

*Income Tax Act*

sident witness the most prosperous and powerful economy of the world seeking to use its economic strength to force the cost of adjustment onto less powerful and often less affluent trading partners. Operating from strength may impress some, but in my view it does nothing to build confidence and stability into the precarious structures governing international trade and transactions developed since Bretton Woods, 1945.

The temptation is to retaliate, and many have urged this course. It is to the credit of those involved, including the Prime Minister (Mr. Trudeau), the Minister of Finance (Mr. Benson), and Minister of Industry, Trade and Commerce (Mr. Pepin), and many others from other countries that so far they have resisted that course. They have recognized, and I suggest rightly, that such an approach could only compound the present problems, precipitate further protectionist actions, produce further retaliation in turn, compartmentalize trade, and generally contribute to the scuttling of the considerable efforts since 1945 to build order and confidence into international trading. Our task now must be to protect what progress we have made since 1945 and to try to use the present impasse to make further steps to improve upon the present order. In fairness, I think it must be recognized that the United States in presenting its proposals has legitimate grievances and does face serious problems.

• (3:50 p.m.)

Having said that, we as Canadians must approach the discussion of adjustments with certain things clearly understood. In the first place, Mr. Speaker, it is the U.S.A. which seeks the adjustments. The Americans, and we all admit to this readily, are both our friends and allies, but they are also tough and single-minded people. Let me remind the House of what General MacNaughton said some years ago about Americans, people he regarded as friends. There is nothing in what I am about to quote which is unfriendly. It is simply an analysis. He said:

There is nothing in our experience to date which indicates any change in the vigor with which our American friends pursue objectives which they deem in their national interest, however much this may hurt a neighbour who has unwittingly made a careless bargain in other circumstances.

This I would add, in my judgment, is equally true of other countries that will be involved in the negotiations surrounding the process of adjustment. Secondly, the United States has complained about severe and enduring trade barriers. We also have an interest in the adjustment of trade barriers. For six years I have condemned the fact that whereas Canada has been open hunting for offshore suppliers of heavy electrical generating and power transforming equipment, our people have systematically and blatantly been excluded from foreign markets, not including the United States, because of foreign trade barriers.

At another level, dealing with tariff adjustments and specifically related to Canada-U.S. arrangements, I have also condemned the fact that whereas we let U.S.-made bulk milk coolers into this country duty free, the United States has consistently refused to provide us with equal treatment. These may seem to be somewhat narrowly drawn examples but, Mr. Speaker, I represent people whose livelihood is threatened by these inequities. The point I wish to make is that as we enter into international

discussions on adjustments that have to be made, we should be clear in our own minds what we want, clear about our strategy in pursuit of our long-term national interest, and determined not to make all the concessions.

Our record in respect both to our exchange rate, particularly vis-à-vis the U.S.A., and the absence of trade barriers vis-à-vis imports from other countries, has been excellent. We should therefore bargain firmly and from strength. Without wishing to be sanctimonious, I can say that our record within this area has been superb, and we can legitimately expect some concessions from other countries, including the U.S.A.

Let me look at one U.S. proposal with which I believe they should not proceed. Probably the most ominous and threatening of the proposals of the American administration is the proposal to allow U.S. companies to establish international domestic sales corporations to encourage American manufacturing firms to export from the United States. Secretary of the Treasury, John Connally, on September 8, in a statement before the House Ways and Means Committee argued for the DISC proposal in the following terms:

In general it is designed to provide the same type of U.S. tax treatment for U.S. companies engaged in exporting as is presently available if they manufacture abroad through foreign subsidiaries. The DISC proposal is designed to create and preserve more jobs in the United States by causing a healthy expansion in U.S. exports, and by making it as attractive from a tax standpoint for U.S. companies to produce goods in the United States for export to world markets as it is for them to build their factories in foreign countries and produce abroad.

The purpose is clear. The intention is commendable, but in my view the instrument is totally unacceptable. In my view the DISC proposal goes beyond the proposals other countries have developed to support their export drives. If it is passed by Congress it will provide American manufacturers involved in the export market with tax advantages not available to any of their trading partners, and will seriously aggravate trade relations between the U.S. and other countries.

The *Washington Journal* of September 30 had an interesting comment to make in this regard:

U.S. authorities who try to justify such activities (i.e. DISC) insist that other nations give incentives to exporters. They do. But such things are partly a matter of degree and few nations have gone as far as the original DISC proposal would have gone towards an outright exemption from income taxes. The U.S. already is inviting retaliation from its trading partners for its 10 per cent surcharge on imports and it is not likely that tense trade relations can withstand much further aggravation.

My comment is Amen.

From a Canadian point of view the potential impact of DISC will be extremely serious. For areas of the country like the one I represent, dominated by secondary manufacturing industries—mostly U.S. subsidiaries—the impact could lead to a sizeable number of orders being transferred to U.S. plants so as to take advantage of DISC tax provisions. This would lead to serious lay-offs in Peterborough, and in other parts of Canada.

The government of Canada has stated firmly and repeatedly its opposition to this proposal. It goes beyond what we believe to be a reasonable solution to very real American problems, and violates the spirit and the letter of GATT. Canada's position should not be to try to devel-