

Hon. Marcel Lambert and Messrs. Byrne, Laflamme, Gray, Olson, Clermont, Comtois, Grafftey, Régimbal, Lewis and Gauthier.

The Committee considered the following items on its Agenda:

- 1) Canada-United States balance of payments.
- 2) Post Kennedy round developments.
- 3) Foreign Investment and related Government policies.
- 4) Resource development matters (with particular reference to oil and gas).
- 5) Automative agreement.
- 6) Aid to developing countries.
- 7) Trade and Economic relations with Communist countries.
- 8) International Grains Agreement.

ELEVENTH MEETING
CANADA-UNITED STATES
INTERPARLIAMENTARY GROUP
REPORT OF COMMITTEE I:
TRADE AND ECONOMIC MATTERS

1. *Canada-United States Balance of Payments*

A United States delegate opened the discussion by stating the interdependence of Canada and the United States on trade and monetary matters. He pointed out that agreement had been reached earlier this month exempting Canada from new U.S. restrictions on investment abroad designed to ease the U.S. balance of payments problem, and expressed the hope that the cooperation between the two countries on monetary problems would continue and be effective. A Canadian delegate replied that Canada had a \$1.3 billion deficit with the United States and welcomed the U.S. government's action, also expressing the hope that this type of cooperation would continue.

There was considerable discussion about labor-management problems in the two countries. A Canadian delegate expressed the view that the biggest worry for each country is over the possibility of inflationary wage settlements. Members of the U.S. delegation stressed that labor costs in both countries are rising faster than productivity. Canadian delegates pointed out that the lower productivity rate in Canada—due in part to the narrower market base—would create more serious difficulties as the two countries move closer to freer trade relationships. They referred to the recently announced intention of Canadian ministers to inaugurate measures

of voluntary restraint and indicated that these would receive full support by the Canadian public. There was discussion by members of both delegations over the indirect impact on Canada of certain U.S. trade and monetary restrictions, such as the interest equalization tax. Canadian delegates expressed appreciation of the special measures adopted by the United States to mitigate the effects of these policies on the Canadian economy, but pointed out that in return Canada has had to adopt certain restraints which may affect its ability to respond flexibly to future international pressures. They stressed that the United States should therefore consider very carefully before it acts how such measures would affect Canada. It was also pointed out by another Canadian delegate that Canada finances a substantial portion of its deficit with the United States through its trade surplus with the rest of the world and not entirely with inflows of U.S. capital. The consensus of both delegations appeared to be that because of the inter-relationship of Canadian-U.S. economic affairs there should continue to be close consultation and cooperation on all matters affecting both countries' balance of payment positions.

2. *Post-Kennedy Round Developments*

Members of both delegations devoted considerable attention to foreign trade problems, giving particular attention to agricultural trade problems. Several Canadian delegates discussed the impact on Canada of the decline in U.S. farm prices, emphasizing the need for working out arrangements which will protect Canadian farmers from repercussions due to U.S. price declines. It was also pointed out that the U.S. Public Law 480 program has had an impact on Canadian export markets.

A United States delegate stated that it was not clear at this point what direction U.S. trade policy will take now that the Kennedy Round has been concluded but that trade liberalization remains the basic U.S. policy. A comprehensive study of trade policy is now under way in the Executive Branch, he said, and this study will cover exploration of possible special trade arrangements with Canada, such as a North Atlantic Free Trade Area or a Canada-U.S. Customs union. There was considerable discussion by members of both delegations over possible rise of protectionist sentiment in the United States. Members of the Canadian delegation expressed their hope that the free trade movement would continue