-Pacific Partnership deal — which would force the dairy sector to take another, perhaps larger, hit. (Grant 2013)

This prediction of a “larger hit” to the dairy sector in the TPP negotiations was realized when the scope of the TPP agreement was announced in October 2015.

Recent developments in the TPP

As part of the TPP, and in return for concessions made by other countries, Canada granted its TPP partners greater market access to supply-managed products and will gradually reduce tariffs on automobiles and associated parts from TPP countries. Canada also committed to lower the proportion of the value of automobiles and parts that must come from its TPP partners in order for those goods to enter Canada duty free. Recognizing the harm that these concessions might cause to workers and firms in those sectors, the federal government promised to create two new sector-specific TAA programs. Whether the new Liberal government will implement these programs (or, indeed, those promised as part of CETA) remains unclear.

First, a \$2.4-billion income guarantee program for producers in the supply-managed sectors — the dairy, chicken, turkey, egg and hatching egg industries — was promised to ensure that their incomes do not fall for at least 10 years after the TPP comes into force. Because producers own “quotas” whose value could decline as a result of the agreement, the \$1.5-billion quota value guarantee program will insure them against declines in quota value over the next decade. Finally, the government has promised a \$450-million processor modernization fund for processors in the supply-managed sector, aiming to support new investment by firms as well as expenditures related to technical and management capacity. Overall, the support promised to the supply-managed sector is worth \$4.3 billion.³⁰ Even though it will be spread across 10 to 15 years, this amount is still very large compared with the annual budgets of TAA programs in the US (US\$600 million for all trade-affected workers) and EU (about US\$200 million).

Second, for the auto sector, the Conservative Party promised to provide *de facto* adjustment assistance by expanding and renewing the Automobile Innovation Fund that provides loans to

firms in the auto sector. These loans can be transformed into grants if the investments create jobs. The Conservatives promised to renew the fund, set to expire in fiscal year 2017-18, and to increase its funding by \$1 billion over the next ten years.

Summary

The commitments to provide adjustment assistance make CETA and the TPP unique among recent FTAs. To our knowledge, no similar commitments have been made in other recent FTAs or in those under negotiation. Interestingly, regarding CETA-related compensation, our interviewees thought that the three cases of compensation had emerged in very different ways.

Compensation to provinces for higher drug costs was discussed at the outset of the CETA negotiations because increasing health costs are a key provincial challenge. The federal-provincial discussions were open and transparent, with all provinces being present and involved. In contrast, compensation for the dairy sector emerged only in the last days of the negotiations, even though a strong dairy lobby had been present throughout. The negotiators we interviewed saw the compensation as a deal between the federal government and the industry, not between the federal and provincial governments. And the Newfoundland and Labrador fish fund seems to have been the result of that province's aggressive negotiating strategy, complete with threats to abandon negotiations and accusations of misbehaviour by federal government officials.

In all three cases, the federal government committed to assistance primarily for political reasons: when it needed support and could not find another solution, it offered compensation. Our interviewees felt that the key reason assistance was offered was that, in CETA, it was imperative that the federal government enlist the cooperation of the provinces, and compensation was the appropriate tool to use in some cases. Whether the assistance made economic sense was not a major consideration. In other words, TAA programs in the form that emerged in the 1960s (and still exist in the United States) are not in the cards. The limited nature of the programs announced in the wake of the TPP agreement provides further support for these points.

For the purposes of our key research question in this study — does Canada need TAA? — we conclude that there is no political rationale for a broad-based permanent TAA program. The federal government can use TAA-like measures on an as-needed basis to reach a consensus with provinces or sectors in a narrow range of sensitive areas. Thus the only reason Canada might need a TAA program would be for its economic role — if such a program can enhance efficiency or provide compensation.

The Magnitude of Adjustment Costs in Canada

Whether Canada might need to reintroduce a TAA program for economic reasons, such as to enhance efficiency or to provide compensation, depends in part on the magnitude of adjustment costs that FTAs and, more generally, increased competition impose on Canadian workers and firms. And although the size of these costs matters, so too does their distribution — costs concentrated on specific groups of workers or regions would be a greater concern than costs spread more widely.

It seems likely that, over the medium term, FTAs, including CETA and TPP, will have only modest effects on the Canadian economy, and thus the resulting adjustment costs likely will be small. One reason is that Canada has already experienced substantial trade liberalization through a series of previous FTAs — notably the Canada-US FTA and NAFTA — and multilateral trade agreements within the GATT and the World Trade Organization.³¹ Canada's NAFTA partners, the United States and Mexico, account for 77 percent of its exports and 58 percent of its imports. Another reason is that trade agreement provisions related to sensitive products or areas are almost always implemented gradually. For example, in CETA, Canada has agreed to eliminate protection of some products, but only over the course of 7 years; in the Canada-South Korea FTA, some provisions will be phased in over 11 years.

Simulations of the effects of future FTAs conducted by DFATD, often in collaboration with its foreign counterparts, suggest that the long-run gains of any such agreements would be modest relative to the size of Canadian economy. Even when the gains seem to be large, such as the roughly 0.8 percent increase in Canada's gross domestic product that CETA might bring, they would be dispersed by the gradual implementation and adjustment of any trade deal over a long period (see table 1).³²

Free trade agreement	Estimated increase in GDP (% over the level of baseline GDP)¹
Comprehensive Economic Trade Agreement	0.77
Canada-Japan Economic Partnership Agreement	0.24-0.57
Canada-India Comprehensive Economic Partnership Agreement	0.41 ²
Trans-Pacific Partnership	0.36
Sources: European Commission and Government of Canada (2013); Canada and Japan (2012); Canada and India (2013); Foreign Affairs, Trade and Development Canada (2014).	
¹ Interpreting these estimates is not straightforward. They are obtained within general equilibrium models by comparing the value of GDP in the preliberalization equilibrium of the economy, which is described by baseline data, to the value of GDP in the postliberalization equilibrium of the economy. The estimates show the percentage change by which the value of annual preliberalization GDP will increase if the agreement is implemented and all subsequent adjustments take place, holding all else constant. Details can be found in the studies.	
² The Indian counterpart of Canada's Department of Foreign Affairs, Trade and Development conducted an analysis showing that the potential increase in Canada's GDP resulting from a Canada-India agreement might be about 1 percent. Its analysis, however, allowed for an arbitrary increase in productivity that was assumed to accompany the implementation of the hypothetical trade agreement. Although a change in productivity is a reasonable assumption, it makes the estimate of the increase in GDP hard to compare with other estimates presented in the table.	

Overall, we have little reason to believe that Canada faces a serious challenge of adjusting to FTAs. Nonetheless, there are concerns that adjustment costs might be relatively high in some specific sectors. In particular, any significant liberalization of supply-managed sectors would create important costs. Eliminating protection could lead to a large inflow of imports that would hurt Canadian producers and workers in those sectors. Still, if Canada were to stay on the path of partial and gradual liberalization along with ad hoc government aid, the challenge of adjustment in these sectors likely would be modest.

Another important sector about which FTAs have raised concerns is the auto sector. In particular, in the Canada-South Korea FTA, Canada has agreed to eliminate its 6.1 percent tariff on imported South Korean passenger vehicles. There is no consensus on the impact this might have, but Ciuriak, Xiao and Dadkhah (2015) suggest that the Canadian auto sector's output might decline by only 0.05 percent even if a relatively large expansion of South Korean imports

were to occur, mainly because South Korea would gain a market share in Canada mostly at the expense of US and Japanese imports into Canada. Moreover, as the agreement is expected to result in income growth in Canada, it would also increase the demand for cars in Canada, thus lessening the negative effect of the FTA still further. Other views on the potential effect of the agreement, however, are not so sanguine. Stanford (2014), for example, argues that, since one of the Canadian auto sector's most important features is that all assembly plants in Canada are controlled by multinational corporations, an incremental decline in the sector caused by FTAs with the EU, South Korea and Japan might undermine decisions by these corporations to invest in their Canadian facilities. As noted in the previous section, Canada also made important auto sector concessions as part of the TPP agreement. It is too early to gauge the impact of those concessions, but they raise similar concerns.

Although the Canadian economy is not likely to experience significant adjustment costs as the result of any particular FTA (apart from some uncertainty regarding adjustment in relatively sensitive sectors noted above), adjustment remains a concern nevertheless. Bown and McCulloch (2007) argue that, in the current environment of trade liberalization, adjustment to global competition will be a continuing challenge. In such an environment, adjustment processes are not necessarily linked to specific trade agreements, but instead are set in motion by a variety of global factors — such as the remarkable growth of manufacturing production in China and sharp exchange-rate fluctuations — that affect the level of competition in the domestic market and the competitiveness of Canadian producers in international markets.

There is a dearth of recent studies that use Canadian data to explore the effect of import competition on workers' displacement, but US studies focusing on the manufacturing sector (for example, Revenga 1992) generally illustrate its adverse effects. Bernard, Jensen and Schott (2006) show that 14 percent of aggregate job losses in the US manufacturing sector over the period from 1977 to 1997 were due to competition with imports from low-wage countries, although the authors caution that their work does not take into account the efficiency gains that import competition might have facilitated in some industries. Autor et al. (2013) examine how US imports from China affected the earnings and employment of workers in the US manufacturing sector over the 1992-2007 period. They show that workers employed in 1991 — prior to the overall increase in import competition from China — in an industry that then experienced a relatively large increase in import competition over the study period had lower earnings in that period. The negative effects are much more pronounced for low-tenure workers, low-wage workers, workers with weak attachment to the labour force and workers in large firms with low wage levels. High-wage workers, in contrast, often anticipate mass layoffs and are able to move to other jobs without a decline in their earnings prior to the layoffs. This implies that adjustment costs are likely concentrated in specific groups of lower-skilled workers.

Canadian evidence also suggests that workers who are displaced (for any reason) suffer losses in earnings even over the long term. Using Canadian data from the late 1980s and 1990s, Morissette, Zhang and Frenette (2007) show that, even after five years, the earnings of workers who were laid off because of firm closures or as part of mass layoffs did not reach their predisplacement levels. Depending on the model specification and samples, earnings of displaced male

workers were reduced between 9 percent and 22 percent five years after displacement, and for female workers, the corresponding numbers were between 12 percent and 31 percent.

Future free trade agreements likely will impose only modest adjustment costs on the Canadian economy. That said, adjustment to import competition per se is probably a much greater ongoing challenge. Evidence suggests that import competition has a negative effect on the employment and earnings of workers and that it is concentrated in particular groups of workers. Import competition, though, is just one aspect of an ongoing globalization that connects national economies in various ways and exposes them to risks related to shifts or cyclical fluctuations in the world economy.

Does Canada Need Trade Adjustment Assistance?

Does Canada need trade adjustment assistance? We think not. Trade adjustment assistance plays three roles in trade negotiations: (1) it promises enhanced economic efficiency by offering workers and firms help in adjusting to the new situation; (2) it promises compensation to those who will suffer temporary or permanent harm because of the new situation; and (3) because of the first two roles, it increases political support for changes in trade policy. The first and second of these roles are relatively unimportant in the current Canadian context because the macroeconomic adjustment costs associated with contemporary trade agreements are likely to be small, even in supply-managed sectors if their liberalization is only partial and gradual. As for the third role, CETA has demonstrated that a consensus can be achieved by means of ad hoc federal compensation.³³

Nonetheless, even though Canada does not need a specific TAA program, it does need a stronger set of labour adjustment policies to help *all* workers — not just those affected by a particular trade agreement — adjust to the reality that firms are globally integrated and that technological and organizational innovation, climate change and many other forces to which Canada is exposed threaten even successful firms.

Ongoing globalization implies that firms can take advantage of opportunities to buy and sell goods and services anywhere in the world, locate production offshore and establish partnerships with firms operating simultaneously in multiple countries. Firms are now organized in complex production and trade networks that are dispersed across international borders. Technological innovation, the emergence of new competitive suppliers, foreign policy changes and changes in strategies of multinational corporations can quickly transform these networks, leading to adjustments in national economies. International trade agreements are just part of this large set of interwoven international forces — forces that are creating winners and losers in national labour markets.

The convergence of labour market policies and trade adjustment assistance policies was foreseen 30 years ago by the Macdonald Commission. In the context of what became the Canada-US FTA, the commission rejected traditional trade adjustment assistance in favour of a much broader labour adjustment policy. According to the commission, the key focus of such a policy would be on creating a flexible labour force that would facilitate structural changes in the economy. Nonetheless, the

commission acknowledged the need for labour adjustment policy to compensate workers for losses and to mitigate political pressure against freer trade. To that end, it proposed a package of reforms of both labour market and income-security programs. The most important elements of the package were reforms to unemployment insurance to give unemployed workers a stronger incentive to seek new work, and the introduction of a Transitional Adjustment Assistance Program (TAAP) to provide training and relocation assistance to workers willing to “undertake adaptive behaviour,” as well as preretirement benefits to workers who could not adjust.

The commission’s more comprehensive set of labour market programs did not emerge. And, over the years, the major Canadian unemployment insurance program, now called employment insurance (EI), has become weaker, rather than stronger. A report by the Mowat Centre Employment Insurance Task Force (2011, 4) notes that, “if a new federal support system for the unemployed were designed from scratch today, it would look substantially different from the current EI program...The program is no longer consistent with the objectives of a modern income support program for the unemployed. Overall, the system’s design cannot be defended on a principled basis.” Driven both by changes in the labour market — more self-employment, more short-term jobs — and by changes in EI rules, the proportion of the unemployed who receive EI benefits has dropped from about 80 percent when Macdonald Commission did its analysis to less than 50 percent today. Moreover, EI is designed to deal with workers who face frictional or cyclical unemployment and who therefore can be assumed to be able to find new employment. It is not well designed for those made redundant by structural changes that harm long-established industries and who cannot reasonably be expected to find new employment quickly.

Not surprisingly, others have called for a wider set of labour market adjustment programs than currently exists. From a trade policy perspective, Richardson (2010) calls for structural adjustment assistance in the United States. He argues that global integration is happening along many lines — trade, technology, business organization, supply chains — and it is therefore not reasonable to try to isolate trade from other forms of integration. There is thus a need to reshape traditional trade adjustment assistance into structural adjustment assistance that “would recognize the many ways that globally enabled dynamism exposes workers to the same instability and displacement as does trade — even when such dynamism seems more narrowly conceived as technological and organizational innovation” (345). In Richardson’s view, the principal objectives would be to enable workers “to prosper from inter-linked global opportunity and technological dynamism” and “to manage their risks and challenges more effectively” (346). From a similar perspective, Rosen (2008) calls for a national strategy for responding to economic dislocation in the United States that would serve as an umbrella for state-specific unemployment insurance programs and a set of existing ad hoc programs.

Conclusion

Canada is undergoing a period of intense trade liberalization, having recently agreed to a comprehensive trade agreement with the European Union and to the Trans-Pacific Partnership agreement with 11 other countries. In this context, does Canada need a stand-alone trade adjustment assistance program to help workers, firms and communities adjust to the economic effects of these new agreements? Such programs generally try to aid adjustment, compensate those

harmed by trade agreements and facilitate political consensus concerning the agreements. The history of Canadian TAA programs dates back to the 1965 Auto Pact, but the last such program was allowed to expire in the late 1980s. Evaluations of TAA programs in place in the United States (where the program has expanded in recent years), the European Union and South Korea do not provide solid evidence in their favour.

The recently concluded negotiations with the EU on CETA led the federal government to promise to help three different sectors — fish, pharmaceuticals and cheese — adjust to the new agreement. The CETA negotiations were distinct from previous negotiations because of the more important role provincial negotiators played — a role made necessary by the EU's desire to deal with issues under provincial jurisdiction. Because the aid the federal government promised effectively acted as a form of trade adjustment assistance, we interviewed several provincial negotiators to see how they understood the offers of assistance. We took from those interviews the impression that the federal aid was an ad hoc effort to enlist the cooperation of all provinces when some conflict seemed likely.

The compensation offered thus far in the wake of the TPP agreement is similar in spirit to that offered in CETA and suffers from a similar defect. The ad hoc nature of the programs in both CETA and the TPP implies quite different and potentially inequitable treatment of firms and workers, depending on the sector in which they operate. Compare, for example, the funds promised to dairy and poultry processors in the TPP to those offered (but as yet not delivered) to Newfoundland and Labrador fish processors in the CETA negotiations. As far as we now know, there are no conditions attached to the \$450-million Processor Modernization Fund being established for dairy and poultry processors. The story of the Newfoundland Fish Fund, however, is quite different. In that case, the federal government promised in 2013 to contribute up to \$280 million to a fund for the fishing industry. Later, however, the government abandoned that promise, and instead claimed that contributions to the fund would be based on “demonstrable harm” arising from the CETA agreement.

The \$4.3-billion supply management program offered in connection to the TPP and CETA might be seen as inequitable in another way. According to the 2011 Farm Financial Survey conducted by Statistics Canada, the average net worth of a Canadian dairy farmer was \$2.7 million, with average annual net cash farm income of over \$120,000. Many workers outside the supply-managed sectors might be negatively affected by the TPP and CETA agreements, but they will receive no income guarantee. Instead, they will have only the EI system to fall back on, a system that has been weakened in past decades and never had the capacity to deal with structural adjustment.

The supply management program offered in connection with the TPP, while similar in its ad hoc nature and potential inequity, is quite different in one respect. Unlike any prior program, the supply management Income Guarantee Program has taken a “preliberalization” view of assistance, guaranteeing that those affected will have incomes equal to those they had prior to the agreement.

Finally, there should be concern about the economic effectiveness of the assistance programs. In the auto sector, the history of TAA programs in Canada (as well as in the United States and South Korea) suggests that government-provided loans are not an effective way to help firms adjust. For example, the United States abandoned this form of assistance in the 1980s, apparently because evaluations showed their ineffectiveness. Apart from being a generous compensation package, assistance to the supply-managed sectors is similarly unlikely to be effective in maintaining the viability of those sectors. The programs effectively stifle incentives for the sector to change. And even though the Modernization Fund could help processors become more efficient, the continued regulation of supply and prices in the sector may result in ineffective use of the funds. In similar US and South Korean programs, firms used the funds for purposes other than “modernization.”

In the end, we believe that there is no need for a separate trade adjustment assistance program in Canada in its traditional forms, because

- the effectiveness of TAA as an adjustment mechanism is in doubt;
- the scale of any negative adjustment costs caused by new trade agreements is likely to be relatively modest for the Canadian economy;
- the TAA-like compensation that was part of the CETA and TPP negotiations seems to have facilitated a political consensus in the absence of a formal TAA program; and
- it would be extremely difficult to determine who should be eligible for such assistance, so that any TAA program ultimately would result in somewhat arbitrary and uneven support for specific groups of displaced workers.

Nonetheless, we think that a more modern, stronger set of labour adjustment programs is long overdue. The goal of these programs should be to aid *all* workers permanently damaged by structural changes in the increasingly integrated global economy, whether those changes are caused by trade agreements or by other factors such as broad technological change or strong economic growth in emerging economies. Better labour market policies to facilitate workers’ adjustment to these changes would lessen the need for politically motivated, ad hoc compensation measures such as occurred around the CETA negotiations and the TPP. This ultimately would contribute to a more transparent and fairer way to achieve political consensus in Canada for trade agreements. The exact design of these policies, however, remains an important issue for policy-makers and a promising avenue for future research.

Notes

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- 1 These seven trade agreements are with Colombia, the European Free Trade Association, Honduras, Jordan, Peru, Panama and, most recently, South Korea. The three agreements that await ratification are with the European Union, Trans-Pacific Partnership and Ukraine.
- 2 See Wolfe (forthcoming) for more details on ongoing Canadian and global trade negotiations. This intensification of Canadian trade policy seems to be a long-term phenomenon, and we expect the development of international trade and investment agreements to continue.
- 3 TAA programs potentially can create conflict with World Trade Organization (WTO) obligations, but countries can establish TAA programs without violating those obligations. WTO rules of trade recognize the importance of government aid to firms and people, but prohibit government aid predicated on export performance or the use of domestic over imported goods or services. TAA programs for workers are generally seen as an alternative to protectionist measures that can be part of free trade agreements. By suspending trade liberalization, protectionist adjustment measures help adversely affected firms and workers, but do not encourage firms to become internationally competitive. The logic of trade adjustment assistance is to move forward with trade liberalization and help those who are hurt by it to adjust.
- 4 The current premier, Kathleen Wynne, has said that Ontario would support CETA but “we want some more and clearer assurance that we’re going to get some compensation” (Benzie 2013).
- 5 Under tariff rate quotas, imports below a predetermined level are subject to low tariffs, and imports above the predetermined level are subject to much higher tariffs; see Foreign Affairs, Trade and Development Canada (2013b).
- 6 Our adjustment for inflation depends on whether we adjust for a difference in prices between today and the beginning of the program (1982) or the end of the program (1990). Ranges for cost estimates below are provided for the same reason.
- 7 “General Accounting Office” is the former name of what is now the Government Accountability Office; the name was changed in 2004. We use the abbreviation GAO to refer to both the previous name and the new one.
- 8 In June 2015, House Democrats, who generally support trade adjustment assistance, nonetheless voted against it when it was packaged together with the trade promotion authority (TPA). Once the two elements were unbundled, however, and TAA proposed in a different bill, both TAA and TPA passed Congress and were signed into law by President Obama on June 29, 2015. See United States (2015) and FXStreet (2015).
- 9 The authors point out that these disappointing results might reflect not only the nature of the training, but also a number of methodological issues in the studies. Based on his own literature review, Jones (2011) reaches a similar conclusion about the mixed effect of training.
- 10 Creating a counterfactual through random assignment to the TAA program or to a control group was not feasible because the TAA program was an entitlement and could not be denied to the control group.
- 11 Propensity score matching was used to choose a comparison group that was as close as possible to the TAA participants on an extensive list of observed characteristics. Absent random assignment, it is possible that the comparison group members differed systematically from the TAA-participant groups in unobserved ways. Most important, workers must apply to participate in TAA, even if they are eligible, and they must decide whether to participate by exhausting their unemployment insurance benefits or by starting TAA-funded training. Recognizing the potential for such self-selection into the program, Schochet et al. estimate effects using a variety of approaches. Here, we report only the effect the authors designate as “preferred.”
- 12 Workers were covered by a certified petition if they were laid off at any time between a year before a petition was filed for them and two years after the petition was certified by the US Employment and Training Administration.
- 13 Under the 2011 legislation, training funds were almost doubled, up to US\$534.4 million in 2013. With about 40,000 people in training in that year, that implied an average training expenditure of over US\$13,000 per trainee. Several changes were introduced that made requirements for participation in training more flexible, such as allowing part-time participation, and income support of trainees was extended for a longer period.
- 14 An analysis of whether that political context is stable and still persists in the United States goes beyond the scope of this study.
- 15 Originally, in 1960s, eligibility was restrictive. For a firm to qualify, it had to be shown, first, that imports hurt the firm (Cyr 2009) and, second, that imports were a result “in major part” of trade concessions made by government in trade agreements (United States 1987). Under the most recent version of the program, the eligibility criteria are far less restrictive.
- 16 We thank our research assistant, Yi-Hyun Ryu, for summarizing the available Korean-language sources.
- 17 From an email message sent by Heo to our research assistant.
- 18 For more information, see the English site of the South Korean organization, Small and Medium Business Corporation (<http://home.sbc.or.kr/sbc/eng/index.jsp>).
- 19 We focus on the CETA negotiations in this section because it seems that provincial participation in them was markedly more extensive than in the TPP negotiations.
- 20 In that case, Parliament had passed legislation that would have implemented an agreement that Canada had made as a member of the International Labour Organization. The Supreme Court of Canada was evenly split on the issue of whether Parliament had the authority to impose legislation in areas (such as labour relations) that were constitutionally under the jurisdiction of the provinces, and the case was therefore referred to the British Privy Council, then the last court of appeal. The Privy Council ruled that Parliament did not have the authority to impose such regulations (Cyr 2009).
- 21 See, for example, Fafard and Leblond (2012), Kukucha (2013) and Paquin (2013). This section is based on our interviews with provincial trade negotiators.
- 22 And, as one interviewee pointed out, the quality and reliability of the daily briefings were enhanced because the briefings had to be factual if some members of the audience actually heard what went on.
- 23 One interviewee pointed out, however, that the CETA process was not “brand new,” but simply provided the provinces with more details within a formalized structure.
- 24 Some rules, including the MPRs that are thought to protect the Canadian fisheries, contravene typical rules contained in trade agreements. Past Canadian FTAs, however, contained provisions that protected these rules.
- 25 The request was not that the MPRs be eliminated entirely, only that they be waived for exports to the EU.

- 26 From an economic point of view, it is not clear why the MPRs would harm the EU, since the EU could buy raw fish and seafood in any other Atlantic province, a point made by the president of the Fish, Food and Allied Workers union of Newfoundland (see the letters exchanged between the federal government and Newfoundland and Labrador mentioned in the next endnote).
- 27 The letters are available on the website of the Newfoundland and Labrador House of Assembly: <http://www.assembly.nl.ca/business/electronicdocuments/Canada-EUComprehensiveEconomicTradeAgreement-CETA.pdf>.
- 28 For further discussion of these issues, see Schwartz (2014).
- 29 The rationale for the expansion of intellectual property rights for patent drug manufacturers has been questioned; see Lexchin and Gagnon (2014) and Hollis and Grootendorst (2012).
- 30 It appears that the assistance to cheesemakers offered in CETA will be delivered through these TPP programs (Canada 2015b).
- 31 Liberalization of trade with the United States through the Canada-US FTA of 1989 and subsequently NAFTA was a major shock to the Canadian economy. Trefler (2004) shows that, although the 1989 agreement had a large positive impact on productivity in Canadian manufacturing and apparently increased Canadian welfare, the cost of those gains was high: 100,000 jobs lost in the manufacturing sector (5 percent of all jobs in the sector), mostly concentrated in import-competing industries. Morissette, Qiu and Chan (2013) report that between 7.0 and 9.2 percent of manufacturing workers were laid off permanently (for any reason) in each year over the period from 1989 to 1996. This suggests that job losses from the FTA were commensurate with at least 50 percent of annual net job losses in the sector.
- 32 We note three things here. First, DFATD's simulations can shed some light on the potential effects of FTAs, but this tool only partially captures such effects. One important shortcoming is that the model can analyze only trade in products that are currently traded — that is, it does not take into account the possibility that countries will start trading in new products. Nor does the model capture the effects of liberalization and cooperation in areas other than trade in goods and services — notably, foreign investment. The model also has to make simplifying assumptions about the removal of barriers to trade in services because of the complex nature of such trade and the lack of data. Generally, as Ciuriak and Chen (2008) note, such modelling exercises are sensitive to some underlying assumptions, so that any such assessments of potential effects should be viewed with caution. Second, liberalization scenarios assumed in the studies also include assumptions regarding the elimination of barriers to trade in services. Third, the 0.8 percent estimate of the impact of CETA on Canada's gross domestic product should be treated with caution. That estimate was made as part of a joint study by Canada and the EU released in 2008, prior to the outset of the CETA negotiations. The quantitative modelling was based on assumptions about the future provisions of the agreement. In particular, it was assumed that CETA would entirely eliminate tariffs on all goods, including sensitive goods. The current agreement is less ambitious, with protection of some products being liberalized only partially and gradually and other sensitive products exempt from tariff elimination.
- 33 Our conclusion that Canada does not need TAA is based on the country's current economic and political situation. The politics of federal-provincial relations might change rapidly in the context of other large trade agreements such as the TPP or in response to other developments, such as in the fish fund dispute between the federal government and Newfoundland and Labrador, causing generally cooperative federal-provincial relations in trade policy to vanish. Furthermore, the actual economic effects of recent FTAs are not known, and may differ from *ex ante* assessments. If the effects prove to be larger than anticipated or if the politics around FTAs change, a new economic or political rationale for trade adjustment assistance might emerge. We thank Patrick Fafard for helping us recognize this point.

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Dmitry Lysenko is an applied economist focusing on international economics and on the implications of trade liberalization for the Canadian economy. He currently works as a senior policy analyst with the Government of Nova Scotia, Department of Education and Early Childhood Development, and as an instructor in the Department of Economics at Saint Mary's University. The report does not express the views of the Nova Scotia government and no responsibility should be attributed to the Nova Scotia government.

Saul Schwartz is a professor in the School of Public Policy and Administration at Carleton University. He has published widely on social transfer programs including social assistance, unemployment insurance and, now, trade adjustment assistance.

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