

action by the United States. From the Canadian perspective all the elements argued in favour of a new economic deal with the United States.

Another Canadian speaker pointed to the combined deficits of the provinces of \$20 billion. This situation contrasted with that of the U.S. state governments, many of which were required by law to have balanced budgets. The overall deficit of the two levels of government in Canada were on a per capita basis almost double that of the United States. An American participant commented that the situation of the U.S. states was a little murkier than appeared on the surface, since there were a number of accounting tricks used by U.S. states to conceal deficits.

GATT and Trends toward Protectionism

The opening U.S. speaker on this topic stated that protectionist pressures were stronger than he remembered during his 15 years in Congress. In this period the share of trade of the U.S. GNP had increased from 5 to 12 per cent, making the United States more vulnerable than it had been previously to the effect of an overvalued dollar. He anticipated measures such as a textile quota bill that might violate the multifibre agreement. In his opinion a new GATT agreement would be needed to clear up mistakes which the Congress would make. One of the few healthy developments was Canada's interest in moving from sectoral to full free trade.

Another U.S. Congressman who chairs the sub-committee on Trade of the Ways and Means Committee noted that almost all trade bills now being submitted were protectionist in character and at least one fifth were referred to his sub-committee. He complained that the U.S. Administration had been deficient in investigating injurious subsidies by foreign competitors. Expressing particular concern about two-tier pricing of energy by some foreign countries, which provided competitors abroad in some energy-intensive industries with an unfair advantage, he explained that he had submitted a bill to redefine countervail to include resource input subsidies. Among the resources which he felt needed to be investigated was Canadian lumber which appeared to benefit from low stumpage rates compared with the United States.

There was disagreement among American participants as to whether the U.S. was ready to enter GATT negotiations. According to one view, France had saved the United States from embarrassment, because Congress was not ready to give the President authority to negotiate further tariff and non-tariff reductions. Another American argued that, as in previous negotiations, only after a GATT conference began would Congress delegate to the President the negotiating authority he needed. Therefore he felt that the sooner the next GATT round started, the better. However, he wanted those negotiations to include agricultural trade and trade in services.

Canadian speakers, while supporting the launching of GATT negotiations, also stressed the fact that the process was drawn-out and there was no assurance that the increasingly important non-tariff barriers would be reduced. Since Canada

was dependent for one-third of its GNP on trade and three-quarters of that trade was with the United States, priority had to be given to developing that trade relationship.

In this connection an American speaker reminded the meeting that Congress had already given the President authority to negotiate a bilateral free trade agreement with Canada. Asked whether protectionist pressure would jeopardize congressional approval of a free trade arrangement with Canada if one were agreed upon, he doubted that it would.

Export Credits and Trade in Grains

Spokesmen for both sides supported the goal of eliminating export subsidization through the credit mechanism. However, the practice was widespread and the immediate goal had to be international agreement on standards so as to avoid excessive competition.

Discussion quickly turned to the recent decision of the U.S. government to support American grain sales abroad with a special \$2 billion subsidy. A U.S. participant representing an agricultural state recognized that this move could destroy the world market for grains, but insisted that the United States had to combat European agricultural subsidies or lose its share of world markets. Canadians regarded the bonus as being especially threatening, since it was to go on top of regular export credit assistance. They wondered whether there was any possibility of working out a new international grains agreement. The U.S. spokesman said that the last attempt to do so made six years ago had failed. In his view the aim of U.S. policy should be to move toward two-tier pricing, so that the consumer rather than the taxpayer would support U.S. agriculture.

Throughout this discussion there was an underlying recognition that the main reason for the trade deficit was the overvalued level of the U.S. dollar. One American participant wondered whether the answer might lie in a return to fixed exchange rates which governments would be committed to defend. This prompted a response from another American that governments could not return to fixed rates, since currency fluctuations were now too strong to resist. Every time the subject of the overvalued dollar came up—which was frequent—it was admitted that this was the underlying cause of the U.S. trade problem, but there was no acceptable solution. As a result the political response was to turn to protectionist measures.

II. Specific Trade Irritants

Steel Pipes

The opening U.S. speaker stated categorically that the inclusion of a requirement that imported steel pipe be indelibly marked was a mistake. Another described it as being an "odious" decision. However, the Ways and Means Committee was holding hearings on a Technical Corrections Act (HR 1800) to modify the labelling requirement and he understood the proposed change was acceptable to Canada. A Canadian acknowledged that the amendment would resolve the problem and both