

LETTER No. 2

OTTAWA, February 20, 1937.

SIR,

During the negotiations in London last summer, representations were made by the United Kingdom authorities to the effect that in certain cases tariff preferences accorded the United Kingdom by Canada had been rendered less effective than had been expected by reason of the drawbacks of duty for home consumption authorized by Schedule B to the Customs Tariff. At that time the Minister of Finance, promised, on behalf of the Canadian Government, that fuller consideration would be given to the proposal of the United Kingdom that the preferential principle of tariff treatment be applied to the Drawback Schedule.

Since the return of the Canadian delegation, the competent Departments of the Canadian Government have been studying the United Kingdom proposals, and such examination as has been made to date of the operation of Schedule B justifies the position taken in London by the Minister of Finance: that to apply suddenly a preferential scheme to the entire existing Schedule might, in many instances, work hardship upon Canadian consumers without necessarily ensuring any added advantage to United Kingdom interests.

Close examination of the existing Schedule reveals that frequently the home consumption drawback applies to raw materials imported for use in the manufacture of non-protected finished products, and in such instances the effect of abolishing or even restricting the full privilege of drawback might easily be disastrous to the industry concerned. There is the further fact that several of the items in the Schedule appear to have become inoperative (insofar as may be judged by the absence of claims thereunder), and such items are now the subject of review by the Canadian Government with a view to their possible cancellation. There is also to be borne in mind the fact that, under the last two or three Budgets, an effort has been made not merely to afford margins of preference by way of drawbacks, but actually to confine the operation of certain new drawback items to importations under the British Preferential Tariff.

The provision for home consumption drawbacks in the Canadian tariff is not one which this Government desires to see extended; on the contrary, were it feasible to do so immediately and at one stroke, the Government would prefer to dispense with the granting of such drawbacks, the administration of which is always costly and frequently difficult. To that end, as indicated, the Canadian Government already contemplates reducing the Schedule; and in this connection—and toward the same objective—it will undertake to give prompt and sympathetic consideration to any requests that may from time to time be put forward by the Government of the United Kingdom regarding the continuance or the operation of any particular item in the Schedule.

I have the honour to be,

Sir,

Your obedient servant,

W. L. MACKENZIE KING

Sir Francis L. C. Floud, K.C.B.,  
High Commissioner in Canada for  
His Majesty's Government in the  
United Kingdom,  
Ottawa.