NAFTA MATTERS TO WESTERN NEW YORK

Canada aims to compete in innovation industries

Cross-border services are a growing source of tension

By Bob Richardson and Daniel D. Ujczo

SPECIAL TO THE NEWS

MEXICO CITY, Mexico – Attorney Dan Ujczo (pronounced "yout-so") enters a large room so congested with tables, chairs, television cameras and monitors that it feels cramped. At the head table, on risers slightly above the level of the seating for the working group and observers, sit the three principal negotiators for the United States, Canada and Mexico, each silhouetted in front of his nation's flag. This isn't the first time these delegations have met regarding the North American Free Trade Agreement and it won't be the last. Another session is already scheduled in Ottawa in a few weeks.

Ujczo is greeted by American and Canadian officials. He knew many of them before the NAFTA negotiations began; the rest he's met in previous sessions. He hasn't missed one and he plans to be at all of the future sessions as well. As the room quiets and the formalities begin, Ujczo takes his seat and prepares to make notes.

Ujczo's mission here isn't on behalf of his native United States or his former employer, the Canadian government. Instead, he's here to make an assessment on behalf of his clients whose interests are varied and diverse. He listens for tone; he assesses the questions for motive and intent; he makes an assessment on how each issue may impact the corporate interests that he represents:

• Will demand for industrial property in border cities like Buffalo be higher or lower?

• Will high-tech workers in Hamilton and Niagara Falls, Ont., be welcome in a new startup software company in Rochester, or emerging tech hubs like Fort Collins, Colo.?

• Is the forecasted growth in shipments to the port in Jacksonville, Fla., going to be disrupted?

• Will tourists visiting Niagara Falls, N.Y., be inconvenienced crossing the border to Niagara Falls, Ont.?

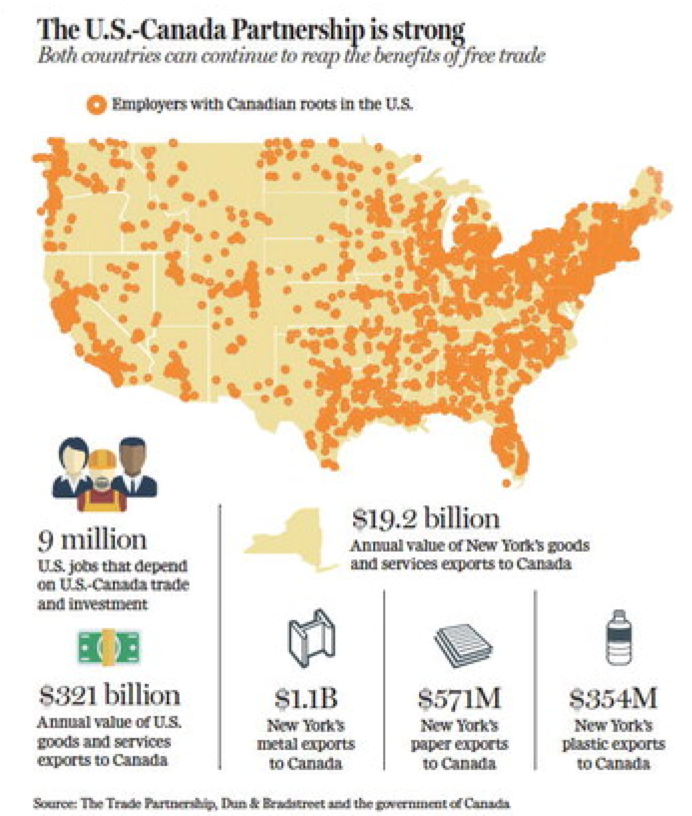
• Can an American banking executive living in Lewiston work at his company's office on Bay Street in downtown Toronto, Ont.?

This week, right here in downtown Buffalo, investors and key business partners are gathering together to share insights and better understand what's at stake. Our mission is to educate on changes in trade practices, logistics and talent mobility that are critical to understanding real estate's current value and its future growth potential.

Successful real estate investing relies on understanding true underlying economic conditions and, based on this, we work with clients to determine whether a property will be able to create cash flow or other value. These principles, coupled with NAFTA negotiations, have never been more important to Western New York than right now.

A variety of interests

The primary focus of media attention and the big issues raised on talk shows is the trading of goods between the countries See **NAFTA** on Page **H2**



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NAFTA • from H1 and, in particular, the big companies and heavy employment industries like automotive and steel as well as agricultural products and natural resources – which all represent significant trading volumes for the United States, Canada and Mexico.

Where, how and with what materials goods are manufactured plays heavily in the trade negotiations. Border regions leverage the labor supply, proximity to materials and infrastructure to maximize their own natural advantage and potential.

It's the "unnatural" advantages for one side or the other that create stress on the agreement and the support for the agreement domestically. Factors such as industry subsidies, unequal minimum wages and legislated work rules, or politically sensitive industry sectors, create advantages for one side or the other, and thus tension.

The treaty is meant to also settle how those imbalances are meant to be resolved, but even the mechanisms for resolving disputes have created and added to tensions in recent years.

In addition to the specific issues surrounding the trade in goods across the border, NAFTA contains many other issues that concern investors and property owners. In particular, cross-border communities or those near the border rely on the ability of residents and local businesses to do business across the border.

Of particular interest is the trade in services. The U.S. economy has a much greater emphasis on the provision of services, and service industries and the associated workforce have evolved accordingly. Canada and Mexico have begun to experience the same reorientation.

U.S. companies have a significant history of competing on service quality factors such as availability, timeliness and satisfaction. Companies outside of the United States have not had similar competitive pressures and thus may not compare favorably when competing on the basis of service quality. As a clear opportunity for growth, cross-border services is an increasing source of tension and an area where the trade agreement must evolve in order to be relevant in the coming decades.

A similar issue is the mobility of the workforce within the treaty countries. While the unskilled labor crossing the border – farm labor and migrant workers, for example – draws much of the media attention, other types of labor are much more significant strategically in this negotiation, particularly with respect to the U.S. and Canada.

Canada would like to compete in innovation industries such as high-tech, medical and health, automation, etc. ,where the U.S. has traditionally led the world. In the past, migration of "tech talent" was generally one direction – into the United States. In the new economy – investment follows talent. Talent generation, attraction and retention are key drivers for the new economy. Talent and "workforce" are not necessarily the same thing. This is not being addressed in the NAFTA talks, where differences will remain, i.e. respective immigration policies.

Quest for tech talent

The importance of the availability, cost and infrastructure associated with tech talent has created a competitive tension between the countries. Canada strives to stem the flow of Canadian tech talent into the U.S. and eventually achieve neutral migration by attracting U.S. tech talent to move to Canada. Thus, the incentives, compensation, legislated work rules and even the mechanisms for owning the rights to technologies created become issues just like subsidies for farms or steel mills.

Adding to the complexity is each country's ability to effectively attract and retain tech talent from around the world. Canada has effectively recruited tech talent from around the world, at least temporarily.

A great deal of the world tech talent sees the Canadian education system as an effective means to become a Canadian and access U.S. tech companies, either operating in or recruiting in Canada. Any restriction of talent mobility affecting the Canadian innovation industries would be detrimental to Canada and have broad consequences for its economy and society.

Finally, the means, mechanisms and simplicity/complexity of border crossing for citizens, residents and visitors to each country is an issue that becomes a part of the treaty negotiation. How easy it is for those who live along the border to shop, visit, access services and transit the border is ultimately affected by these negotiations. This element may be the most fickle and intangible, as the tone at the border is set by an agent of the government who can be either welcoming or overly defensive.

Each of these areas – trade of goods, cross-border provision of services, talent mobility and border crossing – has serious consequences for the Buffalo Niagara region. We have long held that our proximity to the border is a competitive advantage. Never has that been truer – considering the gradual expansion of the Greater Toronto Hamilton Area into increasing proximity to the border itself. Thus the outcome of the reopening of NAFTA will impact us all, good or bad.

If Western New York becomes a place where goods flow, services are exceptionally delivered, talent gathers to engage with the best the world can offer and it's accomplished with a welcome rather than a confrontation, the benefits are endless.

The next version of NAFTA must prepare our region for the future of global completion, not anchor us to the limitations of the past.

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