

number of manufactured products, such as basic petrochemicals, only the markets of the United States, the EEC, Japan and the U.S.S.R. are large enough to support production at optimum levels. There are other products for which even these markets are not large enough, the most obvious example being large jet aircraft.

For Canada, with our small domestic market, this problem of scale manifests itself in various ways. Even for those products for which the Canadian market (plus available export outlets) could provide the scope for possibly two or three plants, there is often excessive diversification of production within each plant. This is typically the problem of our primary textile industry and of our consumer-goods industries. We simply cannot expect to produce a wide range of such goods as cheaply in a modern and efficient Canadian plant as in an equivalent plant in Japan or the United States. Our small market does not give rise to the demand for the long runs that are necessary to operate our plants at their lowest unit costs.

There are various answers or combinations of answers to this problem of over-diversification. One has been the answer which successive Canadian Governments have given since 1935 -- that is, to negotiate better terms of access for our products in foreign markets and to eliminate the excessive tariff protection given Canadian producers. Two notable examples of this are the program of tariff reductions negotiated under the Kennedy Round and the Canada-United States arrangements on automotive products.

A second answer is to use our resources and skills to make those products for which there are few economies of scale. I suppose that is why we have seen such a significant growth in exports of garments to the United States, to take another example from the textiles sector. In this area it is design and quality of production rather than scale which are relevant.

A third response, and one that all too frequently we have been unable to avoid in the past, is to simply put up with higher costs to Canadians -- by imposing restrictions on trade -- in order to try to create the jobs which Canadians need.

You will see, I am sure, how considerations of this kind bear on the possibility of maintaining and developing viable Canadian industries in a number of different fields. The nature of the problem may be illustrated by reference to the chemical industry, where the economic advantages of optimum-scale production now make quite unattractive the operation of many existing plants or the construction of new facilities designed solely for the Canadian market. And yet it is not an attractive prospect for us to export our raw materials, our petroleum and natural gas, and import the sophisticated products of the large-scale petrochemical industries of the United States, Japan and Europe.

It is indicative of the approach that we have adopted in an effort to resolve this kind of dilemma that my colleague Mr. Pepin, the Minister of Industry, Trade and Commerce, and his officials have been working closely with representatives of the industry to develop detailed proposals for a feasible chemical industry policy that will not result in imposition of higher costs on