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Canada's economy — a review of 1974 and prospects for 1975

The Minister of Industry, Trade and Commerce, Alastair Gillespie, issued the following year-end statement on Canada's economic situation:

Almost alone among the industrialized countries of the world, Canada again achieved a significant rise in over-all production and employment in 1974. Gross national product in Canada increased by about 4 per cent in real terms, compared to zero growth for OECD countries as a whole and a decline in output in the United States. Employment also rose by about 4 per cent.

In dollar terms, gross national product rose to nearly \$140 billion, an increase of over 17 per cent. Much of this rise was accounted for by the high rates of inflation now facing the industrial world. While the rate of inflation in Canada was somewhat below the average of other industrial countries, it was still considerably above 1973 rates.

Much of the increase in output occurred as a result of rising industrial activity early in the year. In more recent months, the upward tempo in economic activity has slowed in response to the international economic climate.

This change to a slower pace followed more than three years of above-average rates of growth, during which the Canadian economy has operated at levels close to capacity.

Labour markets

Favourable business conditions supported a generally strong labour market situation in 1974. Employment again rose faster than in most postwar years. There were about 350,000 additional jobs, representing an increase of about 4 per cent over the 1973 figure.

Despite this increase in jobs and a high job-vacancy rate, unemployment remained at about 5.5 per cent of the labour force, about the same rate as in 1973. The labour force continued to grow at an unusually high rate.

Domestic demand influences

Canada's superior economic performance was due principally to the continued strength of domestic demand. A

major stimulus was provided by a 21 per cent increase in total capital investment by manufacturing firms which went largely to expand plant capacity and thus to eliminate shortages.

Residential construction was strong in the first half of 1974, but activity slackened perceptibly in the housing industry toward the end of the year because of sharply higher mortgage interest rates and a reduction in available mortgage credit in the private sector.

Consumer expenditures maintained their upward trend in part because of a further advance in real disposable income *per capita*. Large price increases, particularly for food, had some limiting effect on the increase in consumer expenditures in real terms.

In sharp contrast to the situation in the United States, however, the volume of Canadian car sales was only a little lower than the record level set in 1973. Canadians also increased their spending over the previous year's for non-durable goods and consumer services. The demand for urban housing accommodation remains high even after record rates of construction in each of the past three years.

Government expenditures continued to be a major stabilizing factor. While rising quite strongly in dollar terms, government expenditures on goods and services declined slightly as a proportion of gross national product....

Foreign trade

Canada's exports rose by about 28 per cent over 1973 levels to about \$32 billion in 1974, an increase even larger in percentage terms than the record increase achieved in 1973. This was mainly owing to large price increases in a number of major commodity exports such as wheat and other grains, petroleum, woodpulp, copper and zinc. The physical volume of Canada's total exports declined somewhat from 1973 levels.

Exports to the United States, Can-

ada's principal trading partner, increased in value by close to one-quarter, or about the same as in 1973. Again this increase reflected higher prices only. In volume terms, Canadian exports to the United States declined, one of the few times that this has occurred in the post-Second World War period. The fall-off in this key market clearly reflects the current recession in the United States and especially the weak United States market for new cars and houses.

Overseas markets have shown a larger percentage rise in Canadian export purchases than the United States, although economic slowdowns in several of the major industrial countries have meant that the actual volume has risen only slightly, if at all. Exports to Latin America have shown the largest increase on a percentage basis, followed by quite substantial gains in the value of exports to the European Economic Community, Japan, and Commonwealth markets outside Britain. Canadian exports to Britain rose at a slower pace than those to any of our other principal markets.

Most valuable exports

Commodities contributing most to higher export values in the past year included wheat, copper, crude petroleum, natural gas, woodpulp newsprint, fertilizers, petroleum and coal products and aluminum. Increases in the volume of exports were shown for such commodities as woodpulp, but most notably for machinery and equipment.

Continuing economic growth in Canada, although at a moderating pace, has sustained high import demand. The value of imports rose about one-third in 1974 to about \$31 billion, reflecting a moderate increase in import volume and in import prices. There has been a major upward shift in the value of imports from oil-producing countries because of the tripling in oil prices that has taken place since late in 1973.

The faster rise in imports than in exports has meant a decline in Canada's merchandise trade surplus to less than \$1 billion in 1974, compared to a surplus of over \$2 billion in 1973. Due to the smaller trade surplus and a small increase in the "invisibles" deficit, Canada's current account payments deficit with other countries has

widened in 1974 to a total of somewhat under \$2 billion from a total of less than one-half billion in the preceding year. This deficit is modest, however, compared with the huge imbalances incurred by most OECD countries in 1974.

Industrial trends

Despite a levelling out in business trends following the opening few months of the year, production of goods and services in 1974 was again higher than in the previous year. The volume of industrial production was up between 3 and 4 per cent over 1973 levels, although this was a reduction from the annual increases of about 8 per cent in each of the two preceding years. An important element in the slower output rise was the extensive loss of production due to industrial disputes.

Earlier in the year, the industrial economy operated close to capacity. However, as the year progressed there were indications of increasing slackness in several major industrial sectors, with layoffs and reduced hours of work in evidence in the late fall than has been usual in the past two or three years.

Transportation-equipment industries remained close to the very high tempo of activity reached in 1973. Motor vehicle production fell only a little short of last year's 1.6 million units. While output of passenger cars was down slightly for the year, commercial vehicles showed a significant increase. There were also higher levels of production in the railway rolling stock and shipbuilding industries.

Continuing strength in business capital investment bolstered activity in Canada's industrial and electrical-equipment industries and in machinery manufacture. These sectors have shown solid increases in 1974 and were sustaining high levels of activity as the year drew to a close.

Owing to very high demand for steel in domestic and international markets primary steel production has again advanced and reached a record level of almost 15 million tons for the year. Aluminum production also showed a significant gain over 1973 levels.

In the non-durable sector of manufacturing, there were important increases in production of chemicals, leather, fertilizers and petroleum and coal products.

Primary and resource industries have shown mixed trends over the past year. In general, market demands continued to be strong for pulp and paper products, and the industry operated at a higher rate of capacity than in 1973. The lumber and plywood sectors, on the other hand, have experienced slackening demand and falling prices for their products. Metal mining and processing industries (other than steel and aluminum), which were under great pressure of demand last year, have also seen a falling-off in orders and a down-turn in prices as a result of the economic slowdown in several major industrial countries.

Economic prospects in 1975

It is evident that the rate of economic growth in Canada has lost some of its earlier momentum in recent months following an extended period of rapid advance. At the same time, there are clear indications of considerable resilience in important domestic market demand sectors which may be expected to support continuing real growth in 1975, although at a somewhat slower pace than in 1974. The Canadian economic performance is expected to continue to be superior to that of our principal trading partners as it has been in the past year.

International factors

The principal threat to the growth of production and employment in Canada in 1975 comes from abroad. No matter what may be done by Canadian governments to stimulate domestic demand, Canada, with its heavy dependence on sales to world markets, cannot fully escape the effects of an international recession.

The current expectations are that a widespread recovery in economic growth will not occur in Canada's major trading partners until well into 1975. Any major external stimulus to the Canadian economy will be similarly delayed.

The slack in world industrial economies suggests less intense upward pressure on world prices in the coming year. Other factors indicating a modest slowing in inflation are the apparent elimination of most material shortages, a reasonable likelihood of better harvests and the possibility of better productivity performance once world economies resume growth. These factors,

A Frenchman's former "kingdom" becomes government property

Anticosti Island, in the Gulf of St. Lawrence, which has been privately owned since the time of Louis XIV, belonged at one period to a French millionaire, and was coveted by the Nazis, has become the property of the province of Quebec for the sum of about \$30 million.

This territory of 3,150 square miles, 360 miles northeast of Quebec City, with a population of only 235, was conceded by the King of France three hundred years ago to Louis Jolliet (1645-1700) who, along with Father Marquette, discovered the Mississippi River in 1673 and who later explored Labrador.

In 1891, the island's 675 inhabitants were divided into two groups: French-speaking Catholics, from either Acadia or Quebec, and English-speaking Protestants who came from Newfoundland. Both groups lived mainly by fishing and farming.

In 1895, Henri Menier, a wealthy French industrialist, purchased Anticosti Island for the sum of \$125,000 and proceeded to make it his own kingdom. While he persuaded the French-speaking inhabitants to sell their land to him, the *anglophones*, on the advice of a Methodist minister, refused. In the end, however, after losing a long and costly court battle, they were forced to leave the island.

The former Parisian hired engineers, agronomists, building contractors and local labour to construct farm build-

ings, shops, and, finally, a chateau (which was destroyed in 1953).

Menier's rule was both very harsh and very paternalistic. He owned everything and everyone worked for him. He forbade the people alcohol, fire-arms, hunting, fishing and domestic animals, but provided them the free services of a priest, a doctor and a teacher as well as education and health care. The residents were restricted to Port-Menier, the village at the southwestern tip of the island. They were expected to doff their caps when Mr. Menier went by. Those who broke his rules could be expelled from the island.

Wildlife imports

Henri Menier imported horses and all kinds of wild animals and birds to the island — moose, white-tailed deer, buffalo, wapiti, beavers, hares, frogs, pheasants and pigeons. He lived in grand style, organizing hunts for his guests from France and excursions on his private steamship the *Savoy*.

The island was already a superb fishing area, specially for Atlantic salmon.

Some of the animals found it difficult to survive but the white-tailed deer multiplied rapidly; in recent years deer hunting has been permitted in order to prevent their becoming too numerous and dying of hunger. There are also many beavers on the island.

Following the death of Henri Menier in 1914, the island became the property

of his brother Gaston, who sold it to the Anticosti Corporation in 1926 for \$6.5 million. In 1938, a year before the beginning of the Second World War, representatives from Nazi Germany tried unsuccessfully to buy this privately-owned island, which would be useful to them during the war. It was later taken over by lumber companies interested in its pulpwood; the last of these was Consolidated Bathurst, which, it is alleged, refused an offer of \$24 million for the island. The Quebec provincial government then decided to expropriate it.

The lives of the inhabitants changed little under these commercial owners. Many services were still supplied free of charge, and during the depression of the Thirties the companies attended to the needs of the inhabitants.

A village storekeeper hopes the provincial government will make the island a park. Others have suggested ranching.

"We have rich forage," one said, "the deer are as fat as pigeons."

Further six months for Canada's UN Cyprus Force

The Secretary of State for External Affairs, Allan J. MacEachen, announced recently that, following a request from the Secretary-General of the United Nations, Canada would continue to participate in the United Nations Emergency Force in Cyprus (UNFICYP) for a further period of six months from December 15, 1974. He noted that the Force was on an important mission in Cyprus maintaining stability, bringing humanitarian relief to the needy and facilitating conditions under which the necessary political negotiations for a peaceful settlement of the island's problems could take place.

The United Nations Force is composed of personnel from Australia, Austria, Britain, Denmark, Finland and Sweden, as well as Canada. The Canadian contingent, the second largest in Cyprus, is composed of the 1st Battalion Royal Canadian Regiment, from London, Ontario; personnel from 2 Combat Group with headquarters in Petawawa, Ontario; and personnel provided from National Defence Headquarters, Ottawa.



Henri Menier's residence on Anticosti Island.

Cattalo crossbreeds not recommended

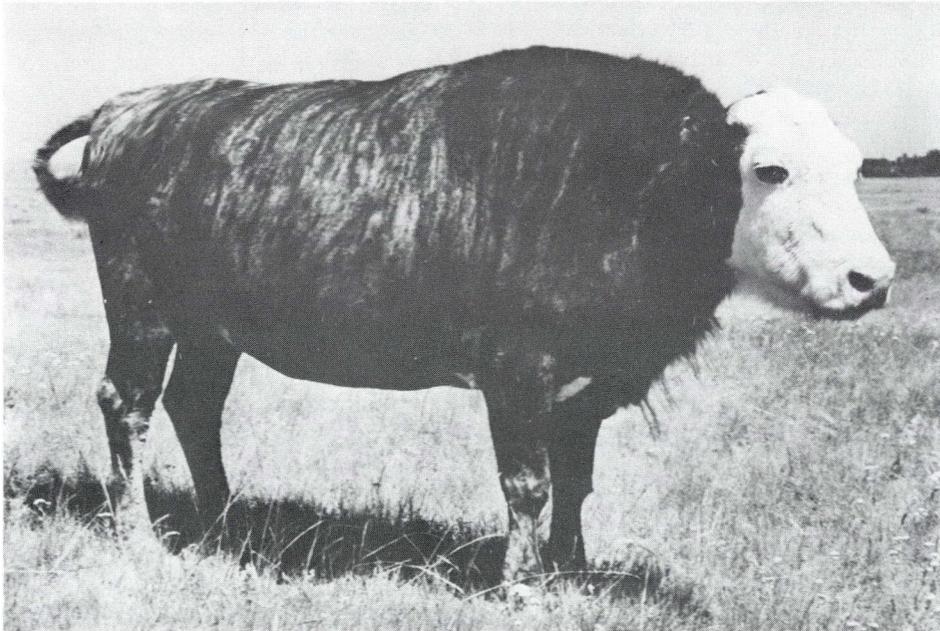
Crossbreeding cattle with North American bison may be a boon to the beef industry in some areas, but most farmers should stick to crosses between cattle breeds, says J.E. Lawson, an animal geneticist at Agriculture Canada's Research Station in Lethbridge, Alberta. "Bison-cattle crosses have some advantages over ordinary cattle, but they also have drawbacks."

"There has been a lot of interest recently in crossing cattle with the

"The cattalo project demonstrated that bison-cattle crosses have definite weaknesses," Mr. Lawson says.

"When bison bulls were mated to cattle, heavy losses of cows and calves occurred before calving.

"Many of the calves born to crossbred cows were very small and weak and there were fewer male than female offspring. Over-all, one-quarter and one-half bison cows produced 20 percent fewer calves than the straight Herefords, and the rate of gain for bison and bison-cross calves was lower than for Herefords under feedlot conditions."



A 21-year old cow, half bison, half Hereford.

native western bison, but the idea isn't new. This crossbreeding was observed in the 1700s and ranchers made attempts to get the two species to mate in the 1880s," he continues.

Agriculture Canada began to develop a bison-cattle herd in 1916 at Wainright, Alberta. Bison were crossed with Hereford, Angus, Shorthorn and Holstein cattle.

Under the Agriculture Canada project the new beef animals were known as cattalo. This name, taken from cattle and buffalo, reflects a common misnomer, since the North American buffalo are not really buffalo — they're properly called bison.

In 1950 the experimental cattalo herd was moved to the research sub-station at Manyberries, Alberta. In 1965, after the federal researchers had assessed the animals' performance under range conditions, the herd was sold.

Mr. Lawson points out there were also problems persuading the bulls and cows of the two species to mate. However, this problem could be overcome by using artificial insemination.

Most of the bison crossbred bulls had low fertility and only a few with three-sixteenths bison were fertile. Bulls greater than three-sixteenths bison were not fertile.

Advantages

On the plus side, part-bison animals were more hardy and cold-resistant than ordinary cattle and had thicker and heavier hair.

Also, while the birth weight of bison-cattle calves was often lower, by weaning time many of these calves had surpassed the Herefords. Many hybrid cows (one-half bison) produced calves for more than 25 years.

Generally speaking, the crosses with

a higher percentage of bison outperformed those crosses which were only one-eighth to one-quarter bison.

"On northern ranches where cattle cannot be raised profitably, I think bison-cross beef animals could be very adaptable," Mr. Lawson says. "The heavy hair coat, proven hardiness and longevity of these animals can counteract the effects of the cold climate and the heavy insect infestations.

"Growth performance can be improved by choosing good cattle to breed with bison and by using a performance-selection program and artificial insemination, and upgrading a herd by culling the poorer animals.

"However, in less rigorous climates, a rancher can avoid management problems and obtain higher over-all performance by crossing cattle breeds rather than crossing bison with cattle."

Bay of Fundy tidal power study

In a recent joint statement the Minister of Energy, Mines and Resources, Donald S. Macdonald, the Premier of Nova Scotia, Gerald A. Regan and the Premier of New Brunswick, Richard Hatfield announced that the three governments had accepted in principle the recommendations of a tidal power review board related to the Bay of Fundy.

The board's report, tabled in the House of Commons by Mr. Macdonald, proposes that a study program be undertaken at a total cost of \$3 million with an initial phase over a two-year period to cost \$1.3 million. The scope of this initial program would include site selection and the optimization of energy production as well as electric power market and transmission studies.

Mr. Macdonald noted that, in 1969, a joint federal-provincial study under the Atlantic Tidal Power Programming Board had concluded that the economic development of tidal power in the Bay of Fundy was not feasible in the prevailing circumstances. In February 1972, the two provinces and the Federal Government established a tidal power review board to re-examine the conclusion of the 1960 study in the light of current and projected conditions. The three governments are now discussing in detail the procedures for taking action on the study proposals.

Mr. Trudeau to visit Europe

Prime Minister Trudeau has accepted invitations to make official visits in March to the Federal Republic of Germany, Italy, The Netherlands and Britain. An audience with Pope Paul VI is scheduled for the Prime Minister during his stay in Rome.

Mr. Trudeau will be in Bonn on March 3 and 4; Rome, March 5 and 6; The Vatican, March 7; The Hague, March 10 and 11; and London, March 12 and 13.

Manitoban helps establish Australian national health system

A senior official in the Manitoba Health Services Commission (MHSC) will spend six months in Australia, starting this month, advising the Australian Government in establishing a national health insurance plan, Manitoba Health and Social Development Minister Saul Miller announced recently.

Mr. Miller said that Robert H. Harvey, chief health information officer in the commission, would be in Australia until June, serving as a consultant with the Australia Health Insurance Commission.

"Every medical insurance system produces a very large body of data from physicians' claims, billings and registration of persons covered under the plan," he explained.

"To operate the system accurately and efficiently, the managers of the insurance plan must know how to interpret and analyze this enormous and continuous flow of information.

"Mr. Harvey will advise the Australian commission in one general area, medical claims, helping them to set up an efficient operations monitoring system."

The Australia Health Insurance Commission will have some similarities to and parallels with the Manitoba Health Services Commission. However, the Australian health insurance plan, scheduled to begin on July 1, 1975, will be operated nationally, whereas in Canada medical insurance plans are operated by the provinces. The Manitoba plan serves a population of about 1,040,000, while the Australia federal plan will cover about 17 million.

Mr. Miller said that the seconding of Mr. Harvey stems from a visit to North America made in 1973 by a delegation from Australia to study health insurance plans in Canada and the United States. In Canada, they looked at plans as they operate in all ten provinces.

Aerosat agreement signed in U.S.

An agreement to establish an aeronautical satellite capability (Aerosat Space Segment Program) for use in an intergovernmental aeronautical satellite experimentation and evaluation program was signed in Washington last month by the European Space Research Organization (ESRO), Comsat General Corporation and the Government of Canada.

The Program covers the design, development, procurement and operation of two satellites over the Atlantic Ocean. The first satellite is planned for launch in 1978 by a *Delta 3914* vehicle. A memorandum of understanding (MOU) covering the intergovernmental aeronautical satellite program was signed earlier this year by ESRO, the U.S. Department of Transport/Federal Aviation Agency (DOT/FAA) and the Government of Canada. In addition to calling for the establishment of a space-segment capability, the MOU includes a co-ordinated program comprising the design, manufacture and operation of user ground facilities, avionics, the preparation of the test program and the operation of suitably equipped aircraft. These activities are the responsibility of ESRO, DOT/FAA and Canada.

Under the new agreement ESRO, Comsat General and Canada will furnish the space-segment capability for the intergovernmental program.

Commission of inquiry into Canadian beef marketing system

The Prime Minister announced on January 7 the appointment of a commission to inquire into the marketing of all grades of beef and veal sold in Canada. Maxwell W. Mackenzie of Ottawa has been named chairman and Mrs. Lydia Patry-Cullen of Montreal and Dr. Hu Harries of Edmonton, members.

The commission will examine the marketing system for beef and veal in Canada, taking into account each step in the distribution and processing system and any differences across the country, and will submit to the Government recommendations for improvement.

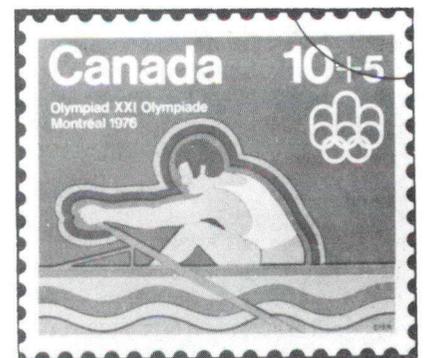
Appointment of the commission of inquiry, the Prime Minister noted, arises out of the Government's concern, as expressed on a number of occasions by the Minister of Agriculture and the Minister of Consumer and Corporate Affairs, about a situation where prices being paid by consumers for beef and veal seem to be high in relation to producer returns and may not fully reflect price variations at the producer level. The commission will take into account the recent work of the Food Prices Review Board in this area.

Mr. Mackenzie's experience relates to business generally. Mrs. Patry-Cullen's experience relates to merchandising, with emphasis on consumer problems and Dr. Harries' background provides particular knowledge of the producer's problems in beef and veal marketing.

Olympic Action stamps

Postmaster-General Bryce Mackasey has announced the issue on February 5 of three additional Olympic Action stamps, the second set of surcharged stamps to be issued by the Canada Post Office.

The denominations of the new four-colour stamps, which depict swimming,



rowing and sailing, are 8 cents plus 2 cents surcharge, 10 cents plus 5 cents surcharge and 15 cents plus 5 cents surcharge.

When the Action stamp is sold by a post office, the net proceeds from the

surcharge portion will be counted as Olympic-support revenue. When it is sold through the Philatelic Service, the total value, including the surcharge, will be counted as philatelic revenue and the net proceeds, after deducting costs, will go to the Organizing Committee for the Olympic Games.

"These Action stamps are a painless way for Canadians to become involved in supporting the 1976 Olympic Games in our country," said Mr. Mackasey.

Donations in support of the 1976 Olympics are regarded as tax deductible, and the Canada Post Office will issue receipts for any single purchase where the surcharge on the donation portion amounts to \$5 or more.

West German fellowship for Alberta physics professor

Dr. Anton Z. Capri, associate professor of physics at the University of Alberta, has been awarded a Humboldt senior research fellowship which provides funding for one year of research in West Germany.

Humboldt fellowships, given in memory of the late West German scientist, Alexander Von Humboldt, are awarded on the basis of competitions open to persons from all countries. The senior research fellowship provides a year's funding for research to be pursued in West Germany plus a three-week tour of the country.

Chairman of the committee that selected Dr. Capri for the fellowship was Nobel laureate, Dr. Werner Heisenberg, a pioneer in the study of quantum mechanics. Dr. Heisenberg's committee looked favourably upon the course of research outlined by Dr. Capri in his submission — a study into nucleon scattering.

Dr. Capri will take a year's sabbatical from the University of Alberta early in June to undertake the research at the Max Planck Institute of Physics and Astrophysics in Munich, West Germany, where he will work with the Institute's director, Dr. Peter Dürr.

Dr. Capri, a native of Romania, came to Canada in 1949 at the age of 11 and, in 1967, joined the University of Alberta as a post-doctoral fellow. He became an assistant professor of physics the following year.

Canada's economy

(Continued from P. 2)

together with the decline that has already taken place in the prices of some industrial commodities, and a marked easing in the rate of increase in energy and food costs, make the prospect increasingly favourable for a generally more moderate rise in prices in 1975. However, upward pressures on costs are expected to continue and the rate of inflation will remain high by historic standards.

Domestic demand factors

As in 1974, the strongest element in Canada's domestic demand in 1975 is likely to be business capital investment. Important indicators of business intentions, and the large volume of work already in progress, signal a continuation in 1975 of vigorous business capital spending trends, despite increased uncertainties about costs and softer markets.

An October survey by the Department of Industry, Trade and Commerce of 220 large corporations representing a substantial part of Canadian industry indicates substantial new growth in capital spending. These large corporations plan to raise their expected outlays on new construction, machinery and equipment by 30 per cent in 1975, which would imply a somewhat greater advance in volume than had been estimated for 1974. All industrial sectors, other than oil and gas pipelines, indicate upward revisions of intentions over those indicated in a similar survey made earlier in the year. The increases in intentions are largest for manufacturing, oil and gas, and electrical utilities sectors. Relatively few businesses seem to have allowed recent changes in the business climate

at home and abroad to exert a negative influence on their capital spending intentions. The general view appears to be that current adverse factors are predominantly short-run in nature.

This further expansion in business investment as well as the strengthening of disposable incomes of Canadians through income tax cuts and increased transfer payments will be an important stimulus to the economy in 1975. Lower interest rates and a number of measures to provide stronger incentives for new home building should bring about some recovery of residential construction which slackened during the latter months of 1974. Taken together, these factors will sustain private expenditures and promote a further increase in real output in 1975.

International markets

Canada's foreign trade prospects in 1975 continue to be affected by the temporary lack of growth in the economies of our principal trading partners, notably the United States, Japan and Britain. Modest recovery in most of these markets may be expected to be under way during the course of the coming year, assuming an easing in policies of restraint. Initially, however, the resurgence of economic activity abroad is likely to be slow and may provide only limited additional demand in volume terms for Canada's export products in 1975.

In dollar terms, a further substantial increase in exports may be expected in spite of softening prices for some of Canada's resource exports. An increase in value terms of somewhat more than half that obtained in 1974 may be expected in 1975.

Meanwhile, Canada's economic performance in 1975 should contribute to a continuing strong import demand. This is likely to be reinforced by the ambitious capital investment program now under way, since many of the investment goods required will be imported.

Lack of major growth in exports markets and persistent firmness in imports are likely to mean further deterioration in Canada's commodity trade balance, which may shift from a moderate surplus of under \$1 billion in 1974 to close to balance next year....

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