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THE SENATE OF CANADA

Proceedings of the

STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty.

No. 1

WEDNESDAY, FEBRUARY 24, 1954

The Honourable A. N. McLEAN, Chairman

WITNESS:

Mr. Thomas H. McKittrick, Senior Vice President, Chase National Bank, New York, N.Y.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
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OTTAWA, 1954.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLEAN, *Chairman*

The Honourable Senators

Baird	Duffus	MacKinnon
Bishop	Euler	McDonald
Blais	Fraser	McKeen
Buchanan	Gouin	McLean
Burchill	*Haig	Nicol
Campbell	Hawkins	Paterson
Crerar	Howard	Petten
Daigle	Kinley	Pirie
Davies	Lambert	Turgeon
Dessureault	*Macdonald	Vaillancourt
	35 members	Quorum 7

*ex officio member.

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Tuesday, February 23, 1954:—

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(*a*) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(*b*) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry."

L. C. MOYER,
Clerk of the Senate.

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MINUTES OF PROCEEDINGS

WEDNESDAY, February 24, 1954.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 11.00 a.m.

Present: The Honourable Senators McLean, Chairman; Baird, Bishop, Buchanan, Burchill, Crerar, Euler, Fraser, Gouin, Haig, Hawkins, Lambert, Macdonald, MacKinnon, McDonald, Paterson, Turgeon and Vaillancourt—18.

In attendance: The official reporters of the Senate.

The Committee proceeded to the consideration of the Order of Reference of February 23, 1954.

Mr. Thomas H. McKittrick, Senior Vice President, Chase National Bank, New York, N.Y., was heard and questioned by members of the Committee.

On motion of the Honourable Senator Euler, it was resolved to report as follows:—

> The Committee recommend that it be authorized to print 800 copies in English and 200 copies in French of its proceedings in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty, and that Rule 100 be suspended in relation to the said printing.

At 12.50 p.m. the Committee adjourned to the call of the Chairman.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of the Committee.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Wednesday, February 24, 1954.

The Standing Committee on Canadian Trade Relations, which was empowered to enquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 11 a.m.

Hon. Mr. McLean in the Chair.

The CHAIRMAN: Honourable senators, we will call the committee to order. As you know, this is the first meeting of our committee this session, and it may be desirable to read the resolution that was referred to yesterday, for the benefit of new members.

Hon. Mr. EULER: Take it as read.

The CHAIRMAN: Honourable senators, we are highly honoured this morning to have with us, at our invitation, a very distinguished gentleman with a world-wide reputation, Mr. Thomas H. McKittrick, Senior Vice President of the Chase National Bank, New York, which is one of the largest banks in the world. I feel you all know of Mr. McKittrick's career as top international banker and foreign trade authority, and there is little I can add. Mr. McKittrick for seventeen years held a high position as an International Banker in London, England and for several years was president of the Bank for International Settlements at Basle, Switzerland. Having travelled to all parts of Europe he is familiar with the trade and finance of most of the NATO nations by whom he has been consulted over the years.

I am now going to call upon Mr. McKittrick, and after he has presented his brief, Honourable members of the committee will be free to ask any questions they wish.

Some Hon. SENATORS: Hear, hear.

Mr. Thomas H. MCKITTRICK, Senior Vice President of the Chase National Bank, New York:

Mr. Chairman, honourable members of the Trade Relations Committee of the Senate: There is no need for me to tell you that this is, for me, a great honour to be asked to come to address you on a subject which I have been working at in unofficial positions for a long period of years. I class myself among others in the United States who are very strongly in favour of all of the policies which will lead to more and freer trade.

Honorables membres du comité,

Je désire vous dire quelques mots en français, parce que durant mon stage en Europe, j'ai eu l'occasion de visiter Paris, peut-être une cinquantaine ou une centaine de fois, et plusieurs des meilleurs souvenirs que j'ai conservés de ces visites sont les agréables relations que j'ai eues avec la France.

Some Hon. SENATORS: Hear, hear.

Mr. MCKITTRICK: Gentlemen, before really digging into the meat of what I want to say to you this morning, I wish to speak for just a minute or two to place the subject in perspective fairly clearly, because I find from talking with gentlemen who are not in daily contact with the thinking in the United States, some misapprehension. I have in mind particularly when I was in

London, in fact, it was on the first day of this month, at a meeting at which several members of the House of Commons were present in London; this was a meeting of a sub-organization that deals with economic affairs called together by the Council of Europe, which as you know meets in Strasbourg. It was said there that because the Randall report did not go as far as a great many people would like, the so-called dollar gap was a permanent matter and that all hope of ever overcoming that matter had been killed and buried by what the Randall report had said. Now, I disagree with that wholeheartedly, and I would like to say a few words about the tendencies in the United States, because I think that unless those tendencies are borne in mind, false interpretations or false conclusions may every easily result.

As I said a moment ago, I am one of those who long for freer trade in the United States, and I have done everything I could, which has not been much, to promote that. I will speak of other efforts which are being made and will be still further effective in that connection.

Perhaps the first thing I ought to say is that a national policy for trying to get very high tariffs—which were enacted in 1930—improved or lessened for the sake of greater trade, began when the Reciprocal Trade Agreements Act was first passed.

Through the negotiations carried out under the terms of that act, the ratio between the customs duties collected in the United States and the total volume of our imports has fallen from a figure more than twice as high to a figure which is slightly lower than this ratio was in 1941. That is a notable achievement. I would like, if I may, to read you also a few words which were published as a quotation from a study which was issued by the United States Chamber of Commerce. They said: "The tariff on dutiable goods has dropped from about 47 per cent in 1934 to 12½ per cent at present. On free and dutiable goods combined, our tariff in the same period has dropped from over 18 per cent to less than 6 per cent". Now this shows the tendency towards lowering tariffs, although industry in the United States is by no means unanimous in wanting lower tariffs; there are very important industries in that country which want to keep high tariffs. Tariffs have been going down for a long time and tariffs seem to be going lower. Now, the first great surprise I had showing that this feeling was far more widespread than I realized was when the Detroit Board of Commerce published a small pamphlet last December in which it came out flatfooted for free trade in the United States. Now, as you know, there is no more authoriative centre of manufacturing opinion than is Detroit, which is the acknowledged centre of the automobile industry and all that that means. Activity there spreads out into many lines other than automobile. Subsequently, there has been formed a committee called the Committee for a National Trade Policy which has set out, and for the first time, to educate the American public to understand the advantages of lower tariffs to the country as a whole. Now, I do not believe that Committee, which is a distinguished one—my boss Jack McCloy is one of the members of the executive committee—could have been formed as recently as eighteen months ago. I think that illustrates the movement along that line in the United States.

Now, having said that I want to say one other word: I wish to congratulate this committee on having been formed to take effective action in connection with the economic clauses of the North Atlantic Treaty. This needs very much to be brought to public attention. In all of the nations belonging to NATO, we have talked altogether too much about military matters and not enough about economic matters. Inasmuch as NATO exists to offer resistence, and if necessary resistance by force, to the Iron Curtain nations, it seems to me that the most effective thing that can be done is to try to bring about greater prosperity in the North Atlantic world because that will discourage the waverers from thinking that Russia has anything to offer us. Now, with those two very brief statements let me glance at these notes of mine, if I may, and go into the things that have happened.

Another thing that could not have happened eighteen months or two years ago is that we could not have had a bi-partisan body like the Randall Commission which would present a report and, of course, one must admit that it is not a unanimous report and that some members of the commission actually did dissent from the report as a whole and issued a minority report. While I do believe that the Randall report has more positive in it than negative, I wish again to disagree with Julian Amery who made the statement about what the Randall report signified in my hearing in London earlier this month.

The report covers almost every aspect of our economic relations with other countries—and I use "our" meaning "American" as I wish to draw your attention to some of its most important recommendations, important, that is, from the viewpoint of Article II of the North Atlantic Treaty. It recommends that the Reciprocal Trade Agreements Act, due to expire on June 12 of this year, be renewed for at least three years. The act has become a symbol of liberalized trade, and on past occasions Congressional debates on its renewal have generated considerable heat between protectionists and liberal trade groups and between Republicans and Democrats. The support for a three year renewal at this time is highly significant and in the report, if I remember correctly, there were no dissents from that particular recommendation. Additional power is recommended for the President to lower tariff rates by negotiation. It is difficult to assess the practical value of the proposed authority to make tariff cuts of five per cent per year for three years, but the proposal follows the general lines of past versions of the act. Two other provisions are quite new in concept. One is the recommendation that all duties over 50 per cent *ad valorem* be reduced to that level. This would permit substantial reductions on the most restrictive duties, of which we still have, unfortunately, a considerable number. The second provision is that a 50 per cent reduction may be made from the January 1, 1945, tariff levels for those products which have not been imported or which have been imported in negligible quantities.

Thus, as to tariff levels, I believe the picture is not unfavourable if appropriate legislation is passed. Most unfortunately, both the peril point and the escape clause are supported. As I have mentioned this problem is the most controversial matter which was taken up in the report. The second major deterrent to imports into the United States has been the problem of customs delays, complexities and uncertainties. The Commission recommends passage of the Customs Simplification bill now pending. It has been reported out by the House and is now in the Senate committee. This bill would go a long way towards easing the customs problem.

The third problem faced by most NATO countries is the difficulty of United States tariff classification, especially for a few products. We are gratified that a review of our tariff schedules has been recommended in the report of the Randall Commission, with a view to simplification both of commodity definitions and of the problem of classifying articles not enumerated in the schedules. Perhaps, if such a review is successful, exporters of ping pong balls in Canada will not again find their product classified as ammunition. You may remember that interesting case.

United States relations with its partners in the North Atlantic Union have been more strained by its agricultural policy than by any other single feature of our foreign relations. The price rigidity of our farm programmes has caused government accumulation of surpluses, fantastic surpluses, and fantastic measures to get rid of them.

If I may draw from my personal experience as a dairy farmer, three years ago this coming summer I bought for ten cents a hundred pounds, 22 tons of potatoes, for which the government had paid $4.50 a hundred pounds. I fed them to the cows and the cows liked them very much. The Randall Commission recommends changes in our agricultural policy which would in essence allow a larger role to the private mechanism in determining supply. This would be a step in the right direction, and it appears in line with present administration policies.

Conversation, during the past ten days—and this is still at the conversational stage—is that the administration will come out in favour of what is called a two-price policy: In other words, let the farmer plant as much of anything as he likes, but he will get the support price only on a pre-determined amount, and the rest he will have to sell as best he can. That will get over the sort of difficulty that existed three years ago in potatoes and exists today in butter. The United States government has well over 200 million pounds of butter in storage, and it is beginning to go bad. They have got to sell it very shortly to make soap at a price which will be much less than that which they paid for it.

The Commission has recommended the amendment of the Buy American Act to allow government procurement agencies to give national treatment to bids from countries which give our citizens national treatment in the same circumstances; other recommendations are made on policies to stimulate private foreign investment by tax incentives and other means; on foreign aid: on technical assistance; and in East-West trade, merchant marine policy, and tourism.

The Commission's proposal on steps to secure convertibility of currency denotes the appreciation of the significance of the currency problem in foreign trade; but they recommended only possible further use of the International Monetary Fund and an exploration of the possibility of the federal reserve system entering into arrangements with the foreign central banks, or to grant stand-by credits. Neither of these suggestions, it appears to me, go far enough towards filling the need. I hope I shall get some questions on that subject.

During most of 1953 the United States government sought wherever possible to delay decisions in the international field pending the completion of the Randall Commission's studies. Now that it is completed, the next step is an Administration request to Congress for appropriate legislation; and before that is possible, the administration will have to declare its own policy, because the first thing that happened after the Randall report appeared was a statement by the President that the report would be read and studied with care, but that it was not an Administration declaration.

As it happens, the Chairman of the House Ways and Means Committee, where all legislation affecting government revenue must originate, is Representative Daniel Reed in New York. Congressman Reed was one of two congressmen on the Randall Commission who signed a minority report expressing outright dissent with some of its more important and more liberal recommendations.

As this is an election year, Congress is not likely to remain in session past midsummer; and the members of Congress are apt to be very reticent about taking any bold steps that might cause the voters who elected them last time to change their minds. On the other hand, it is significant that in the statement at the end of the Randall report, Senator Milliken reserved his position on a number of important points, but had no comment to make with respect to the Commission's recommendation on GATT. In the past the senator has questioned the legal validity of GATT as a binding instrument. Recent legislation on reciprocal trade has contained the statement, which he strongly supports, that the law implied neither approval or disapproval of this general agreement. I regard Senator Milliken's present silence on this point as encouraging.

It is too early to tell what Congress will do with the report of the Commission, although the report already represents a compromise; it is quite probable that protectionists will attempt to compromise it further. The report probably represents the maximum program on which a substantial majority might be hoped for. Almost any change in the Commission's recommendations will be, I fear, towards restrictionism. I fear that if the level of business activity and employment remains strong, there is a good chance that the majority of the Commission's recommendations may be adopted by Congress, once they have been reported on by a committee.

Our government policy towards imports is of course of critical importance, but the major determinant of how much we buy from our trading partners is the level of our own industrial production and general business activity. That is where big changes take place in what we import, not by policy decisions.

I believe that President Eisenhower's recent announcement of his readiness to take appropriate fiscal measures as needed in the event this level should show an appreciable decline, is thus of great importance. The Employment Act of 1946, which gives the government great powers to take action in the economic field, is still on the books, and the federal government appears prepared to implement it. I have commented upon the situation in the United States as I see it today, because of our large share in world trade. I should like now to discuss briefly a number of developments in international economic institutions which serve member countries of the North Atlantic Union.

First, the General Agreement on Tariffs and Trade is to be reviewed during the ninth session of the contracting parties in the coming autumn. Provision was made within GATT for such a review, the object being to decide how well it had worked, whether it should be changed, and if so what the changes should be. I believe I am not mistaken in saying that a large group of American business regards GATT with considerable reserve. There are two principal reasons for this. The first is that the balance of payments exception allowing countries to impose quotas against imports if their balance of payments so warrants have proved to be so broadly used that some suspicion exists that it is used for protectionist purposes. Certain countries whose balance became favourable were reluctant to remove restrictions against dollar goods. Under GATT they were obliged to reduce these restrictions, but it is natural to suppose that the protective effect of the restrictions was welcome to certain domestic producers. To the American exporter, faced with continual limitations on his sales to other GATT countries, GATT does not appear to have done a good job. Second, the widening of certain margins of Empire preference, even though on a very limited group of commodities, has caused United States traders some concern since it was approved at the eighth session of GATT last October. Neither of these two difficulties is insoluble. I should like to see some progress made in tightening up the balance of payments exception in the GATT agreement.

The problems which exist in the drive towards European unity are of course being dealt with by a number of international bodies. The Organization for European Economic Co-operation, which was organized by the European nations included in the Marshall Plan, continues its efforts to have each of its members eliminate quantitative restrictions on the imports from other member nations; that is, to liberalize trade among the free European countries. There has been impressive progress in trade liberalization. The present idea is that each country shall impose quotas on 75 per cent of its private imports. In fact, some have set free between 90 and 99 per cent of their private trade. But a few are considerably short of the legal minimum.

Trade liberalization and readily available facilities for conversion of foreign exchange must go hand in hand. This is nowhere more evident than in the operation of the European Payments Union. These arrangements for multilateral settlements do away with the need for each member of the European Payments Union to maintain balance in each of its bilateral trading relationships. It offers facilities for compensation in credit which neither governments nor central banks could have provided at the time on an equivalent scale.

But certain problems are inherent in the structure of the European Payments Union. The first is that it operates on a regional basis. The second is that it can operate, and its mechanisms can fulfil their functions, only by virtue of exchange restrictions. The third, arising from the first, is the danger that the system may tend to raise further barriers as between European Payments Union participants and North America, despite the more favourable position of certain members vis a vis the dollar area today.

The Council of Europe is, in my opinion, an instrument of which considerably greater use might well be made as time goes on. We are all acquainted with the various plans advanced within the general framework for solution of intra-European problems on a commodity basis. The coal and steel community has begun to function under its own high authority. Activities of the high authority are co-ordinated by the Council of Ministers meeting in Luxembourg. The Council of Europe in Strasburg shelters the Assembly, which is the parliamentary body dealing with the coal and steel community. It is interesting that this voluntary body should have been clothed with legislative powers to provide the laws which the High Authority will then be called upon to put into effect.

The most serious question with which other NATO members might concern themselves is that the measures of protection against the outside world, other European nations, and North America, which the coal and steel community may develop as the protective measures among the six members themselves are done away with.

In summary, I believe it is fair to say that progress is evident within nations of the North Atlantic community towards the reduction of barriers to common interchange of goods, money and services. The institutions set up for this purpose have passed the experimental stage and have proven the type of service they are capable of performing. They are far from perfect, but their usefulness is unquestionable. They should be improved, not scrapped, at the present time; and that is where I feel that your committee can play a most important role.

Finally, the stage is set for a vigorous bipartisan effort in the United States to adopt a trade policy consonant with our position as a creditor nation. I hope this effort is successful. If it is, I believe much further progress can be made during the coming months in strengthening the international agencies through which economic relations among the North Atlantic Union members are now being conducted.

Thank you, very much, gentlemen.

The CHAIRMAN: Honourable senators, the meeting is now open for questions.

Hon. Mr. TURGEON: Mr. Chairman, may I offer a suggestion. The presentation which has just been made is of such a nature that I think many senators sitting around this table will want to ask two or three consecutive questions in order to clarify certain points. I am taking the liberty to suggest that each committee member be permitted to ask one or two questions without being interrupted by questions from other honourable senators.

The CHAIRMAN: I think that is a good suggestion, Senator Turgeon. The meeting is now open for any senator to ask questions.

Hon. Mr. REID: I am not a member of this committee but I should like to ask a question relating to the coal and steel union which has been set up by six European countries. I have been following this since its inauguration. My question is this: Will the members of this union, dealing as they will with the output and price of steel among themselves, have any effect on outside countries?

Mr. McKITTRICK: Senator Reid, I feel that the market to which the six countries in Europe export steel, and to which Canada and the United States also export steel, will be determined by the usual competitive factors. But I do not think the situation is going to be changed materially from that which has existed for many years where European steel makers have competed with the steel makers of the Western Hemisphere. I am not as familiar with conditions in Canada as I am in the United States. New England, for instance, has always taken a certain amount of steel rails from Belgium, very largely because steamers had to come back from Antwerp and Rotterdam in ballast, and ship owners preferred to carry rails for nothing rather than pay for ballast to be loaded and discharged on this side of the ocean. So the factor of transport did not make any difference there. I think that situation will continue now that the six nations have formed the coal and steel union in Europe. But I do not see anything more to it than that.

Hon. Mr. REID: One more question and I am through. My question has to do with the exchange situation as between sterling countries and the dollar countries. I have always realized that when a country like United States loans either goods or credit to another country, there are only two ways in which that money can ever be paid back—either in goods or services. Many of us have an idea of what would have happened after World War I had Great Britain endeavoured to pay back in goods. It would have paralyzed the economy of the United States. My question is this. I am thinking of the $22 billions in gold reserves. I am wondering if the question of distributing that amongst the nations as a common denominator has ever been given any consideration, rather than handing out a loan for goods? Trade between sterling countries and dollar countries is being blocked.

Mr. McKITTRICK: I do not think there has ever been consideration of actually giving away the gold stock. I cannot tell you why. However, as you know, some $40 billions have been given away under various headings since the cessation of hostilities, starting with UNRRA and going ahead to the Marshall Plan and then the so-called Truman Plan, which was not at the beginning the same as the Marshall Plan, applying only to Greece and Turkey. These other gifts seemed to hold the stage, and if you happened to have seen a brochure issued by the International Chamber of Commerce in Paris, at the central headquarters, you will have seen that considerable discussion was contained in it as to using the gold stock in the United States for a convertibility fund which, under certain circumstances, would be used when required to support currencies which seemed to be unduly weak in the markets. I do not know that it has ever been officially discussed, the use of the gold stock in the way Senator Reid suggested.

Hon. Mr. CRERAR: I should like to ask Mr. McKittrick a question. Using steel as an illustration, which could be applied generally, are the European countries such as Germany, Luxembourg, France and Belgium, through their ability to work longer hours and accept lower rates of pay, in the position to successfully drive American and Canadian products out of the international markets? I am thinking that our people work shorter hours and at much higher rates of pay.

Mr. MCKITTRICK: I do not believe so, although we cannot forget about them by any means. We are going to get hard competition from them, in other words, but I think that is probably good for us. In fact, we have laws in the United States which lay that down as a basic principle of our economy. The reason is this. We on this continent, because of the great areas which we serve, can put up bigger plants which cost more per man employed; in other words, we invest more per man. The man, therefore, produces more and we pay higher wages, but we get higher productivity as a compensating factor, and our costs are not greater than those abroad.

Hon. Mr. EULER: Would that not be partially answered by the fact that the Detroit Chamber of Commerce which represents, as you have said, the automobile business and others, does not seem to be afraid of competition although the wages they pay are perhaps the highest in the world?

Mr. MCKITTRICK: That is exactly it. For instance, one well known American company, in order to retain their market in soft currency countries, established in Scotland a plant, and they transferred to that plant in Scotland certain items they manufacture and which find their greatest market in the soft currency countries of Europe. That was the first step. The second step has been to discontinue the manufacture of those items in the United States factories and to import them into the United States from Scotland. It is that sort of thing that is taking place and which has convinced people in Detroit that even they will benefit greatly from a reduction in tariffs.

Hon. Mr. HAIG: Mr. Chairman, I come from a strictly agricultural part of the country. Now, Mr. McKittrick, outside of butter you are carrying a tremendous load of wheat?

Mr. MCKITTRICK: Yes.

Hon. Mr. HAIG: What other commodities are you carrying that the government guarantees?

Mr. MCKITTRICK: The three most serious government stocks now are butter, wheat and cotton.

Hon. Mr. HAIG: And what is the tendency of the people that produce those to agree to those being sold at a reduction, or will the government have to lose on it?

Mr. MCKITTRICK: It is a very difficult question, and there is no definite policy in regard to that now. The government will have to take a loss on them. The reason the government has them is that the government was willing to pay more than the world's markets for them, and unless the markets go up—which I hope they will not, because I cannot see any possibility of it, with one great and serious exception, and that is in the event of another war. That is the only possibility I can see. Those stocks will have to be sold at a loss.

Hon. Mr. VIEN: Or be given away?

Mr. MCKITTRICK: But I was going to say the word "sell" needs a little qualification. For instance, there was a shortage of bread grains in Pakistan. Wheat was supplied from the United States and the money to pay for the wheat was given to Pakistan as a loan, so that of course counts as a sale, even though it was United States money used for the purchase.

Hon. Mr. HAIG: What about cotton and butter?

Mr. McKITTRICK: Well, butter will not keep and will probably have to be sold in the best market. The best market for butter which is getting overage, is soap; butter can be made into excellent soap, instead of palm oil, ground nut oil and such vegetable fats.

Hon. Mr. HAIG: Could you make it into margarine?

Mr. McKITTRICK: I don't know. Margarine makers probably don't want to pay the price for butter, but they might be able to mix it.

Hon. Mr. HAIG: You have just told us that the only way you can deal with the wheat is to give it away by loaning the money to the people who buy it. But you have such a tremendous load. What will be the effect on the world market in wheat?

Mr. McKITTRICK: Well, those are the questions that are giving the people in Washington a great deal to think about.

Hon. Mr. HAIG: I presumed that it would.

Mr. McKITTRICK: We will make some progress by reducing the wheat acreage.

Hon. Mr. PATERSON: Do not think that Washington is the only place where they are doing the worrying.

Hon. Mr. HAIG: It is a persistent headache in Canada.

Mr. McKITTRICK: I am sure of that, and I do not know what the ultimate position will be, I do not think anybody does.

Hon. Mr. HAIG: What about cotton?

Mr. McKITTRICK: Well, cotton of course is very easy stuff to store, you do not have to worry about its deterioration. Twenty-year old cotton is just as good if it is kept dry. But there will have to be a drastic reduction of cotton acreage, and as you know the cotton farmers have voted in favour of an official reduction of acreage for this coming year. There was no limit on the acreage which could be planted for the 1953 crop.

Hon. Mr. EULER: Mr. Chairman, I should like Mr. McKittrick to make a further comment in connection with GATT. Now GATT, as I recall it, was based entirely on the principle of either lowering tariffs—or at least, certainly not increasing tariffs, and it seems to me, if I remember correctly, the establishment of GATT was based on the initiative of the United States itself. Am I right in that? Now, am I correct in stating this, that the United States itself, using perhaps an offensive term, has violated the terms of its own agreement in GATT, in that, for example, they shut out Canadian dairy products?

Mr. McKITTRICK: The cheese amendment?

Hon. Mr. EULER: Yes. Well, was that done under any escape clause in the GATT agreement? And, then again, European countries took advantage of the right or the privilege of shutting out American goods or Canadian goods, or goods from the dollar countries, by the quota method, and that they have more or less abused that? I think you rather intimated that. Would you like to make any comment as to how that could be avoided or corrected?

Mr. McKITTRICK: I would like first to agree with the senator on both points.

Home Hon. SENATORS: Hear, hear.

Mr. McKITTRICK: I feel it is extremely important in many different ways to work for a greater respect for treaties. They are being violated, and these trade treaties are among the outstanding instances of it all the time. What happened in Washington in regard to this now notorious cheese amendment was that it was put in as an amendment to the Defence Appropriation Bill, or something like that. Of course, it is on all counts ridiculous and wrong. Those things sometimes happen.

Hon. Mr. BEAUBIEN: May I ask the honourable gentleman a question, coming back to wheat. The United States has a dual policy, I understand, in agricultural matters, as I gathered from your remarks, Mr. McKittrick. I mean to say this, that on the vote they took last year in the reduction of acreage of 20 per cent, the farmers voted in favour of it. Will that decrease the production of wheat in the United States? The point I want to make is this, while reducing your acreage you are only going to sow land that is suitable to wheat and better prepared. Do you think that the point I am making, that sowing the best of land and better prepared land will not contribute to increase the production of wheat in the United States?

Mr. MCKITTRICK: You will not get the full reduction represented by the reduced acreage, that is quite true, and has been established. You mentioned a dual policy. It was a dual price policy.

Hon. Mr. BEAUBIEN: I meant that.

Mr. MCKITTRICK: That was what I intended to make clear.

Hon. Mr. LAMBERT: Mr. Chairman, may I ask a question about the matter that Senator Haig was asking? I think Mr. McKittrick used the phrase that a two-price policy was now being considered, and probably clarified in Washington—that still has to be clarified considerably. What is involved in that?

Mr. MCKITTRICK: There are a good many forms of it under discussion, various plans for making it work, and the one which seems to have the most favour is this, if it is said that a farmer can raise ten thousand bushels of wheat —that he has got a biggish farm—he will be given a paper of some sort which says on it, "ten thousand bushels of wheat", and then if he raises fifteen thousand bushels he will be able to obtain on this certificate the difference between what he sells his wheat for and what the government says is their price for wheat by turning in his certificate, but only on ten thousand bushels. Now that is under discussion, is has not been worked out, and there are other schemes but I have not studied them in detail.

Hon. Mr. LAMBERT: The United States is still working, as we are, under the International Wheat Agreement price. Would this plan that crystallizes into the domestic situation you speak of have very much effect on the International Wheat Agreement price?

Mr. MCKITTRICK: I do not think so. I think the International Wheat Agreement applies only to wheat that moves outside of the country where it is grown. There is some scheme, and I am sorry I do not know it in detail, whereby the domestic user of wheat in America would have to come into possession of certificates either by way of the government or by way of the open market for the amount of wheat he uses, and the effect of that would be to confine the wheat for which price support has been given by the government to domestic use.

Hon. Mr. BEAUBIEN: Is it a fact that in the United States, under the new setup on which they voted last year—

Mr. MCKITTRICK: May I just clarify that point, Senator. The vote in which the wheat farmers participated decided merely the question of principle, whether in order to get price support they would accept an official reduction in acreage, and it did not specify the percentage reduction. That was fixed in Washington by a decision taken in the Department of Agriculture subsequently. The vote was only for a reduction, the percentage to be fixed by the government.

Hon. Mr. BEAUBIEN: Is my understanding right that, suppose the farmers voted to adopt the principle, and if the wheat grower does not reduce his acreage based on the acreage of the year previous by 20 per cent, he does not participate at all in the support price? Am I right in that?

Mr. McKITTRICK: I do not know what the penalty is.

Hon. Mr. VIEN: I would like to ask what practical results have been obtained in planning towards convertibility, and what the prospects are for the near future in that direction.

Mr. McKITTRICK: My own feeling is this, that it is thinkable convertibility might come in the relatively near future, say, within two years. I think the countries in Europe have reached a level of production and a degree of stability where most of the currencies could be made convertible today for current transactions. I feel sure that transfers of capital would not be allowed within a short period of time, and the reason for that is not a monetary reason, it is a political reason, people will move capital out of Europe due to the fear of war. Now, if that statement is acceptable, for the sake of argument at least, the next question that comes up is where will there be adequate currency reserves? Now, what was recommended by a committee, of which I was chairman, in the International Chamber of Commerce, is that the countries which do have adequate reserves should set up convertibility funds, and that each country which sets up such a fund should then administer its own fund. Now, if one looks at that plan with a little attention one sees that there is going to be one great big fund and perhaps a certain number of smaller funds, and the big fund has to come from the United States simply because that country happens to be the biggest nation economically and monetarily in the world today. It is just a question of fact. But this is where we meet difficulty: The United States treasury has not been willing even to discuss such a fund; and inasmuch as that fund is essential to general convertibility, we are in a position of dead-lock. Considerable pressure is being brought, and I am hopeful that the administration in Washington may change its mind on that point, but I have no assurance that it will. The whole question of giving practical effect to this theoretical possibility of convertibility rests with the administration in Washington.

Hon. Mr. VIEN: What is the main objection by the United States Treasury against the creation of such an international fund for the purposes of convertibility?

Mr. McKITTRICK: I think they feel it might be inflationary; and I think they do not feel something which many people do, namely, that in the western European nations there is a favourable opportunity existing at this time, in that there are no governments which by reason of their economic philosophy are unwilling to embark on convertibility. But let there be a gain in Communistic representation or thinking in the governments of France or Italy, or let another labour government come to power in England, and the possibility of general convertibility will, I fear, be gone. I don't know what steps can be taken to move the Treasury in Washington.

Hon. Mr. EULER: As you say, the United States would have to be the greatest contributor to the fund, that is evident to all. I was wondering if this might not be an argument: While they might lose some of the money they put into a fund, would it not be more advantageous for them to lose it in that way than hand over, as they have done in the past, billions of dollars to the European countries.

Mr. McKITTICK: I strongly agree with that view.

Hon. Mr. BURCHILL: You speak of general convertibility. Is there any possibility of the United Kingdom doing it alone?

Mr. McKITTRICK: Not in as short a period as two years, I would say. The reserves of the United Kingdom—but really they are the reserves of the sterling area; there is no such thing as reserves for the United Kingdom that I know of—are between 2½ billion and 3 billion dollars. For that great area this sum is not enough. And of course, sterling finances more international trade than do U.S. dollars; therefore, with its tremendous volume of trade, very substantial reserves are needed, and they are not there today.

Hon. Mr. VIEN: Would there be any danger that the western European system of freer trade between themselves would result in the creation of a European zone somewhat like the sterling area; and therefore, instead of creating freer trade between all nations, we would have another "Chinese war" similar to the one now surrounding the sterling area?

Mr. McKITTICK: There is in Europe a certain group which do believe that to divide the world into two parts, the sterling part and the dollar part, would be beneficial to Europe; but I don't think any government or any administration has ever agreed with that view, although it is being urged by some members of parliament in London, and by persons here and there on the continent.

Hon. Mr. VIEN: What I have in mind is this, that European countries who are willing to have freedom of customs duty between themselves are far from being willing to reduce their tariffs against hard currency countries like Canada and the United States; the result is the possibility of Canada being squeezed as between the sterling area, the European area and perhaps the United States dollar zone of influence, and we would be left with the rest.

Mr. McKITTRICK: Of course GATT—the General Agreement on Trade and Tariffs— prevents that; but as we have said, that treaty is not being everywhere observed. However, I think that point will come up in October when the members of the GATT group get together to discuss the treaty. I was told in London that the British government would oppose very vigorously anything of that sort.

Hon. Mr. VIEN: But is that agreement not more than a pious wish so far?

Mr. McKITTRICK: Oh yes. The GATT meetings have been very long and tedious, and they have brought about a substantial reduction in tariffs.

Hon. Mr. VIEN: As to reciprocal trade agreements between countries, but as a whole, has there been a general lowering of the tariff barriers?

Mr. McKITTRICK: I don't think so. The nations that have had currency difficulties, and in some cases tariffs, or rather import restrictions, have done away with them, and then re-imposed in order to deal with their losses of of gold and dollar reserves.

Hon. Mr. EULER: Is GATT not also weakened by the fact that the President of the United States is under the law—which I think expires in June—restricted in the amount he can reduce tariffs by, namely, 50 per cent? Would that not restrict the activities or actions of GATT itself?

Mr. McKITTRICK: I have never heard it said; I never have heard that point raised before, although I have talked about it a good deal. I am sorry, but I am not really an expert on GATT.

Hon. Mr. HORNER: I should like to revert to the question of wheat. Do American farmers have a delivery quota for their wheat, or do they deliver it as they are able? In other words, does each farmer have a quota system for the delivery of his wheat?

Mr. McKITTRICK: I do not have the answer to that question.

Hon. Mr. HORNER: You outlined the plan by which a farmer would be given a quota of say, 10,000 bushels, and it was suggested that if he grew 15,000 bushels the plan would require him to sell on his own or feed the additional 5,000 bushels. Would he be allowed by the plan to let that 5,000 bushels go on his next year's quota? He would not be able to sell that at the government-supported price?

Mr. McKittrick: No; and if he wanted to sell it he would have to take his chance in the market.

Hon. Mr. Horner: He would be allowed still to market?

Mr. McKittrick: Yes. That is, with the two-price system which is now under discussion in Washington.

Hon. Mr. Baird: Anything he produces over his quota he just has to sell in the open market.

Hon. Mr. Horner: The Western Canadian wheat growers have a quota system of delivery. It amounts simply to this: if you grow an excess amount of wheat you find yourself carrying it over to the next year. That is so in our country. You are forced to do that under the quota arrangement.

Hon. Mr. Reid: Regarding the surpluses which have been mentioned, I ask, for information, how is the price guaranteed by the United States government in regard to the production of butter, wheat and cotton; and has the price level had any effect on the surpluses? Are they growing more and producing more under that impetus and selling at the floor price?

Mr. McKittrick: Yes. No doubt that is exactly what is happening. People are making butter for the government to buy not for people to eat.

Hon. Mr. Gouin: I would like to ask a question concerning what they call sometimes "the green food", in Europe. I have listened with much interest to the remarks of Mr. McKittrick with relation to steel and coal, but in this matter of the production and exchange of agricultural products there was also a pool which was being set up? I would like to have some comments on that. What has been done?

Mr. McKittrick: I don't think anything has been done. It has been under discussion, but so far as I know, no agreement was reached for a general European production plan which would be carried out by pooling the agricultural resources and the crops of the European nations. I think they are all working independently now, as in the past. I have heard no discussion of that for the past year, and I have rather thought of it as something that had been dropped, at least for the present.

Hon. Mr. Gouin: It was my impression that the idea was more or less an economic union for agricultural products.

Mr. McKittrick: Quite. But the idea seems to me to have been dropped, although I never heard either of any formal action dropping that idea.

Hon. Mr. Reid: Is it compulsory for the farmer in the United States to sell all his wheat through the government? Can he sell outside the government?

Mr. McKittrick: I think I have now heard enough so that I can tell you the way it is done. The Commodity Credit Corporation offers loans to the farmer and lends the same amount per bushel as the government-support price. You know we have this 90 per cent parity business; you know what that means.. Now, that loan is given to the farmer only for the amount of wheat which he raises on the acreage which is allotted to him. That is where the limitation comes in. But then the farmer has the right to surrender this wheat to the government, and that absolves him from the necessity of repaying the loan. Does that answer your question as to how the thing is done?

Hon. Mr. Haig: The balance of the wheat he can sell outside, if he wants to.

Mr. McKittrick: Yes, or he can feed it—which a great many people do.

Hon. Mr. Lambert: I do not like taking Mr. McKittrick from one subject to another. But on this question of convertibility, which he traced particularly in his remarks, and on which there have been some questions, I wonder if the problem could be simplified into suggesting that the relationship between the non-dollar countries—that is the sterling bloc countries—and the dollar countries might be resolved into two very distinct world conferences: one based on the higher standard of living and one on the lower standard of living. Is not that the trend now? Is there any real solution to that problem, other than the approach of one to the other in their scale of values and in their standard of living expressed in terms of exchange of goods, rather than in monetary terms?

Mr. McKittrick: The best opinion that I can get from people in Europe, who of course know the details of these matters better than I can, because I am not in a European Central Bank, I am not watching and cannot watch things in such detail as their authorities do—is, that convertibility could be undertaken promptly provided there was something substantial to fall back upon, big enough to take care of the unforeseen happenings which in the course of human events do occur. We cannot get away from the unexpected occurring. In view of that, I don't believe there is any well-supported tendency to split the world into two parts,—dollars and sterling. I think there are some people who, as I said, would favour that, but I do not think it has the support of governments, who must make these decisions.

Hon. Mr. Turgeon: I should like to ask one question with reference to convertibility. You spoke a while ago of two things which I think are related. One is the deadlock on convertibility for at least a couple of years; the other is the review of GATT, which will take place in October. If there is a deadlock on convertibility of currency there is not much opportunity of recovering from the lack of balance of payments. Is there any chance of accomplishing much good in the working of GATT in October, if the deadlock continues past that session and there is not much hope of restoring the balance of payments?

Mr. McKittrick: I do not know how closely those two things are really related. Certainly the more general progress we can make with both the better the world will be, but whether they need to march forward hand in hand I would not be prepared to say without thinking it over very carefully.

Hon. Mr. Crerar: I should like to get Mr. McKittrick's opinion on this point. Is not convertibility tied up in a large degree with trade policies? If we assume, which is perhaps a large assumption, that the United States Congress at this session will implement the Randall Commission's recommendations, would the Treasury under those conditions be more disposed to assist in placing a reserve against the unforeseen hazards which might arise if convertibility took place?

Mr. McKittrick: I am inclined to think so, yes, although I am predicting the actions of men. I cannot do their thinking for them. I make that prediction with all possible reserve so that it is not any better than a plain ordinary guess. However, that would be my guess.

Hon. Mr. Crerar: Would you agree with me, Mr. McKittrick, that convertibility in the broad sense is associated with trade policies?

Mr. McKittrick: Yes, certainly.

Hon. Mr. Crerar: There is only one other question I should like to ask, and if Mr. McKittrick does not wish to answer it is quite all right. The price of gold is fixed at $35 U.S., a price which is wholly out of relationship with the existing general world price level. If gold were revalued on a realistic basis, having in mind the existing international price level, would that be of any aid in bringing about convertibility?

Mr. McKittrick: Actually as of today there is no premium on gold anywhere in the world. It has all disappeared and it has disappeared because of the fact that Russia has sold about 150 tons of gold. Russia began selling in high-priced markets such as Beirut and Tangiers, those odd little places where there are no restrictions on any kind of trade or bullion sales, and the price was forced down there very close to $35. Russia then completed her sales on the free market in France where the gold was largely bought by the Bank of France, and by selling it directly to the Bank of England. So that today there is no premium on gold.

Hon. Mr. Turgeon: Do you know what the price was that the Bank of England paid?

Mr. McKittrick: I cannot recollect. It was the equivalent of $35 at the official British rate of $2.80. I thought I would remember that. I heard it so often.

Hon. Mr. Haig: That is correct.

Hon. Mr. Crerar: If trade grew between North America and, say, Western Europe and Russia in non-strategic materials, and Russia paid Western European countries in gold for the goods they received, as she has been doing for some of her purchases recently, would it not strengthen the sterling areas' reserves?

Mr. McKittrick: Yes, provided the trade does not increase in both directions. It would have to increase in one direction only if it were to be paid for in gold.

Hon. Mr. Crerar: Yes, that is quite true but at the same time Russia is in need of consumer goods apparently, and is willing to pay gold, and perhaps to the extent that it would help the situation.

Mr. McKittrick: Yes.

Hon. Mr. Vien: Payments of international trade balances would either directly or indirectly be linked up with gold value, is that not correct? Even if we do not go back to the so-called gold standard, would there not be a certain relationship between the establishment of that international stabilization fund of convertibility and gold payment or gold security?

Mr. McKittrick: Any reserve would have to have access to or have available either gold or currencies which could be converted into gold.

Hon. Mr. Vien: That is right.

Mr. McKittrick: Such as the United States dollar. You see, the dollar is convertible into gold provided the transaction is done by a central bank.

Hon. Mr. Vien: Yes.

Mr. McKittrick: Or by this international bank of which I was the president, the Bank for International Settlements, which deals almost exclusively with central banks. It is included in the permission to buy and hold gold in the United States.

Hon. Mr. Vien: Would it not facilitate our task if we were to enhance the production of gold throughout the world? What I have in mind is that today the cost of production has gone up and the price of gold is receding.

Mr. McKittrick: Yes, I think so very definitely. My own feeling is that some time the price of gold must be raised or else gold production will stop.

Hon. Mr. Vien: That is right.

Mr. McKittrick: It is no longer profitable.

Hon. Mr. Vien: Will you allow me just one more question? What has been the greatest objection for some time now of the American Treasury to raising the price of gold?

Mr. McKittrick: They have not expressed themselves very recently, but what they did say the best part of eight months to a year ago was that their first job was to combat inflation, particularly in the United States. They are entirely right when they say that increasing the price of gold would be highly inflationary, and therefore if their primary object was to do away with inflation they must not throw oil on the fire by raising the price of gold. What their feeling about it today is I frankly do not know. I have not talked that over with them in the best part of a year's time. I do not know what their feeling is about it. The Treasury changed its policy from a tight money policy to an easy money policy, and interest rates have come down. The discount rate of the Federal Reserve Bank of New York has been reduced.

Hon. Mr. Vien: Would not a great increase in international trade create some degree of inflation?

Mr. McKittrick: It would increase the volume of money, but if the volume of goods increased too they would offset each other, and that is usually not referred to as an inflationary increase in bank balances or currencies.

Hon. Mr. Lambert: Is it not true that the very contrary would be the case, and if there were a resumption in world trade the competition that would have to be met would result in deflation rather than inflation?

Hon. Mr. Robertson: Mr. Chairman, I was unavoidably absent, and it may be that the question I was going to ask has already been asked, and if so I apologize. The question I have to ask arises out of the general nature of this inquiry, that is, what we could do to improve the economic relations of the NATO countries. I was wondering if that remark of yours, Mr. McKittrick, about the pessimistic view of a member of the British parliament in regard to the accomplishments of the Randall Commission, that there would probably always be a dollar gap, indicates an increasing view in Europe on the part of the European members of NATO, that the future of trade is more likely to be between European countries and Russia rather than with the North American partners of the treaty?

Mr. McKittrick: No, I do not think so. I happened to be speaking with an ex-minister in London, and he felt very strongly that this view that I repeated, this pessimistic view, was not the official view of the government at all, and the government in London is doing everything possible to bridge the gap between United Kingdom and the dollar area; they do not take the view that the dollar gap cannot be bridged, and they are bending all of their efforts and are doing it successfully, to improve trade relations with the dollar area. Now, you probably all know that the reserves of the sterling area in dollars and gold have been going up by amounts of about $20 million to $50 million a month, with a single exception, for the last seven or eight months; so that there, in fact, you have a period long enough to be considered very seriously, where—with the help of offshore purchases, and military aid, it is true—the sterling area has been building up reserves.

Hon. Mr. Robertson: But is it not true at the same time that apparently in recent months Russia has been making almost frantic efforts, to convey the impression, at least, that she is a reservoir of potential orders and raw materials for these countries, indicating that there is a certain opinion upon which they think they can capitalize. Apart from all governmental activities altogether, representatives of British industries have been talking about getting orders; whether they have got the orders or not is another matter.

Mr. McKITTRICK: There is no doubt that Russia has been making efforts to increase trade with the west. Why the Russians want to do that, I don't know, whether it is an economic motive that they are following, or whether it is a political motive that leads them to do this, I do not know.

Hon. Mr. ROBERTSON: Or both.

Mr. McKITTRICK: Or both, I do not know.

Hon. Mr. BAIRD: Do you not think that a great deal of the reserves that the sterling area has been building up is due to the restricted buying by several of the dominions, such as Australia, and New Zealand?

Mr. McKITTRICK: Yes, and actually restricting buying by the United Kingdom.

Hon. Mr. BAIRD: Quite. In other words, if the thing were wide open, these balances would not be there, they would not be forthcoming?

Mr. McKITTRICK: But I only make this statement, and it is in a relative sense. Some time back they were getting a lot more aid, but they still did not accumulate any reserves. Now they are better off than they were a year or two years ago.

Hon. Mr. EULER: This is my last question, Mr. Chairman, and I do not know if Mr. McKittrick will want to answer it, but before I ask it I would like to express my appreciation to him for the informative address which he has given us, and for the way in which he has answered our questions. Would Mr. McKittrick care to say what in his opinion Canada might do to help to solve some of these problems of convertibility, and others? Would he care to say what he thinks Canada might do to assist in the carrying out of that purpose?

Mr. McKITTRICK: I have some rather definite ideas on that point. As you all know, and this I regret, the dealings between the governments of Washington and London have not gone too smoothly during the last couple of years. I feel very much at home in London, having lived there for 17 years. I was the only American in a British acceptance house. I lived in a completely British environment of thought and action and decision for a very substantial part of my business life. When I go back there today I feel at home, and even more so than in New York, in certain phases of business. I think I know how Englishmen feel. Now, when difficult negotiations were on, when there was some feeling on the part of both my countrymen and the people in London that the other side was not doing all they could to make things go smoothly, I have had a feeling that if there had been three sitting at the table rather than two, and the third had been Canada, this country here, Canada, could have played an extremely useful role which was not played. If I understand the psychology, suppose there were a point of disagreement, I think that the people in Washington would have said, "Well, if Canada is willing to do this—and we know the Canadians well, we find them very sane and reasonable and able people—I guess it must be all right and we ought to do it, too." And I think that the view of the British might be influenced in the same way.

Some Hon. SENATORS: Hear, hear.

Mr. McKITTRICK: Now, I have been speaking to some highly placed officials in Ottawa on that subejct, and they were not at all responsive.

I think what I have just said would involve Canada taking a certain participation in any agreements, if they were monetary agreements or something of that kind; but I am sure that if Canada would take say 10 per cent of what the United States does—I do not know if that is the right figure, and I am not recommending it, but that is roughly the relationship of population—it would be enough. Canada ought to be in the agreement, not simply a mediator.

Hon. Mr. HAIG: Mr. Chairman, I would like to draw two facts to Mr. McKittrick's attention, not by way of criticism but by way of helping out along the line of his thinking. Within the last two weeks two of the most distinguished members of the government have made certain statements, one in Florida and one in Asia, which indicate to many of us who hold the view that you hold, Mr. McKittrick, that there has been a little change in that atmosphere.

Mr. MCKITTRICK: I did not realize that. Perhaps I have been negligent in not following the course of events, but I am very glad to hear it.

Hon. Mr. HAIG: According to press reports the Minister of External Affairs said that in the event of a struggle in the world, Canada would be on the side of the United States, or words to that effect. Secondly, the Prime Minister of this country said in Pakistan, and has been repeating it in India, that he thought that the countries over there were entitled to buy goods from the United States if they wanted to, and Canada took that view. Of course, we, being situated alongside of the United States, know them better than anybody else in the world. It seems to me that the Prime Minister's statement indicates a switch in the thinking on the matter, and more people in Canada are coming to have the view that you have, people who did not have it three or four years ago. That view has been gaining ground.

Mr. MCKITTRICK: The particular occasions that led me to have some conversations here in Ottawa where I raised this point was when the Chancellor of the Exchequer came over to Washington almost a year ago. I felt at that time there was a chance for Canada to be extremely helpful in the way I suggested.

Hon. Mr. HAIG: I am on the opposite side of politics to the government, so my views are not government views. As leader of one of the opposition parties, I recognize a growing feeling in this country that we might be able to do something along that line, something that we did not have the power to do previously.

Mr. MCKITTRICK: Thank you very much for that good news. I am delighted to hear it.

Hon. Mr. HAIG: All my friends might not agree but I think that is so.

Hon. Mr. CRERAR: I would like to ask Mr. McKittrick his opinion on a rather speculative point and that is on the likely trend of opinion in economic thought in the United States based on the fact that the United States population is increasing roughly by something like three million a year, and is likely getting in the position where that country will require to trade with the outside world. Is the logic of these events likely to have an effect on American opinion on the whole broad principle of free international trade?

Mr. MCKITTRICK: I think very much so. I think that is one of the major arguments which is making itself felt in the thinking in the United States.

The CHAIRMAN: Are there any more questions from the senators?

Hon. Mr. EULER: I have no question to ask, Mr. Chairman, and I do not wish to cut off any further discussion, but I would like to move a very, very hearty vote of thanks to Mr. McKittrick for the very fine informative dissertation that he has given.

Hon. Mr. HAIG: Mr. Chairman, I have much pleasure in seconding that motion and I also want to commend our chairman for arranging that Mr. McKittrick be here today. He has been very helpful to us all.

The CHAIRMAN: Before that motion is voted on, could I ask a question or two? Mr. McKittrick, we have substantial reserves in Canada. We pay a premium on gold. That is one thing you in the United States have not got into yet.

Mr. MCKITTRICK: No. Canada has done that for some time. When I was at the B.I.S., to put it in a more familiar way, Canada produced about twice as much gold as the United States—six million ounces against three million ounces.

The CHAIRMAN: We often hear about the $22 billion in gold stored at Fort Knox. We do not necessarily keep our reserves in a vault. We have a billion in gold and a billion in Federal Reserve notes and short term securities, so that amounts to a couple of billions, so in the ratio of populations we have nearly as much laid away as has the United States. I was interested in your remarks about the Treasury being deadlocked on that question. We, with 10 per cent of your population, were willing to put up 10 to 15 per cent. We took that much initiative. Convertibility is one of the liveliest questions confronting the people in Canada today. Perhaps we would show more initiative if we were to dig into some of our reserves, perhaps to the extent of two or three millions for a fund. England is short, there is a need there. We could even give it consideration. Perhaps an example of that kind would have an influence across the border, in the United States Treasury. I am not asking you to comment on that necessarily, Mr. McKittrick. You spoke of co-operation between Canada and the United States entering into these matters together on a ten per cent basis.

Mr. MCKITTRICK: I do not want to get too much into technicalities, but I am afraid I have got to go some distance that way. I do not think that our Congress would actually create a fund if it were necessary to budget that fund and provide the money out of tax revenue. However, we have in Washington another procedure which is called a Public Debt transaction, and it would be possible, if Congress were so disposed, to pass a law creating an agency to administer a convertibility fund, as it has come to be called, and that would have this effect, that the managers of the fund, as they needed money, could call on the Treasury for it and the Treasury would then be in a position and be required to supply it either from current cash balances or by the sale of public debt so that it would not have to be budgeted, and it would not affect the level of taxes and such things.

Senator McLean was speaking about Canada creating a fund and dipping into its own pocket. I want to make it plain that we would not dip into our pocket until it became necessary to make use of the fund. Whether that could be done in the same way in Canada, I don't know.

Hon. Mr. BEAUBIEN: Mr. Chairman I beg leave to move the following motion.

The CHAIRMAN: The motion reads:

> The Standing Committee on Canadian Trade Relations beg leave to report as follows:
>
> 1. The Committee recommend that it be authorized to print 800 copies in English and 200 copies in French of its proceedings in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Artcile 2 of the North Atlantic Treaty, and that Rule 100 be suspended in relation to the said printing.

Some Hon. SENATORS: Carried.

The CHAIRMAN: There is a motion before the committee, moved by Senator Euler and seconded by Senator Haig—

Hon. Mr. MACDONALD: Mr. Chairman, before the motion is put, as an ex officio member of this committee, I did not ask any questions—

The CHAIRMAN: It is not too late yet.

Hon. Mr. MACDONALD: —but I followed the proceedings very carefully and I want to commend the senators, if I may, for the very intelligent questions they asked. The discussion covered a very wide range of subjects, and Mr. McKittrick answered the questions in a most interesting and comprehensive manner.

Hon. Mr. BAIRD: He is the one who must have had all the knowledge.

Hon. Mr. MACDONALD: I am sure we have gained a great deal of information here today. One reads so many discouraging things these days, it is most refreshing to come to a meeting such as this and hear Mr. McKittrick and to go away encouraged rather than discouraged. It has been a most interesting meeting, and I want personally to thank Mr. McKittrick and also to thank the Chairman for bringing him here today.

Some Hon. SENATORS: Hear, hear.

The CHAIRMAN: There is before the meeting a motion by Senator Euler, seconded by Senator Haig, that a vote of thanks be extended to Mr. McKittrick for the great honour he has done us in coming here and giving us of his wealth of information which, I am sure, is going to be of great value to us.

Mr. MCKITTRICK: May I say thank you with all my heart for all those kind and appreciative things you have said. I have enjoyed myself immensely.

When I approached this subject I felt that I would like to take a whole day at it, perhaps to talk for two hours, go into a lot of details, and answer questions for another five or six hours. But we have not time for that. May I say that I am most grateful to you for your attention and interesting questions. I shall long remember this as a most enjoyable occasion.

The Committee adjourned to the call of the Chair.

1953-54

THE SENATE OF CANADA

Proceedings of the

STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty.

No. 2

THURSDAY, MARCH 4, 1954

The Honourable A. N. McLEAN, Chairman

WITNESSES:

Mr. Ettore Lolli, Central Manager of Banca Nazionale del Lavoro, Rome, Italy.
Mr. Bruno Foa, Consulting Economist, Consultant to U.S. Representative Office, Banca Nazionale del Lavoro.

APPENDIX A

Charts—Italian Emigration, Population, Basic Economic Indicators.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLean, Chairman

The Honourable Senators

Baird	Duffus	MacKinnon
Bishop	Euler	McDonald
Blais	Fraser	McKeen
Buchanan	Gouin	McLean
Burchill	*Haig	Nicol
Campbell	Hawkins	Paterson
Crerar	Howard	Petten
Daigle	Kinley	Pirie
Davies	Lambert	Turgeon
Dessureault	*Macdonald	Vaillancourt--(28)

* *ex officio* member.

35 Members.

(Quorum 7)

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Tuesday, February 23, 1954:—

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(*a*) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(*b*) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry."

L. C. MOYER,
Clerk of the Senate.

87712—1½

MINUTES OF PROCEEDINGS

THURSDAY, March 4, 1954.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 11.00 a.m.

Present: The Honourable Senators: Baird, Bishop, Blais, Burchill, Crerar, Dessureault, Euler, Gouin, Haig, Hawkins, Lambert and Turgeon.—12.

In attendance: The official reporters of the Senate.

In the absence of the Chairman the Honourable Senator Turgeon was elected Acting Chairman.

Consideration of the Order of Reference of February 23, 1954, was resumed.

The following were heard:—

Mr. Ettore Lolli, Central Manager of Banca Nazionale del Lavoro, Rome, Italy.

Mr. Bruno Foa, Consulting Economist, Consultant to U.S. Representative Office, Banca Nazionale del Lavoro.

Charts of Italian Emigration, Population and Basic Economic Indicators, filed by Mr. Foa, were ordered to be printed as Appendix A to these proceedings.

Further consideration of the Order of Reference was postponed.

At 12.15 p.m. the Committee adjourned to the call of the Chairman.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Thursday, March 4, 1954.

The Standing Committee on Canadian Trade Relations, which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 11 a.m.

Hon. Mr. BEAUBIEN: In the absence of the Chairman (Hon. Mr. McLean), I move that Hon. Mr. Turgeon act as Chairman this morning.

Hon. Mr. BAIRD: I second that motion.

Hon. Mr. TURGEON, Acting Chairman, in the Chair.

The CHAIRMAN: Honourable senators, I want to thank you very much for the honour you have given me of acting as Chairman of this meeting. We all know that no chairman can succeed except through the willingness and help of the members of the committee and I am certain that I will have it from those of you who are here today. I suggest that we use the same formula that worked so excellently when Mr. McKittrick was before us on February 24, and that, as far as possible, we permit the witnesses to give their evidence and ask questions later on.

Before they arrive, I will just give you a very brief statement as to who is coming here this morning. They are both of Italian birth. Ettore Lolli is an Italian citizen. He has spent most of his professional life in public utility companies both in Italy and in the United States. He was from 1945 to 1950 first deputy chief and later chief of the Italian Economic and Purchasing Commission in the United States. He is now one of the central managers and the U.S. representative of the Banca Nazionale del Lavoro of Rome. The second witness who will give evidence here this morning is Mr. Bruno Foa. He also was born in Italy, is a consulting economist in New York, is a citizen of the United States, and was a Professor of Economics and everything that goes with it.

I see our two friends have come in and I will ask that they come up to the head table.

I will first call on Mr. Lolli. Mr. Lolli, by the way, is a graduate in engineering of the University of Rome, and as I said before, has spent most of his professional life in public utilities.

Hon. Mr. EULER: What is the subject of this talk this morning?

The CHAIRMAN: May I say, Mr. Lolli and Mr. Foa, that we have here some senators who are very strongly interested in trade and commerce and who are very much experienced. Senator Euler, for instance, was formerly Minister of Trade and Commerce in the Canadian government for some time, and if you are asked some questions you will now know just what is the foundation of them. Everybody here has been interested in the question of trade relations, so you will be talking to an audience that knows something of what you are talking about.

I will now ask Mr. Lolli if he will proceed.

Mr. ETTORE LOLLI, Central Manager of Banca Nazionale del Lavoro, Rome, Italy:

Mr. Chairman, and Honourable Members of the Committee, I feel highly honoured and gratified to be here. I am appearing in an entirely private capacity, as one of the Central Managers and the North American representative of Banca Nazionale del Lavoro, one of the leading commercial banks of Italy. While my location is in New York, I paid several visits to Canada and I am always in very close contact with the leading Canadian banks, in line with the policy of my bank, which attaches the greatest importance to the development of close financial, trade and economic relations between Italy and this great country. It was also my privilege to develop extensive personal contacts with the management of several Canadian industrial and export companies, over a number of years, in connection with the procurement operations of the Italian Government Technical Delegation in Washington, of which I was, during the 5 years 1945-1950, first the Deputy Chief and later the Chief.

The fact that I am appearing before you, on behalf of an Italian bank, is in itself an indication of the unusual interest stimulated in far distant lands by the resolution of the Canadian Senate that set in motion this inquiry, and by your terms of reference. It is also, I dare say, an evidence of the extremely close attention with which Italian business and economic circles are following contemporary developments in this country. We are all greatly impressed by the tremendous strides made by Canada in recent years, which have placed her in a position of unprecedented international influence, not only in terms of the world economy, but also of the great councils of the international family of nations. The fact that your Senate has sponsored this inquiry is a striking evidence of the wisdom and the vision which you are bringing in the discharge of these new and broader international responsibilities. The recent speeches of your distinguished Prime Minister Mr. St. Laurent, during his visit to Europe, have attracted widespread interest and attention in Italy.

I am sure you will bear with me if I begin by stressing the very special reasons which give to us Italians what I might call a vested interest in the development of closer economic relations among the nations of NATO alliance. For it is a well-known fact that we are a modern, industrialized and progressive nation, heir to one of the world's great civilizations, which feels caught in the vise of scarcity of natural resources on the one hand and population pressure on the other. We have the urge and the skills required for a high rate of economic growth, but are hampered by certain structural limitations which we cannot alone remove. To give our people higher and growing standards of living, we need a type of international economic society which is increasingly open, and which allows a reasonable degree of movement of commodities and manpower. We need an expanding world economy, access to primary and raw materials, greater and more receptive markets for our goods, outlets for some of our surplus population. We need, in other words, a cooperative type of international society.

Under competent leadership, and with generous American assistance, Italy has quickly recovered from the enormous losses of the war years, and has got back on her feet. Our industrial production is over 60 per cent higher than before the war. We have stabilized our currency and financed our budgetary deficits through non-inflationary devices, and have restored our exports to high levels. Sure enough we have a surplus of manpower of some two million people for which we cannot find employment and which are a drain on our economy. The pressure of these problems is one more reason which has induced the Italian Government to be on the forefront of all programs of international and intra-European co-operation, from NATO to the Organization for European Economic Cooperation, from the European Assembly to the Coal and Steel Community.

At the present anxious times, there is a question which is worrying many people in Italy, and possibly in other parts of Western Europe. The question is whether the close relationship developed with the two great nations of North America, is to be considered as an important and yet transient chapter, dominated chiefly by emergency considerations and by the imminence of a common threat, or whether it is something which is going to stay—the product of hope no less than of fears, and a plant which is going to grow and flourish no matter what are the vagaries of the international political picture.

The majority of the people in my country is aware of the paramount importance of the NATO military arrangements. It is clear, however, that since military strength has its roots in economic strength, the economic implications of the NATO Pact are also of vital importance. The United States Mutual Defence Program gives of course recognition to that principle and helps the European members of NATO to shoulder the economic burden of the defence program. We also admire the resourcefulness and flexibility shown by the United States after the war in implementing a long succession of programs in aid of European and world reconstruction as well as of economic stability and development.

On the other hand, we all sense that the phase of vast programs of direct American economic assistance to Europe is drawing to a close, and are anxious to see that adequate substitutes for it are developed. We are aware that much can be done through the "trade, not aid" formula coined by Chancellor Richard Butler, but we are also aware of the great difficulties that stand in the way of its full acceptance and implementation. Moreover, we feel that the development of trade and financial channels alone would not fully meet the challenge of our time. We grope for something involving a more active initiative and responsibility on the part of the leading nations of the world economy, with the participation of other nations in a spirit of complete mutuality. We are looking forward to the day when world international relations will begin to acquire the organized and unified character of those which traditionally exist within each national unit.

Various approaches are of course conceivable. There are those who stress the superiority of a universalistic approach, be this implemented through the mechanics of the international pricing, trade and financial system or through the strengthening of the United Nations. Others favour the more limited regional or group approach. In my own opinion, both methods are complementary. The greater the degree of universality of co-operative international arrangements, the better. But we cannot forget the realities, historical, geographical and otherwise that require regional or other arrangements. We must also remember that we are witnessing the growth of a most interesting type of international "pluralism", whereby a nation, while preserving its independence and sovereignty, links itself to a vast number of political or economic constellations. Your own Commonwealth of Nations is one of the most original and distinguished examples of such levelopment. Membership in the Commonwealth is held to be fully compatible with participation in the NATO. There is hardly a country in the world outside the Curtain which is not linked, at least in fact, by some sort of special arrangement with the United States, while the United States herself is a partner of a vast number of regional or bilateral arrangements. This network of limited and yet non-exclusive international relationships is making great practical contributions to world stability. The United Nations remains as the symbol and the ultimate goal of the world's hopes. But, meanwhile much is being accomplished through the more limited international or regional systems which function in various parts of the world. Moreover, the fact that the leading partners of many groups, such as the United States and Britain, have also other equally important ties with others, establishes a kind of inter-communication, and prevents those systems from becoming "closed end" alliances.

These considerations, though sketchy, are adequate, I believe, to provide a strong justification for the development of NATO as an effective and mutual system of economic co-operation. For, directly or indirectly, NATO includes most of what is known as the Western type of civilization: through NATO one can marshal a vast part of the world's industrial and other economic resources.

NATO, in its essence, is a structure which can be compared to a Chinese box, or perhaps to a number of circles, or other geometrical figures, enclosed within each other. Its inner circle includes the key nations of continental Western Europe. Its middle circle encompasses Britain, and many of her overseas dependencies and ramifications. The outer circle is made of the United States and Canada. And while each circle, and each nation within it, has problems and requirements of its own, each draws added strength and reassurance from its relationship to the others. Moreover, the whole structure adds up to a highly integrated and yet flexible constellation. It enables certain members of the system, for instance the nations of continental Europe, or the three English-speaking member of the alliance, to work out special arrangements among themselves in such a way as to take full account of the interest of the other members of NATO, and as to actually co-ordinate the narrower to the broader type of arrangement. Thus NATO can give full play to the establishment of constructive closer relationships within its orbit, and yet remove the taint of "exclusivism" from them.

I have no doubt that most responsible Italians would support wholeheartedly any detail arrangement that would give a permanent and growing substance to the economic collaboration clause of the NATO pact.

This is not only because we are anxious to find ways and means of exporting more products or settling overseas more emigrants, and because we are looking for a reassurance against the contingencies of the business cycle and of international balance of payments problems.

Another and perhaps deeper reason is that we feel it essential that at one stage or another, the Atlantic Community begins to develop from an alliance to something closer to a single community. We feel that at one point the psychological barrier which still divides the nations on the two sides of the ocean must be removed, and that it can be removed only by making of the Atlantic Community a living reality. It is only, I submit, if and when the ordinary people on either side of the Atlantic have a feeling that somehow they belong both to Europe and to America that we shall be able to understand each other and to think and act not as friendly strangers but as members of the same family.

This does not mean that there should be a merger of sovereignties. It would require however some permanent machinery for economic policy-making, cutting across to some extent individual domestic policies in such matters as foreign trade, domestic and foreign investment, monetary and farm policies. Furthermore, it would require a state of affairs which would allow for a wide degree of mobility of persons, at least with regard to temporary visits and temporary employment.

The economic potentialities of NATO are immeasurable. In a nutshell, they might be described as three-fold. First, there would be a revitalization of Western Europe, with consequent possibility of bringing about a rate of economic growth almost comparable, in due course, to that achieved by

North America. Second, the greater responsibilities accepted by the United States and Canada for economic growth and stability within NATO would pay dividends, in terms of international stability and of increased outlets for North American enterprise, industry, finance and investment. Third and finally, there would be a pooling of the skills and resources of the Western world available for the valorisation of underdeveloped areas throughout the world.

I would like now to introduce to you a professional economist, who will deal with a number of technical problems related to the general principles which I have outlined. Dr. Bruno Foa is a consulting economist in New York and Washington, who was for some time in the staff of the Board of Governors of the Federal Reserve System. He was born in Italy, is an American citizen, and has spent approximately half of his adult life on either continent. I have asked him to complete and supplement the presentation on behalf of Banca Nazionale del Lavoro, which in turn has left him complete freedom with regard to the expression of his own individual views.

Mr. BRUNO FOA, Consulting economist, New York; Consultant to U.S. Representative Office, Banca Nazionale del Lavoro:

Mr. Chairman and honourable members of the committee, as Mr. Lolli indicated, I am here before you in my capacity as economic consultant to Banca Nazionale del Lavoro, to express some views, on behalf of my client and as a private individual, on the weighty matters which you are considering. I am not acting on behalf of any other group or organization, nor of any government.

I propose to discuss briefly two aspects of the subject. First, I shall offer some comments on the broader implication of closer economic cooperation within NATO. I shall outline then their meaning in relation to the economy of Western Europe, and of Italy in particular.

Closer cooperation under Section 2 of the North Atlantic Pact would unquestionably make a great contribution to stability, within the NATO area and throughout the free world. Specifically:

(1) It would be a recognition of the fact that the management of the economy of the western world requires a measure of coordination of national policies, and the development of a joint approach to international economic problems, on a continuous and day-to-day basis.

(2) It would provide a broad system of insurance against the international effects of inflationary or deflationary pressures, wherever these may originate.

(3) It would create a common framework for economic growth, within and without the NATO area.

(4) It would give the necessary support to the process of European economic integration, which has made a good start through the coal and steel community but which is still beset with formidable difficulties.

(5) It would help to evolve a common approach on such matters as trade policies, currency convertibility, orderly disposal of farm surpluses, excessive fluctuations in international commodity prices, international investment and development.

In short, there are three basic areas of relations in which NATO economic partnership can be of vital importance: international inflation, deflation, and growth.

To begin with inflation. We all remember what happened four summers ago, when the Korean war broke out. There were six of seven months of wild increases in international commodity prices, and there developed an international scramble for steel, copper, nickel, aluminum, rubber and all kind of materials, as well as industrial goods. There were sudden large swings in international payments, and in the terms of trade as between different areas. It took at least a year to set up and get into motion a tolerably effective machinery for the allocation of materials and other scarce goods among the free nations, partly through administrative measures adopted by the United States and partly through the International Materials Conference. In terms of the broader picture, it so happened that the impact of the Korean boom, coming as it did after the short-lived but sharp dip of 1949, helped the international economy as a whole, and acted as a stabilizer, instead of being dissipated through inflationary spirals. There is no guarantee however that this would be the case under different conditions. At any event, there was little justification for the commodity boom and bust of 1950 and 1951, nor for the friction and waste due to lack of stand-by arrangements for the allocation of materials and scarce products among friendly nations. Nor should we overlook the lesson to be learnt from the developments of that period, i.e. that the time to get prepared for recurring emergencies of that kind, and to set up economic plans and blueprints on a stand-by basis, is before and not after the event. It is good to know that there is a skeleton organization ready to reactivate the International Materials Conference if and when needed, but this is not enough. Something like a NATO Security Resources Board, capable of coordinating without delay member policies on the use of scarce materials in the event of emergencies, of implementing joint methods of procurement and allocations, and straightening out bottlenecks, would be required, and could perform great services.

As for the problem of international deflationary pressures, NATO could not of course deal effectively with their primary causes, which stem from developments internal to the American or other national economies. Much could be done, however, to prevent their cumulative spreading and spiralling.

The international economy is at present in a fairly good shape, but it may become exposed to certain recessionary influences.

There are large and unwieldy farm surpluses in the United States and here in Canada. There are also growing pools of unemployed in both nations. There is some slight indication of possible export difficulties in Britain, Western Europe and other areas, because of lower American imports. Sure enough, each country will want to have a pretty free hand, to work out the domestic impact of these problems in its own way. But, in the event that things should really deteriorate, what about the international repercussions of national anti-recession policies? Are we going to slide back to the "beggar-my-neighbour" strategy of the thirties, and try to cut each other's throat by emergency import restrictions, export subsidies, immigration bans, unilateral currency devaluations and the like? Or are we going at last to act sensibly, to discuss and consult with our friends, and to see to it that our separate domestic policies do not inflict unnecessary harm on others? Shall we be ready to accept, if necessary, temporary or sectional sacrifices, which may be essential so that deflationary pressures are fought through weapons which are calculated to expand, rather than to restrict, the flow of international trade, investment and movement of persons?

We can take it for granted that, should there develop serious symptoms of international recession, the NATO nations will consult among themselves, and work out "ad hoc" arrangements, financial or otherwise, to preserve stability. There is always the risk, however, which is inherent to all sporadic and emergency action, of doing too little and too late. Consequently, there is much to be said for advance cooperation and planning, among NATO, and, I would add, European Payments Union members. Its purpose would be to examine and face in advance the possible international repercussions of certain developments, to single out soft spots and segments of the international economy which require attention, and to consider the type of international correctives which might be desirable under certain contingencies. NATO would be the natural lodgment for this type of work, since it has already available nearly all the necessary machinery, at the national and the international, the technical and the policy-making levels. It could do the job as a matter of coordination and policy-making, without adding another layer to the structure of the existing international economic agencies, which is already overburdened and somewhat top-heavy.

I turn now to the problem of economic growth, in relation to Western Europe, and to Italy in particular.

Growth is the fundamental problem of Western Europe. For while the area is not underdeveloped in the accepted sense of the word, it is keyed to rates of growth which are too slow in relation to its potentialities, and to the present state of technology and industrial organization.

The economic problem of Western Europe, as I see it, boils down to the necessity for large and drastic increases in gross national product and income levels.

To move toward that objective, there must be rapid progress toward European economic integration, and—to promote and buttress it—close and permanent economic cooperation between the Atlantic family of nations, in its broad, rather than geographical sense.

It is most difficult, of course, to bring about the integration of half a dozen or more national economies, each with its own industrial, price and wage structure. The stronger units are afraid of being dragged down to the level of the weaker ones, and the weaker are afraid of being engulfed by the stronger ones. The potentialities of a unified market are tantalizing, but the fears about what is going to happen during the transition are just the same crippling. To allay those fears, help to unfold quickly the potentialities of integration, and to redress the balance between the stronger and the weaker units, both United States and Canada have an indispensable role to play.

Now, a few considerations on the Italian economy.

The Italian economy has expanded very substantially, over the past 50 years, despite two world wars, invasion, twenty years of dictatorship, and the great depression of the thirties. Incidentally, you will find some of the basic trends plotted on these charts for the past fifty years. (*See Appendix A*). From these graphs you will see that industralization has increased very considerably, the national income has increased somewhat, population has increased less than the increase in the national income, the foreign trade both ways, exports and imports, despite rather wide fluctuations, on the whole has increased very steeply.

The national income of Italy, over that long period, doubled as against the 43 per cent increase in population. I should explain it doubled in real terms. The national income figure has been adjusted for price changes. The post-war recovery has been remarkable. Industrial production is now 60 per cent higher than in 1938, and the national income in the same period has increased by 25 per cent. Production of electric power energy has doubled with respect to pre-war, and a host of industries, from automotives to oil refining, plastics, oil and coal derivatives, roller bearings, aluminum, and so forth, is expanding very rapidly. The utilization of natural gas helps to keep down the import requirements of coal, and some oil deposits have been discovered. Incidentally, natural gas already supplies five per cent of the total fuel requirements of

Italy, and it is expected that in the next four or five years it will supply from twenty-five to thirty per cent. Gross investment proceeds at a rate in excess of 20 per cent of the national gross product. A large investment plan is in progress for the rehabilitation of the long neglected and underdeveloped regions of the south. The Italian export trade has been running in the past few years at unprecedented levels.

On the other side of the coin, there is a serious degree of structural maladjustment, as Mr. Lolli mentioned, which prevents Italy from reaching a position of full employment while maintaining balance in her foreign account. It finds its chief expression through the unemployment and underemployment of well over 10 per cent of the nation's labor force. This malajustment stems chiefly from the population pressure, and from the limits placed upon investment by the state of the foreign balance.

Contrary to frequent misconceptions, the Italian birthrate is now comparatively low it was 18·4 in the thousand in 1951, as against 15·9 in Britain, 19·4 in France, 24·3 in the United States, and 27·1 in Canada. I have a chart here which shows population trends. The upper curve show the gross increase and the lower curve shows the trend in the annual rate of increase. From this chart you will notice that ever since the middle twenties, the annual rate has been decreasing. Surplus population is to a large extent a backlog inherited from the past, and aggravated by the lack of adequate foreign outlets for manpower. Its pressure will decrease through time, but it is reaching, at present, intolerable proportions. Outlets are needed, both for emigration and migratory labor. It is a problem that calls for some international action, both at the Western European and the NATO level. It is pleasant to note, in this context, that the current flow of Italian immigrants to Canada is playing a part in the astonishing growth of your great country, and is forging closer links, at the vital level of human relations, between the two nations.

The balance of payments position limits the investment possibilities of the Italian economy, since each increase in investment requires an appropriate increase in imports. It is estimated, with reference to the 7-year period from 1950 through 1956, that in order to expand the Gross National Product by 32 per cent there should be a 38 per cent increase in production, which in turn would entail an increase of 41 per cent in the level of imports, to be financed through an increase of 40 per cent in exports. These figures convey a pretty graphic picture of the Italian economic problem, since they indicate conclusively that there can be no adequate development in Italy without a vast increase in foreign trade. This in turn requires a steady rate of expansion in the international economy, and a reduction on barriers to trade and to capital movements.

Subject to certain qualifications, I am quite confident in the future of the Italian economy, owing to a number of favourable long-term prospects, such as the trends toward a stationary population, toward more abundant and cheaper domestic fuel, toward cheaper steel, and so forth. There is also now the hope associated with the promises of the peaceful uses of atomic energy. But the short-term pressures are serious, and there can be no guarantee of stability and adequate growth, both in the short period and in the long run, except within the framework of closer European integration and economic co-operation within the North Atlantic family.

Before I conclude, I would like to say a few words concerning the attitude which is to be found at present in Italian banking and export circles with respect to currency convertibility. Currency convertibility is of course welcomed as an objective. There are doubts, however, whether Italy and other European nations have reached conditions of external stability strong enough to permit a return to convertibility. There is a widespread opinion that the

European Payments Union is doing on the whole a very fine job, and there is reluctance to discard that machinery, until and unless there are other appropriate safeguards, over and above those provided for by the International Monetary Fund. Above all, there is a conviction that the convertibility of European currencies would not mean much unless it went hand in hand with trade liberalization. It may be mentioned in this context that Italy has liberalized—that is to say, released from quantitative restrictions—97 per cent of her intra-European trade, taking thereby a lead in the progress of European liberalization, and sticking to that policy despite the adverse effect on its EPU position of the much lower liberalization quotas of other member countries.

Let me conclude by expressing the hope that the efforts initiated by your country for an active implementation of Section 2 of the North Atlantic Pact may be crowned with success. For a common sense of direction would help immeasurably to create conditions favorable to the steady growth of world economy, and to the full restoration of Western Europe as a strong and stable partner for peace and development.

The CHAIRMAN: I should like to thank both Mr. Lolli and Dr. Foa for their presentations. We are now open to questions from the committee, as I am sure both these gentlemen will understand. I take the liberty of suggesting to the committee, as was done at our last meeting, that if a senator rises to ask a question he will be permitted to ask further questions related thereto in order that this his first question may be answered fully.

Hon. Mr. LAMBERT: May I ask the last witness if he could indicate the division between Italy's exports and imports? Do the imports exceed the exports, or vice versa?

Mr. FOA: The general situation is this, Italy, like the United Kingdom, Holland or other countries which have very large import requirements for food and industrial materials, invariably has an unfavourable trade balance; so, Italy's imports regularly exceed her exports.

Over the long period, covering the past fifty years, exports have been running on the average at the rate of 75 per cent of imports. The balance is covered through invisible receipts, emigrant and labour remittances, tourist trade, shipping earnings and so forth. The present situation is this—and I can read you the figures for 1953—the value of imports was equivalent to approximately 2·3 billion U.S. dollars, and the value of exports was approximately 1·4 billion dollars, leaving a trade deficit of 891·3 million dollars.

I do not have the actual figures for 1953 concerning the invisible items at the trade balance, nor the balance of payments figures. However, the main indications are the following: At this point, payments with the dollar area are more or less in balance; there is even a small surplus. However, the dollar account is still influenced by degree of U.S. assistance, and particularly by American off-shore procurement orders, which in the past two years have been of approximately $150 million a year.

According to official figures, the actual dollar reserves of Italy have been moderately increasing during the past few months. On the other hand, Italy is running a deficit with the European Payments Union in the order of from 25 to 30 million dollars a month to be settled partly in dollars and partly through credits. So there may be a small balance one way or another. But my hunch is that the balance of payments for 1953 will be more or less in equilibrium. You should always remember though that this includes at least $200 million of United States direct or indirect help.

Hon. Mr. LAMBERT: I notice that according to your diagram industrial growth and production have increased very rapidly?

Mr. FOA: Yes.

Hon. Mr. LAMBERT: I assume that most of that production is consumed in your own country?

Mr. FOA: I would say "yes" and "no". Just because Italian industries need foreign materials, inevitably they must look for outlets. This applies to some of the Italian industries which are growing more rapidly, particularly the mechanical industries—automobiles, roller bearings, typewriters, calculating machines, sewing machines, and which must have foreign markets. I saw some figures the other day according to which some 18% of the Italian production of automobiles is exported. For roller bearings I would not be surprised if the proportion were even higher.

Mr. LOLLI: I think the percentage of sewing machines exported is perhaps as high as 50 per cent.

Hon. Mr. LAMBERT: So that there is no question that foreign markets are of great importance. You are really importing raw materials and exporting, as much as possible, finished products?

Mr. FOA: That is correct.

Hon. Mr. LAMBERT: Is there much tariff protection in Italy? Would you consider that you are a protectionist country or a low tariff country?

Mr. FOA: I confess I am not a specialist in tariff questions. I would call Italy a sort of middle-of-the-road country. There is a certain measure of protection, particularly, I believe, for the chief mechanical industries, and other manufactured products. But the new general tariff which was enacted after the war is, I understand, quite moderate; and there have been, of course, many reductions as a result of the GATT agreements. So I would not say that Italian tariffs are a major problem at the present time. You should remember, however, that as far as dollar imports are concerned, the problem is quantitative liberalization. Italy, in common with most European countries, does not yet feel herself as yet in a position to remove the system of licensing of imports from the dollar area.

Hon. Mr. LAMBERT: Would you agree that if clause 2 of NATO were to work efficiently there should be a more even relationship between countries in respect of tariff charges?

Mr. FOA: Yes.

Hon. Mr. LAMBERT: In other words, you should approach a freer trade basis.

Mr. FOA: Definitely. Personally, I believe in the multilateral approach to tariffs. In other words, I am a very strong believer in the system that if you extend a reduction to one country it should be generalized, without particular preference. And there is no question that that would be one of the important effects, perhaps not so much in terms of actual tariff-making but in terms of informing public opinion within each of the NATO countries of the necessities of the others, and to show why a further liberalization which will help the others, will ultimately help themselves; and so forth. In other words, my belief is that it would help very much to create a climate of public opinion throughout the NATO area which will be favourable to actual tariff reductions.

Hon. Mr. LAMBERT: Governments will have to act before you do that.

Mr. FOA: Definitely.

Hon. Mr. LAMBERT: You referred to the coal and steel community. Has that anything to do with the Schuman Plan at all?

Mr. FOA: Yes. That is exactly the Schuman Plan.

Hon. Mr. LAMBERT: It is operating?

Mr. FOA: It is operating. It started to operate in 1953. There is a transition period of five years. For instance, the Italian steel industry is somewhat young, in comparison with the German and Luxembourg steel industry, and it will continue to require some tariff protection, on a diminishing scale, for a period of five years. At the end of five years there will be one single European market. Already there has been a tariff reduction, and the price of steel has gone down in Italy. There are also signs that the consumption of steel is going up in Italy—which is, I consider, most encouraging—and also related exports of mechanical goods, using cheaper steel so far as available.

Hon. Mr. EULER: Senator Lambert has more or less touched a question which I was going to ask. The witness has stated, I believe, that within the confines of NATO these reforms should take place in connection with liberalization, relating, for instance, to quantitative restrictions, that is quotas and so on.

Mr. FOA: Yes.

Hon. Mr. EULER: Licences, and the rest of it. There has been in Europe for some time an organization known as GATT. You made a slight reference to it. Now, in GATT there are included about 50-odd countries. There are not nearly so many in NATO. Yet, I think, both witnesses have argued that these reforms should take place within the confines of NATO. Will that shut out these other countries that are included in GATT? Do you feel that GATT should be superseded by NATO in this respect, or that NATO and GATT should be complementary to each other?

Mr. FOA: I am grateful to you for raising this question, which gives me a further opportunity of clarifying my previous answer to Senator Lambert. No, most definitely I do not think NATO should take over the powers of GATT in actual tariff negotiating. But, as I have said before, I believe that much can be done through NATO to create a favourable climate of public opinion within an area, and also nothing prevents an informal coordination of policy, if at all possible, between the NATO countries. This should have no character of exclusivity, as I do believe in the multilateral idea, the open international approach to tariff reductions. So that the role of NATO in this connection would be, the way I conceive it, in an indirect more than a direct one.

The Acting CHAIRMAN: Senator Haig, the Leader of our Opposition, wishes to ask a question.

Hon. Mr. HAIG: A dispute is going on in this country which is getting more violent all the time. It is officially suggested here that we should work five days or forty hours a week. Western Germany, I understand, is working about fifty-five hours a week, and they are working as hard as our people are doing. How are you going to prevent German goods from coming into Italy? First of all, what are your hours of labour at the present time?

Mr. LOLLI: I would say, from forty-six to forty-four hours, varying with different industries.

Mr. FOA: Some industries are on even shorter schedules.

Hon. Mr. HAIG: What are your hours?

Mr. FOA: I would say from forty to forty-six hours a week.

Hon. Mr. HAIG: For all industries?

Mr. FOA: Yes.

Hon. Mr. HAIG: Then how are you able to compete with German industry which has a fifty-six hour working week?

Mr. FOA: As you know, senator, the labour factor is only one in the whole picture concerning productivity. One must consider what goes with labour—equipment, organization, cost of raw materials, and so forth.

Hon. Mr. HAIG: Would not the cost of raw materials be the same as between Italy and Germany?

Mr. FOA: Approximately, yes; there would not be much difference. It is very difficult to say definitely what is the effect of German or other competition for I do not have enough information to give you a meaningful answer. My personal feeling is that so long as you have an international economic situation which expands to some degree, there is room for everybody, irrespective of differences in labour costs and working hours, and so forth. Germany, of course, is in a special situation because she started a little later than other countries in her post-war reconstruction. There was a tremendous amount of building and other things to do, and Germany is still in the last lap, I would say, of the reconstruction boom. If international economy ceases to expand, a pretty serious situation might develop in the field of international trade, and this may affect the export industries of the United States, Canada, Japan and many other countries. For this reason I think it is important that exclusive emphasis should not be placed on increasing international trade, but rather that emphasis should be placed on reaching a balance between increasing international trade and increasing rates of domestic growth in countries which still can grow, and which should grow more rapidly. This would apply to such countries as Italy, France, Germany, and so forth.

Hon. Mr. HAIG: The British Columbia Electric Company recently asked for tenders on building a cable between the mainland and Vancouver Island. It was reported in the press that Canadian contractors tendered at $4 million, but a British company tendered at $3 million and was awarded the contract. Their workers are employed at 53 cents an hour, whereas their Canadian counterparts are employed at $1.60 an hour. Do you mean to say that the labour factor has nothing to do with this problem?

Mr. FOA: Yes, but it has to do with it in a more indirect sense.

Hon. Mr. HAIG: Well, I have given you facts. Can you tell us what Canada can do to meet that situation?

Mr. FOA: May I refer to a somewhat different case? The basic wage rate for the automobile industry in Detroit is, I believe, between $2 and $2.50 an hour. The corresponding wage for an Italian worker in the Italian automobile industry is perhaps $2 a day. In other words, you have a situation where the American automobile worker gets a wage that is many times as great as that of the Italian worker. How can you explain that Detroit can produce at such low costs compared to Italy, or, for that matter, Germany? Countries which have high wage rates and which possess potentialities for large production naturally tend to specialize on mass-produced goods. In that field they are unbeatable. On the other hand, countries which have lower wage rates and which have not the same opportunities for mass production, concentrate in fields of production in which labour is the significant factor. There you must expect to be at some disadvantage. In other words, the disatvantage that you find in certain lines of production is offset by the advantage that you enjoy in other lines of production where you can mass produce. You cannot have an advantage all along the line. That is impossible. You have to choose to be on one side or the other, and I believe naturally it is more desirable to be able to mass produce at low costs than to have to stick to producing goods where labour is an important factor.

Hon. Mr. BEAUBIEN: Is Italy able to export automobiles to highly industrialized countries like the United States where wage rates are high, and automobiles are manufactured on the basis of mass production?

Mr. FOA: I don't think Italy is exporting automobiles to the United States, with the exception of a few sports cars.

Hon. Mr. BEAUBIEN: In other words, Italian cars would have a difficult time competing with American cars in the United States.

Mr. FOA: That is correct.

Hon. Mr. HAIG: Is tariff imposed against foreign cars in the United States of America?

Mr. FOA: Yes, 10 per cent.

Hon. Mr. EULER: German manufacturers export the Volkswaggen to the United States and to Canada.

Mr. LOLLI: That is true. Italy could endeavour to export to the United States some small cars, which are not normally produced in America. Of course, there is a danger that the small car may not be suitable for the U.S. market. On the other hand, before you start to sell these cars, you have to create a big organization and increase production. This is all very costly. The fear of the Italian producer is that if he should meet with success in exporting cars, say, to the United States, then the domestic industry of that country would immediately start to build exactly the same type of car. This would mean that the investments made by the Italian producer would be lost, because certainly he could not continue to compete effectively with American automobile production.

Hon. Mr. EULER: Is it not a fact that Americans want big cars? They do not want small cars; they want to show off.

Mr. LOLLI: Americans like big cars.

Hon. Mr. BEAUBIEN: Am I not right that Italy is a heavy producer of electrical appliances and machinery?

Mr. FOA: Yes.

Hon. Mr. BEAUBIEN: Is Italy able to export electrical goods to the United States in competition with mass-produced electrical goods of that country?

Mr. LOLLI: There have been some very recent examples of an Italian industry getting contracts for transformers from a United States government agency. I understand that the Italian price was over 25 per cent lower than that of the lowest price offered in the United States. This is a field where no doubt labour plays a significant part. Referring to the illustration Senator Haig gave a few minutes ago about building a cable between the British Columbia mainland and Vancouver Island, may I say that some five or six months ago the British Columbia Electric Company placed a contract with an Italian steel manufacturer for a supply of steel transmission towers. The Italian company was in competition with companies in Germany, Belgium, England, and the United States, but the Italian price was lower than that offered by manufacturers in any of these other countries. The Italian price was lower notwithstanding the fact that on that particular kind of equipment the raw material incidence is over 65 per cent of the total. Actually there is little which is manufactured in this equipment. A steel tower is mostly semi-manufactured steel. By using considerable ingenuity in design, we were able to submit a quotation for a tower which was lighter than the one offered by other companies.

Hon. Mr. BAIRD: Do you subsidize the industries?

Mr. LOLLI: No, there is no subsidy at all. At present there is a plan under consideration—I do not think it has been decided upon yet—by which a certain reimbursement will be made to the exporters for the amount of import duties paid on materials required in the manufactured product to be exported. This of course is not a subsidy.

Hon. Mr. BAIRD: My purpose in asking that question is that some of our glove manufacturers in Ontario, for instance, are finding it mighty hard going today. They are up against competition, I understand, from Italy. That was why I asked if you were paying a subsidy, or if the exporting companies are government-controlled.

Mr. LOLLI: They are private companies 100 per cent. Unfortunately, I might say, the government-controlled companies are not so successful in business. They are in a delicate situation, and that is why the government is controlling them, because no one wants them; and for social reasons employees cannot be allowd to go in large numbers, because the unemployment situation is acute in Italy today. As far as I know, the only companies that have succeeded are those that are 100 per cent privately-owned.

Hon. Mr. LAMBERT: I assume that the large percentage of your industry in Italy is privately-owned?

Mr. LOLLI: A large percentage, no doubt. The heavy mechanical machinery industry is controlled by the government to a great extent.

The ACTING CHAIRMAN: Are there any further questions?

Hon. Mr. BAIRD: Did you say there were 2 million unemployed in Italy?

Mr. FOA: Approximately 2 million. The total working population is about 17 million. In addition to the 2 million unemployed must be added almost as many who are under-employed.

Hon. Mr. LAMBERT: What percentage of your industry is agricultural?

Mr. LOLLI: Agriculture still absorbs over 40 per cent of Italy's active manpower.

Hon. Mr. LAMBERT: That would cover a variety of things, including wheat?

Mr. LOLLI: Yes, wheat, a large percentage of which is used for domestic requirements, and fruits and vegetables for export to Britain, Germany and other markets.

The ACTING CHAIRMAN: I understand that Senator Hawkins wishes to ask a question?

Hon. Mr. HAWKINS: What proportion of your imports are for food consumption, as against imports of raw materials for industrial production?

Mr. LOLLI: I should have been glad to supply you with the figures, which I do not think I have now, but my guess would be that food imports are not responsible for more than perhaps 12 or 15 per cent total imports.

Mr. FOA: Of course, it varies considerably according to the years. For instance wheat—

Hon. Mr. LAMBERT: Where do you buy your wheat?

Mr. FOA: From many countries, including Canada. The imports of wheat from Canada in 1953 amounted to over $16·5 million.

Hon. Mr. LAMBERT: Would any have to be re-exported?

Mr. FOA: All for domestic consumption, I believe.

The ACTING CHAIRMAN: Are there any further questions?

Hon. Mr. BEAUBIEN: Italy is not a member of the International Wheat Agreement, is it?

Mr. FOA: Yes, Italy is in the agreement.

The ACTING CHAIRMAN: Senator Haig?

Hon. Mr. HAIG: I assume it is correct to say that tourist traffic has increased in Italy?

Mr. LOLLI: Yes.

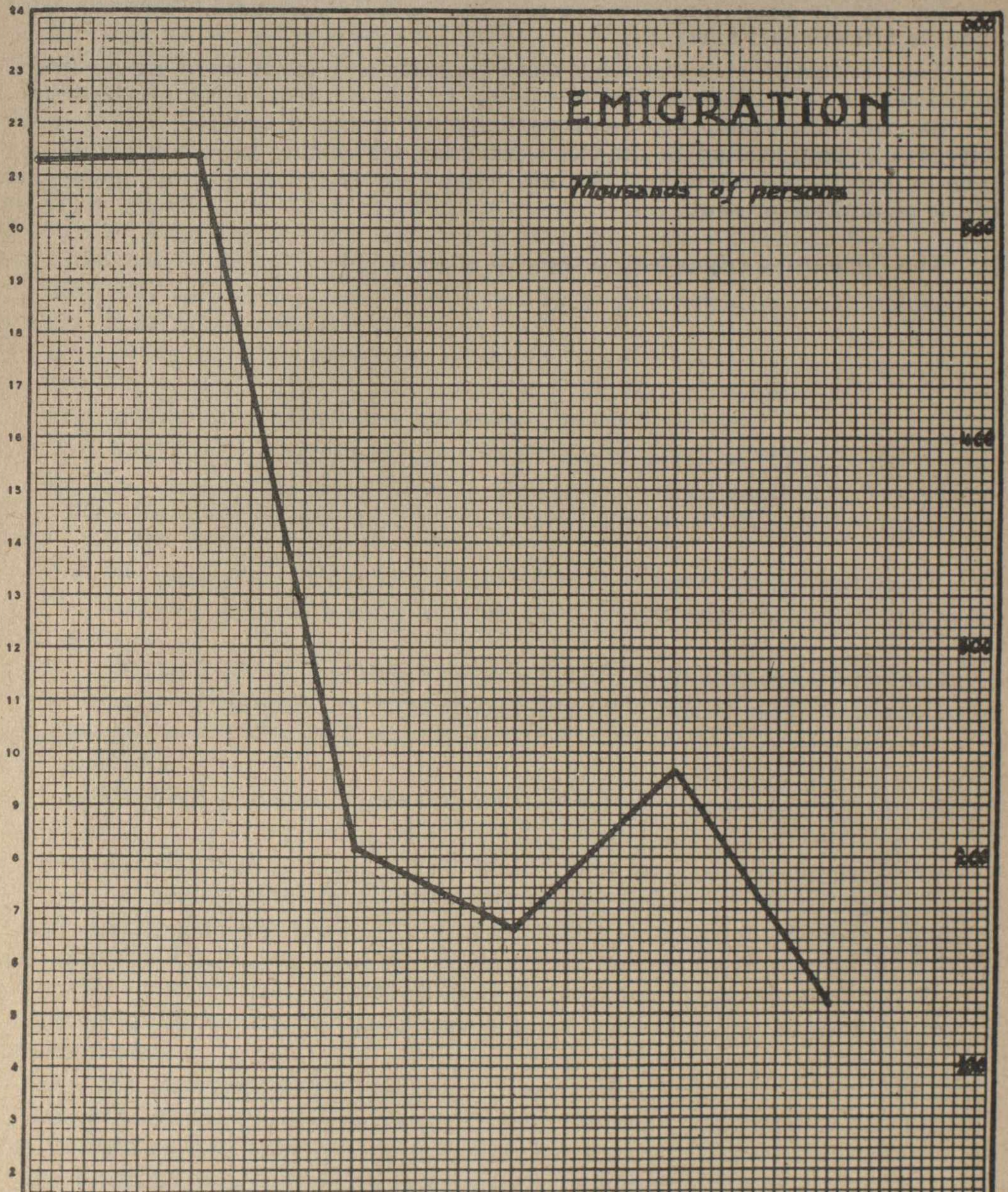
Hon. Mr. HAIG: And has it reflected in the great increase of visitors from Canada to Italy every year?

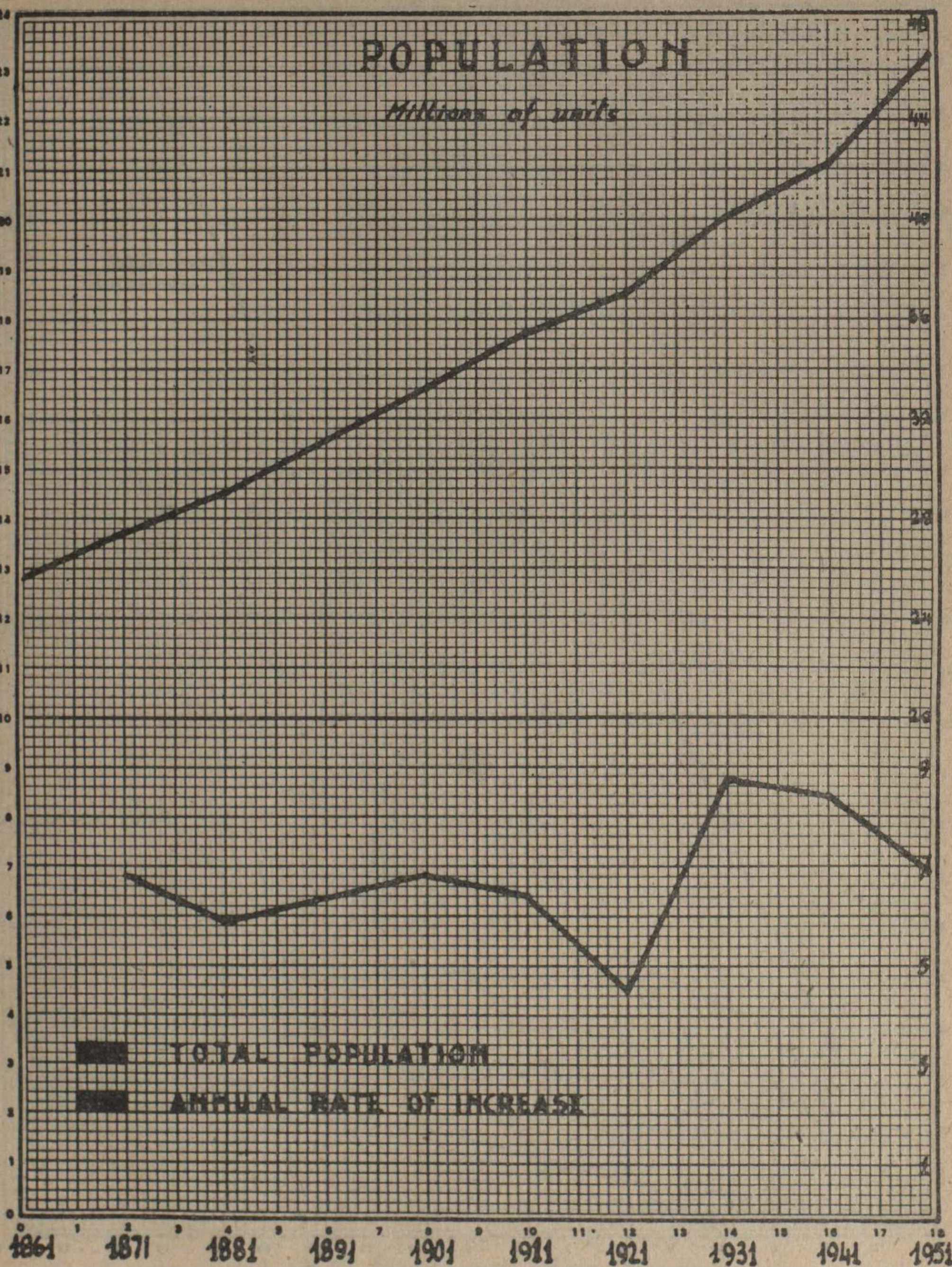
Mr. LOLLI: Yes, transportation has very greatly increased. You can get there in fifteen hours now.

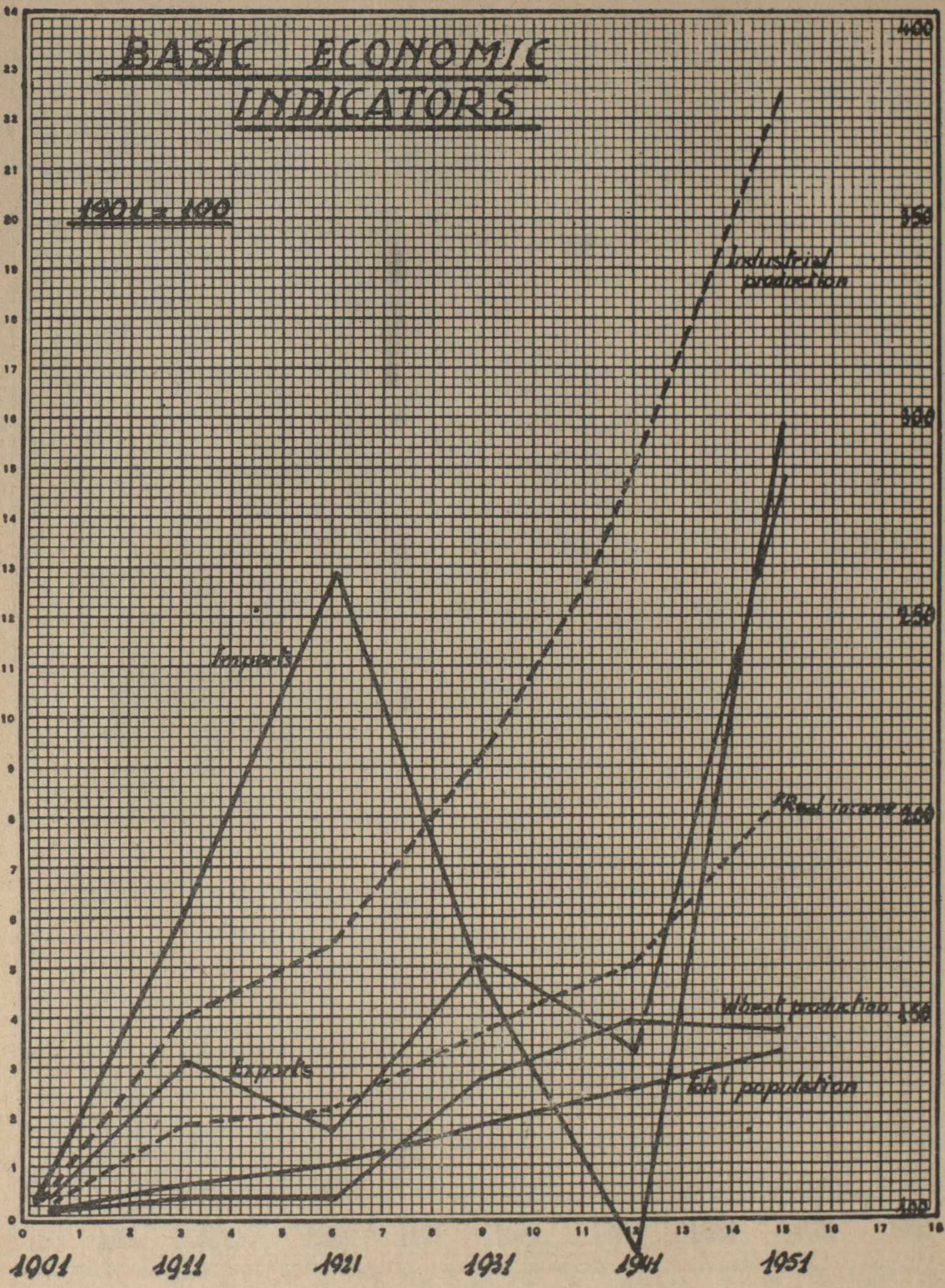
The CHAIRMAN: Are there any more questions? Well, if there are no other questions we will adjourn. Before doing so I want to express appreciation for the way the senators present participated in the discussion; and I also express our appreciation to the two gentlemen for coming here and giving us such an excellent dissertation. I know what I say is reflected by all members of the committee present.

The Committee adjourned to the call of the Chair.

APPENDIX A


EMIGRATION
Thousands of persons
1901
1911
1921
1931
1941
1951


POPULATION
Millions of units
TOTAL POPULATION
ANNUAL RATE OF INCREASE
1861
1871
1881
1891
1901
1911
1921
1931
1941
1951


BASIC ECONOMIC INDICATORS
1901 = 100
Industrial production
Imports
Real income
Wheat production
Exports
Tot'l population
400
350
300
250
200
150
100
1901
1911
1921
1931
1941
1951

1953-54

THE SENATE OF CANADA

Proceedings of the

STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty.

No. 3

WEDNESDAY, MAY 12, 1954

The Honourable A. N. McLEAN, Chairman

WITNESSES:

The Canadian Exporters' Association:
Mr. S. A. MacKay-Smith, President.
Mr. G. H. MacDougall, Vice President.
Mr. R. B. Spiro, Director.
Mr. O. B. Brown, Director.
Mr. J. H. Ferrie, Director.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.

88041—1

CANADIAN TRADE RELATIONS

The Honourable A. N. McLean, Chairman

The Honourable Senators

Baird	Duffus	MacKinnon
Bishop	Euler	McDonald
Blais	Fraser	McKeen
Buchanan	Gouin	McLean
Burchill	*Haig	Nicol
Campbell	Hawkins	Paterson
Crerar	Howard	Petten
Daigle	Kinley	Pirie
Davies	Lambert	Turgeon
Dessureault	*Macdonald	Vaillancourt—(28)

* *ex officio* member.
35 Members.

(Quorum 7)

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Tuesday, February 23, 1954:—

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(*a*) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(*b*) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry."

L. C. MOYER,
Clerk of the Senate.

88041—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, May 12, 1954.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 11.00 a.m.

Present: The Honourable Senators McLean, Chairman, Burchill, Campbell, Daigle, Davies, Euler, Gouin, Kinley, MacKinnon, McDonald, Nicol, Pirie and Turgeon.—13.

In attendance: the official reporters of the Senate.

Consideration of the Order of Reference of February 23, 1954, was resumed.

The following representatives of the Canadian Exporters' Association were heard:—

Mr. S. A. MacKay-Smith, President.

Mr. G. H. MacDougall, Vice-President.

Mr. R. B. Spiro, Director.

Mr. O. B. Brown, Director.

Mr. J. H. Ferrie, Director.

Further consideration of the Order of Reference was postponed.

At 12.30 p.m. the Committee adjourned to the call of the Chairman.

Attest.

John A. Hinds,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Wednesday, May 12, 1954.

The Standing Committee on Canadian Trade Relations, which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 11 a.m.

Hon. Mr. McLEAN in the Chair.

The CHAIRMAN: Honourable senators, we will call the meeting to order. I do not think it necessary to read the order of reference under which this committee holds its meetings. We are all familiar with it and I am sure the gentlemen who are appearing before us today would not be here if they had not read it.

We are fortunate in having with us this morning representatives of the Canadian Exporters' Association, an association well known throughout Canada for the excellent work it has done in promoting the sale of Canadian products in many parts of the world. It has put forward constant efforts to eliminate trade barriers, not only between NATO countries, but between other countries of the free world. The members of the delegation before us are, Mr. S. A. MacKay-Smith, President of the Canadian Exporters' Association; G. H. MacDougall, Vice-President of CEA, Export Sales Manager, Shawinigan Chemicals Ltd., Montreal; R. B. Spiro, Director of CEA, Export Manager, The Coleman Lamp & Stove Co. Ltd., Toronto; O. B. Brown, Director of CEA, Export Manager, Beatty Bros. Limited, Fergus, Ontario; and J. H. Ferrie, Director of CEA, Vice-President, Canadian Bronze Powder Works Ltd., Montreal.

I understand that the President of the Association, Mr. MacKay-Smith, will present the brief to us; and after he is finished, there will be a question period. I think the better plan is to allow each senator an opportunity to ask a series of questions to clarify any points he has in mind, and in that way go around each member of the committee.

I shall now call on Mr. MacKay-Smith to present his brief.

Mr. S. A. MACKAY-SMITH, President of the Canadian Exporters' Association: Honourable senators,

The Canadian Exporters' Association is vitally concerned with the development of Canada's international trade. The association was formed in 1943 by a group of companies interested in selling abroad who saw the necessity of an Association whose sole aim and purpose would be the promotion of export trade, and today has a membership of over 350 firms engaged in exporting.

The Association is regarded as the exporters' clearing house; the entire exporting community shares in the results of the Association's program and individual members benefit directly from the many Canadian Exporters' Association services as well as from participation in activities and exchange of views with other members. As a matter of national interest many others also contribute to the work of the Association in support of Canada's Foreign Trade Policies.

The Association is a non-profit, non-political organization and is supported by members from all Provinces. The Board of Directors and Committees are made up of Association members.

On matters of international trade, the C.E.A. works in close harmony with the Department of Trade and Commerce in Ottawa, and with the Department's far-flung Trade Commissioner Service. It also has close working relations with other Federal Government Departments whose responsibility is to develop and maintain Canada's foreign International Trade.

It is recognized by the Association that an important part of the foundation for Canadian export business is a sound domestic manufacturing industry. This industry is entitled to prompt and effective enforcement of Canadian Laws on Customs and Dumping Duties. It is, furthermore, the view of the Association that the Canadian Government, while living up to its obligations under international trade treaties, should actively protest infringements of such treaties by other countries, where such infringements create obstacles for Canadian exports.

The Canadian Exporters' Association, therefore, finds itself in entire agreement with some of the recommendations already submitted to the Senate Committee by other bodies emphasizing the importance of measures proposed to adjust international tariff barriers, to ease monetary restrictions, to hasten the advance towards the ultimate convertibility of currency, and to eliminate as far as possible tiresome customs regulations which create an intangible but, nevertheless, formidable obstacle to freer international trade.

Many of the recommendations that have already been proposed are good and, if adopted, can advance very materially the prosperity not only of Canada, but of all those countries participating in international trade.

However, the Canadian Exporters' Association has felt it important in preparing this brief to concentrate its recommendations on certain specific points to which immediate attention can and should be given and which, in the opinion of the Association, can help to achieve two very valuable results:

(1) Measures recommended to improve International Trade

The adoption of certain measures recommended to improve international trade would give Canada the opportunity to play a leading part in the freeing of international trade from its present restraints and restrictions.

Moreover, the example of Canada's leadership would react favourably on other important trading countries and would thereby give a stimulus to them to adopt similar measures.

(2) Measures recommended to benefit Canada's Export Trade

The adoption of measures recommended to benefit directly Canada's export trade would focus the attention of the Canadian public on the vital importance to Canada of maintaining her export business and would give invaluable encouragement to the many Canadian firms endeavouring under very difficult conditions to maintain their present export connections and business.

Our recommendations and suggestions will therefore deal with two specific categories:

(*a*) Conditions and suggestions which in our opinion would have a favourable bearing on world-wide international trade as a whole and thus would affect Canada's trade relations indirectly;

(*b*) Conditions and suggestions which in our opinion would be directly beneficial to Canada's external trade.

(A) Measures Recommended to Improve International Trade as a Whole

1. Currency Convertibility and Import Controls

It has been recognized and said only too often that the shortage of free exchange in the hands of many countries is the greatest single difficulty in the further development of foreign trade and it is this exchange shortage, mostly in dollars, which in the main perpetuates the import controls, quantitative restrictions and other schemes which form the real barrier against the international movement of goods.

Sterling is, without a doubt, the currency in which a very substantial portion of international transactions is cleared and, therefore, we feel that any assistance which would make it possible for the United Kingdom, the sterling area and other allied countries to reduce or abolish their import controls and soon to make sterling internationally convertible would be most helpful to all trading countries.

Most countries in the sterling area claim that any large scale increase in the importation of Canadian goods would have severe effects on their balance of payment position. While some of these claims are at times exaggerated, the fact remains that many soft currency countries are not prepared to substantially enlarge purchases from Canada.

We suggest that Canada should be prepared to grant long-term credits to countries prepared to enlarge the list of Canadian products which can be imported on open general licence. Such credits could be exercised by the countries involved if they can satisfy the Canadian government of balance of payment hardships due to liberalization of imports.

This proposition is tantamount to a dollar loan on a favourable long term basis earmarked specifically for those countries and for those purposes on which agreement can be reached. he ultimate use of dollars received would thus remain under the control of the Canadian government. Such actions by the Canadian government would be primarily for the general good in international trade but more specifically for the good of Canada.

If it should be the case that funds of this type would be more helpful in the reduction or liquidation of outstanding blocked wartime balances, this purpose then would be given precedence whereas if the greater help towards convertibility and abolition of controls is through greater dollar assistance in settlement of current trade then that purpose would, of course, be given precedence.

It is felt that some steps along these lines could be afforded by Canada and would receive the support of Canadian people.

2. Extension of the European Payments Union to Canada and Countries Outside Europe

The European Payments Union has facilitated the exchange of merchandise and the completion of financial transactions between member countries, all of them situated in Europe. Not only have their inner clearings been assisted but the benefits have extended to their trade with countries outside the Union.

Canada has not given any direct assistance to the Union nor received any direct benefits.

Study might well be given to the possibility of the scheme being enlarged to take in other countries, such as Canada, and we suggest inquiries be made to see if this can be accomplished and on what basis it could be done. It is realized that we are a hard currency country, but so is Switzerland, which is now a member. It seems to us that an extension of the EPU arrangement to include some other countries, such as Canada, could be of real benefit over a larger field just as it has been in the smaller field. This would undoubtedly involve some credits or sacrifice on our part but within reason there is justification.

3. Stabilization of Prices and Sales of International Commodities

A great many, so-called, underdeveloped countries depend economically on the price and sale of one or two basic commodities. Any great fluctuations in price or the sale of these commodities have widespread economic and political effect on the areas involved and make them fertile ground for Communist agitators who promise high prices and a steady long term market.

While we are opposed in principle to any arrangements, national or international, which would lead to market allocations, price fixations, government bulk buying, stockpiling, etc., the advocates of these international arrangements say that we have to recognize that the development of underdeveloped areas will be impossible if the prices of the commodities they produce, and upon which their economies depend, are subject to such violent fluctuations as we have experienced recently again.

We suggest that the Canadian government should make a study of our long range requirements of basic commodities such as rubber, wool, tin, tea, coffee, cocoa, sugar, rice, ground nuts, palm oil, copra, copal, etc., and based on our best long-term interest, negotiate for steady prices and guarantee a market in Canada for periods not shorter than 5 years.

We also recommend that the Canadian government should urge the United States to undertake a similar program for reasons of economic and political self-interest.

(B) Measures Recommended To Benefit Canada's Export Trade

1. *Production Costs*

The constantly mounting wage costs and also the spasmodic increase in raw material prices as well as those in the costs of transport and related services, have priced many Canadian products out of foreign markets and have left the field wide open to competitors producing in countries with low wage levels, longer work week, and/or large home markets, particularly in such countries as Germany, Japan, Great Britain, U.S.A., etc.

While it is almost certain that no successful campaign could be started in order to achieve a reduction in the Canadian wage level, some action could nevertheless be taken, through co-operation of governmental authorities with trading associations, in order to inform trade unions of the consequences that constant wage increases inevitably have on Canadian production costs and to call their attention to the importance of exports to the Canadian economy—an importance which seems to be entirely overlooked by our labour leaders. In this way, levelling off of wage and other cost increases could perhaps be achieved with direct benefit to the competitive ability of Canadian manufacturers in the foreign field.

2. *Incentives to Canadian Exporters*

To assure an improvement in Canada's export trade, particularly in manufactured goods, and to enable firms to divert more of their production to export, certain incentives should be considered by the Canadian government. As Canada's foreign trade is such a large contributor to our economic health and growth, we suggest the following measures should be studied by the government:

(a) Profits derived from sales to foreign countries might be taxed on a lower level than domestic profits.

(b) Tax relief might be granted to profits derived through foreign investments. To encourage new foreign capital investments, similar measures could be adopted as those now available to United States investors through "Western Hemisphere Trading Corporations" and the Point Four program guarantees.

(c) Lowering of Canadian freight rates to seaboard for export.

Furthermore we recommend an educational campaign among supply organizations feeding materials and semi-manufactured products into some end product to be exported, to make them conscious of the vital importance of exports to the economy of our country. We should like to believe that such a campaign could suggest a careful study of costing by such supply organizations which could result in making Canada's manufactured goods more competitive abroad.

3. *Imports Direct from Source*

Canada's trading position has been unfavourably influenced by the fact that many commodities are being imported through brokerage houses in the United States or the United Kingdom, instead of being imported direct from the countries of supply. Some improvements in this respect have been achieved since the end of the war but further efforts should be made in this respect and the Department of Trade and Commerce and possibly trade associations, could try to propagate this idea more effectively among Canadian importers.

In addition we are conscious of the fact that our trading position is considerably weakened in trade discussions through the fact that our import statistics do not show an accurate picture of our imports when goods enter Canada purchased through sources other than the country of origin. Most foreign countries are reluctant to credit us for purchases made through the U.S. or the U.K. We suggest that the Dominion Bureau of Statistics should take early steps to remedy this situation.

4. *Imports from Soft Currency rather than Hard Currency Sources*

There is no doubt that many products such as citrus fruit, dried fruit, even fresh fruit, could be imported from soft currency areas such as from Spain, Cyprus, Palestine, South Africa or the British West Indies, instead of importing them from California, Florida, etc.

Canadian Trade Commissioners in close co-operation with steamship lines and other interested parties, could increase their efforts in this respect. Often such imports are just not possible because no refrigerated space on ships is available. Or again, imports are not feasible because there are no direct sailings to Canada from the potential countries of supply.

We feel, however, that much could be done and should be done to redirect a larger share of our purchases in these tropical commodities as well as others to markets where presently our exports are curtailed due to shortage of dollars.

5. *Sales to Tourists free of all Customs Duties, Sales and Excise Taxes*

To improve Canada's tourist trade, on which account our balance for years has been unfavourable, and to increase our sales to the United States, meanwhile broadening our purchases from soft currency sources, we recommend:

(*a*) Simplified procedure should be established by Department of National Revenue for the handling of goods which enter Canada in bond to be re-exported to foreign destinations in bond.

(*b*) A practical, simple procedure should be established by Department of National Revenue to enable small importers and retail merchants to obtain customs duty drawback on the sale of imported articles when these are sold to United States and other foreign tourists and shipped to their home destinations.

(c) The establishment of new regulations by Department of National Revenue whereby Canadian goods sold to tourists and shipped to their foreign destinations can be free of sales and excise taxes. Furthermore all such sales should also be exempt from all taxes now levied by the provinces.

6. *Export Credits Insurance Corporation*

We recommend that as an incentive to Canadian exporters the coverage now offered by the Export Credits Insurance Corporation should be considerably broadened. We suggest the following specific steps:

(*a*) The corporation should not be required to operate at a profit and thus should quote lower rates.

(*b*) The present coverage should be broadened to cover shipments acceptance of which for any reason might be refused by the customer, as this is a normal risk in a great many export transactions.

(*c*) The by-laws of the corporation should be amended to permit exporters to insure individual shipments without having to obligate themselves to insure all their export transactions.

(*d*) The corporation should broaden their coverage by offering to insure foreign capital investments against risks of non-convertibility of profits of capital repatriation and underwrite the risks of expropriation or nationalization.

(*e*) The government should consider broadening the terms of section 21 of the Export Credits Insurance Act to cover all types of goods, and the coverage described in this section of the act should be made more readily available to exporters.

7. *Creation of Educational Facilities for the Development of Foreign Trade Specialists*

In order to create a better understanding of foreign trade amongst Canadians through the development of specialists in this field, we recommend:

(*a*) Inclusion of subjects concerning foreign trade in commercial collegiates.

(*b*) Foreign trade courses in Canadian universities.

(*c*) Creation of scholarships for the study of foreign trade in Canadian, U.S. and continental universities.

(*d*) Foreign trade seminars for those employed in foreign trade.

(*e*) More emphasis on the study of foreign languages.

The Canadian Exporters' Association is in general agreement with Article 2 of the North Atlantic Treaty and hopes that the suggestions made in this brief are of such a nature that they are worthy of serious consideration.

Canada has done her utmost to live up to the principles of the North Atlantic Treaty but must further increase her importance and thereby influence in world international economic policies.

The Canadian Exporters' Association wishes to thank the Chairman of the Senate Committee and the honourable Senators for giving us the opportunity of presenting our views and we respectfully submit this brief on behalf of our members.

The CHAIRMAN: Thank you very much. Honourable Senators, the meeting is now open for you to ask Mr. MacKay-Smith or the gentlemen with him any questions to further clarify the brief or anything else that you would like to know along that line.

Hon. Mr. MACDONALD: I wonder if Mr. MacKay-Smith could give us an idea who the members of the Export Association are. I was wondering in particular what tie-up you have with the primary producers' organizations throughout Canada. We have, for instance, certain farm products and wood supplies for which we are very anxious to find markets. I was wondering what is the tie-up of your organization with such bodies?

Mr. MACKAY-SMITH: The Winnipeg Wheat Exchange is one of our members. There are no government bodies which have membership. As I have explained, we represent lumber companies in British Columbia, people who are exporting lumber. I think we are pretty broadly representative in that field.

Mr. MACDONALD: Have you any tie-up with the Federation of Agriculture?

Mr. MACKAY-SMITH: I don't think so, no.

Hon. Mr. TURGEON: You have the wheat producers with you?

Mr. MACKAY-SMITH: The Winnipeg Wheat Exchange.

Hon. Mr. TURGEON: And the dairymen?

Mr. MACKAY-SMITH: Not the dairyman as such. We have members who are processing milk and milk products.

Mr. MACDONALD: The provinces of British Columbia and Nova Scotia particularly are very anxious to improve their position with regard to the marketing of fruit; and in the Maritime Provinces we are exceedingly anxious to be able to market our potatoes to better advantage in the British West Indies. I was just thinking that it might be advantageous if you could make a tie-up with the Federation of Agriculture and, possibly, with the wood suppliers' organizations, the lumbermen—what do you call it, Senator Burchill?

Hon. Mr. BURCHILL: Maritime Lumber Bureau.

Mr. MACKAY-SMITH: Well, we have never been approached by them. We have only been approached by individual lumbermen and fruit producers. I think we are doing some work on the West Indies right now for the Maritimes. When I say, the West Indies, I mean we are trying to maintain a steamship service with proper facilities, to assure the continuance of this trade.

Hon. Mr. EULER: Mr. MacKay-Smith has made some very interesting suggestions. This is not by way of criticism, exactly, but I think it would have enabled members of the committee to discuss the matters he suggests a little more intelligently if we had had the brief in advance and could have studied these suggestions.

Mr. MACKAY-SMITH: I apologise.

Hon. Mr. EULER: As it is, the brief has come to us without any notice to us, and it is pretty difficult to make up one's mind at once on these things. Is your organization more concerned with the promotion of exports to the sterling area rather than, we will say, to the United States? In connection with exports to the United States, one of your chief difficulties in the past has been, and I think probably still is, that there are so many obstacles in the way other than tariffs before exports can reach the American buyer. Have you found any relief of late from the new government in the United States? They have, I think, tried to make a lot of arrangements whereby some of these obstacles can be overcome. For instance, at the border. It has been the practice to charge duties on certain classifications and then the classifications are changed after an importer in the United States has paid his duty and the goods have gone into production, and they go after the importer and make him pay the additional duty. That is discouraging, and he just won't buy from the Canadian because the difficulties are so great. Have you found any relief in that regard at all?

Mr. MACKAY-SMITH: Not really. Naturally we cannot protest to the government of the United States, but we have vigorously urged our Departments of Trade and Commerce, of External Affairs and of Finance to work to simplify United States customs procedure.

Hon. Mr. EULER: What success have you had in that?

Mr. MACKAY-SMITH: Well, it is being discussed in Washington now, and I believe there is a bill under consideration to simplify United States customs operations. We are not too hopeful of the result, but at least it is a step.

Hon. Mr. EULER: It is like the weather. Everyone discusses it and nobody does anything about it!

Mr. MACKAY-SMITH: We do find that, by and large, the United States government officials agree with us. Whenever we speak to them about this they agree that it is a matter for Congress and the Senate to rectify.

Hon. Mr. GOLDING: I would like to ask the witness whether the representations which are made in this brief have also been made to the Trade and Commerce Department. Have you been co-operating with them or they co-operating with you, or what is the situation?

Mr. MACKAY-SMITH: Yes. I think we have. We have a permanent committee, which we call a Government Liaison Committee, which is recognized by the Department of Trade and Commerce and the Department of Finance, and whenever we have an agenda we call a meeting, and they are very co-operative; they work with us. We produce a complaint about something or other; in turn they complain about us. There are many complaints about us, too.

Hon. Mr. GOLDING: The representations you have made here now, have you made those representations to the Trade and Commerce Department?

Mr. MACKAY-SMITH: Well, we have made a number of them, yes, not only to Trade and Commerce but to other departments as well. We find, naturally, that the Department of Finance is involved in this.

Hon. Mr. GOLDING: With what result?

Mr. MACKAY-SMITH: Well, in some cases, success; in other cases they are trying very hard to do something about it. They do their best. They turn us down on one or two things, saying they are impossible, and explaining why.

Hon. Mr. GOLDING: The thought just struck me that if you are trying to get over your program your first approach would be through the department or the officials of the department.

Mr. MACKAY-SMITH: Well, on currency convertibility and import controls, we have striven for years, ever since the end of the war, to have them removed. That is, as I said here, one of the greatest obstacles to foreign trade by a hard currency country.

Hon. Mr. BURCHILL: I think there are many excellent suggestions in this brief—suggestions very worthy of study. But I am an exporter of lumber; and I do not go with you on the suggestion of long-term credits to foreign countries. I do not think that is the right approach at the present time. Our experience has been that we in Canada are pricing our goods too high; we cannot meet foreign competition; and while we can sell our goods all right we cannot get any money out of what we sell, because, to meet competition in these markets, we have got to accept prices which are not sound as far as our own business is concerned. It seems to me that by extending long-term credits you are only confounding that situation; you are just going on continuing an artificial situation. I think the sooner we get down to a sound trading position, without government support, the better for us. We have got to face it some day, and we might as well recognize it and try to devise ways and means of meeting it. You have made some suggestions as to how it should be brought about, but we certainly have to manufacture our goods here in Canada on a price basis that will enable us to meet competition from other countries.

Hon. Mr. EULER: Senator Burchill, I take it that you do not believe in lending money to these countries so that they can buy Canadian goods?

Hon. Mr. BURCHILL: I think that is just confusing the situation.

Mr. MACKAY-SMITH: Sir, I think we are entirely in agreement with you on the idea of getting down to a stable trading basis, but that suggestion is good as long as sterling, for instance, is not convertible.

Hon. Mr. BURCHILL: Of course, we cannot do anything about that, can we? That is a matter for the people of the United Kingdom and other sterling countries to determine. I doubt very much whether many sterling countries—Great Britain in particular—would look with favour upon taking loans from Canada for the purpose of buying our exports. I do not think they would want them to start with. I am convinced that the matter of convertibility is for them, and that we have to look after our own affairs, have we not?

Mr. MACKAY-SMITH: That is right.

Hon. Mr. BURCHILL: That seems to me to be our problem as exporters. You have made some worthy suggestions, but certainly our costs here in Canada are too high.

Hon. Mr. DAVIES: Mr. Chairman, could I ask Senator Burchill a question? Which country is Canada's greatest competitor in lumber?

Hon. Mr. BURCHILL: The Scandinavian countries.

Hon. Mr. EULER: What about Russia?

Hon. Mr. BURCHILL: No, Russia is not a competitor, for their prices are fair. They are always high. It is the Scandinavian countries which gives us most competition; countries like Finland and Sweden.

Hon. Mr. KINLEY: Mr. McKay-Smith, do you think the extension of credits embodies a dumping feature? For instance, is there not a dumping feature if I buy a product from the United States on a five-year plan?

Mr. MACKAY-SMITH: I do not think so. Perhaps Mr. Spiro can support me on that view.

Mr. SPIRO: Mr. Chairman, may I first reply to the question as to the influence of long-term credits? The convertibility of sterling is mainly retarded today by the blocked wartime sterling balances. The United Kingdom, as administrator of the sterling pool, would probably be quite willing and ready to introduce convertibility for current transactions, but there are still about $10 to $11 billion outstanding in blocked currency balances in sterling countries, and in other soft currency countries and in dollar countries, and if they were all made convertible at a stroke there would be a run on the Bank of England as was experienced in 1947, and the plan might again come to an end. On the other hand it would be a half-way measure to make only current transactions convertible. These blocked wartime balances could probably be, as the bankers say, funded, by long-term credits which the dollar countries, the United States and Canada, could possibly extend to those countries which hold the blocked wartime sterling balances. I have in mind such countries as India, Pakistan and Egypt, countries to which our trade has become almost nil. In these cases it is our submission that long-term credits would enable these countries to make use of these blocked sterling balances, and at the same time enable the United Kingdom, as the administrator of the sterling pool, to make currency convertible not only for current transactions.

As far as production costs are concerned I think we can all agree that in Canada they are very high, perhaps they may be ranked amongst the highest costs in the world today. Our wages and raw materials are almost as high as they are in the United States. The cost of our raw materials is sometimes higher than they are in the United States, and on the other hand our wages and salaries are lower. There are other factors which enter into manufacturing costs. For instance, there is the matter of general overhead expense, which is naturally higher here in Canada than in the United States because the quantity of goods produced is smaller. For this reason our costs are higher, and in many cases they are substantially higher. We were given an illustration by Mr. Brown of Beatty Brothers in Fergus, Ontario. He stated that a large United States washing machine manufacturer produces 1,500 machines in a day, whereas the largest Canadian manufacturer of washing machines can only produce 150 machines in a day. It can therefore be seen that the overhead per machine in Canada is substantially higher than in the United States. There are also other cost factors. For instance, our interest rates in Canada are much higher than they are in the United States. Last but not least is the matter of exchange. Our exchange is a little bit higher, being 1 per cent and 1¼ per cent. It used to be 4 per cent, and it may go as high as that again. We have mentioned these points in our brief where we suggest that the attention of our labour leaders should be called to high wage costs. We are under the impression that our labour leaders and trade unions are entirely neglecting the matter of exports and do not realize what constant wage demands mean in the matter of exporting Canadian products. It certainly makes things difficult. I am not sure whether I have answered the questions adequately.

The CHAIRMAN: Thank you very much.

Hon. Mr. KINLEY: How big a mark does the Canadian manufacturer make on the American market? Does he get any business over there at all outside of Canadian Club whisky and the odd item? I do not believe we have many manufactured goods on the American market.

Mr. MACKAY-SMITH: No, it is essentially raw materials that the United States buys from us. There are a few manufactured products of original design that we sell in the United States. Incidentally, I do not believe that Canadians do enough of that sort of thing.

Hon. Mr. KINLEY: I know that we do sell some boats to the Americans. There are quite a number of Canadian-built boats in the United States. I think our biggest seller, though, is Canadian Club whisky.

Mr. MACKAY-SMITH: There is a little company in Montreal, the Irving Company, which exports ski suits to the United States. We do have a luxury trade in items of that kind.

Hon. Mr. EULER: Mr. MacKay-Smith, I read an article not long ago which was written by a Canadian trade commissioner in which he accused Canadian manufacturers of not making a real effort to sell their goods in the United States.

Mr. MACKAY-SMITH: I think we generally agree with that article. We are endeavouring ourselves to promote an interest amongst our exporters to the United States to come out with more original designs, something that is not made in the United States. I am thinking of such items as parkas. It is our rough estimate that there are approximately 15 million luxury buyers in the United States, and that no matter what the tariff is, whether it is 50 or 70 per cent, they will buy luxury goods anyway.

Hon. Mr. EULER: Does that apply to some of the Canadian shoe manufacturers who are selling their products in the United States? I know that some of our Canadian-made shoes sell in New York City. There is a shoe factory in London which exports to the United States, and Hartt Shoes; manufactured in New Brunswick, are exported to that country.

Mr. MACKAY-SMITH: And there are the Tyrol Shoes which are manufactured in Montreal. I have just come back from New York where I saw a good exhibition of Canadian shoes in Rockefeller Centre. I was informed that such stores as Lord and Taylor's have been making substantial orders from Canadian shoe manufacturers.

Hon. Mr. KINLEY: I understand that British shoes are duty-free coming into the United States market.

Mr. MACKAY-SMITH: I am not sure of that.

Hon. Mr. KINLEY: What about wool products? American tourists buy our Canadian wool products here. Why should Canada be an importer of wool? Should we not have the best wool in the world in Canada?

Mr. MACKAY-SMITH: You mean raw wools?

Hon. Mr. KINLEY: Yes.

Hon. Mr. ISNOR: Mr. Chairman, I am not a member of your committee, but when I learned that the Canadian Exporters' Association was going to present a brief I felt it was an opportunity to bring up something before your committee, if I may?

The CHAIRMAN: Certainly.

Hon. Mr. ISNOR: Not only before the committee, but before the association, in connection with this well prepared brief, particularly in regard to the tourist trade. I think some of the suggestions there could be followed through to our benefit here in Canada. But I was particularly interested to know, and I am going to ask Mr. MacKay-Smith, what his association is doing or has done in the past toward directing shipments of goods made to foreign countries through Canadian ports. Naturally, I am interested in the ports on the Atlantic coast, Halifax in particular. Perhaps Mr. Smith would be good enough to outline to the committee as to whether his association takes any steps in regard to direction of shipments, and particularly as to direction of traffic, through Canadian ports instead of American ports. We have competition from Portland and New York as far as the Atlantic ports of Halifax and Saint John are concerned, and I believe your association, Mr. Smith, could play a very important part toward directing shipments through Canadian ports.

Mr. MACKAY-SMITH: Yes sir, we are playing, I hope, an important part in that role right now. Firstly, we try to convince our members to make those shipments through Canadian ports. Sometimes there are difficulties, because the buyers instruct the seller what steamship line must be used. We have supported very strongly the National Harbours Board, and they formed a committee—I think it was the Canadian Ports Committee in support of that. We are fighting discriminatory practice—such as Ecuador. Their flagships do not come to the Maritime ports but only as far as New York, or possibly Boston. We have been in touch with the Department of Trade and Commerce, and they are vigorously protesting. Unfortunately, we do not have a diplomatic representative in Ecuador, and therefore it has to go through the United Kingdom representative. We hope to relieve that situation by making Ecuador bring their flagships into our ports. I think we are doing a lot of work in that connection.

Hon. Mr. ISNOR: I sincerely hope you will continue those efforts. I notice the Winnipeg Wheat Exchange is a member of your association. Years ago we were successful in having a large amount of grain shipped through the port of Halifax, for which we have added facilities there now, but instead there seems to be a tendency to ship to Vancouver via the Great Lakes, and I think it is just a matter of direction, particularly going overseas. While I know your association would perhaps hesitate to stress one port, you could very well direct attention to the fact that the Maritime ports are seeking business. You mentioned the National Harbours Board. They cannot take it upon themselves to emphasize any particular port, and that is why they do not draw attention to the benefit of the Atlantic ports to the members of your firm but rather depend on the local commission, such as we have in the Halifax Port Commission, under the chairmanship of Mr. R. J. Rankin, who is at present the president of the Canadian Press Association, and I know he will continue to bring that to your attention. But I would impress upon you the need of shipping through Canadian ports instead of American ports.

Hon. Mr. TURGEON: Mr. Chairman, I would like to ask a question with relation to what Senator Isnor said. I happen to be from British Columbia. A few weeks ago there was a great furore in Vancouver, British Columbia, because we suffered from some arrangement made by the Department of Trade and Commerce by which there was a direct incentive to shippers of wheat and grain to ship to eastern ports rather than to western ports; and since that question has come up now, I would like to ask whether anybody can set that clear, and I admit I was not quite sure whether the complaint of Vancouver was right or wrong.

Mr. MACKAY-SMITH: I am sorry, I cannot answer that.

Mr. SPIRO: We all probably read the same thing in the paper as you did.

Hon. Mr. DAVIES: I should like to ask the witness if in his opinion the Canadian International Trade Fair which is to be held in Toronto on May 21, is of as much benefit to our exporters as it is in increasing imports to Canada. I have been to the fair every year, and I have seen exhibits from other countries, and very fine exhibits from all over, and I am wondering whether that fair does not perhaps increase imports into Canada more than exports out of Canada. What is your opinion?

Mr. MACKAY-SMITH: May I ask Mr. Spiro? He has been closely in touch with the fair.

Mr. SPIRO: I happened to be a member of the visitors and exhibitor committee and may be able to give information to the honourable senator. A few years ago the trade fair went through a crisis—a sort of delicate situation, when we noticed that percentagewise we had more foreign exporters than Canadian exporters, and the Right Honourable C. D. Howe was not quite sure whether this event should be continued at all. We, as representatives of industry in Canada, and of the Canadian Exporters' Association, took a rather strong stand in favour of the continuation and pledged our support to enhance the interests of Canadian exporters at this event. You must not forget, Mr. Chairman, that this international trade fair is comparatively new to Canada. Our trade fair is the only international trade fair on the North American continent. To develop an event like that and propagate it and make people enthusiastic and believe in it takes years and cannot be done in three or four years. They have been successful in convincing the Right Honourable C. D. Howe of this, and are very grateful to him that he has continued this event, and today the majority of exporters are again Canadian firms. I think this year between 60 and 70 per cent is the figure, and only the remainder are foreign firms. So, provided Canadian industries are not seriously hurt by such imports, I think we should all be very much in favour of having as many foreign exhibitors here as possible.

Hon. Mr. EULER: To what extent do you avail yourselves of the opportunity of exhibiting Canadian products in the European trade fairs? That ought to help you more than anything else.

Mr. SPIRO: That is quite true, Senator. The Canadian government through its government Exhibition Commission, is participating in an institutional way in many foreign trade fairs, such as at Utrecht, Holland this year.

Hon. Mr. EULER: Was there not one at Leipzig?

Hon. Mr. KINLEY: Or at Hamburg?

Mr. SPIRO: There is one at Hanover; and also the British Industries Fair, and in Mexico City; I believe we are also having a Canadian exhibition in Sao Paulo, Brazil, and at Bogota, Colombo. In some cases these exhibitions are purely of an institutional character, just an exhibition of products which Canada can export, without naming any firms. In other cases there is some co-operative effort with the government exhibition, where we can exhibit our own products with our name on them, and perhaps even distribute some advertising literature. This is, for instance, true of the Sao Paulo Exhibition, where only recently the Canadian government Exhibition Commission has invited Canadian firms to participate on such a co-operative basis. True, it will cost us something, but not as much as if we went there alone. Apart from this, some Canadian firms are also exhibiting on their own. I think my own firm this year exhibited in perhaps ten or twelve different fairs overseas, and many other Canadian firms do the same thing.

Hon. Mr. EULER: Has it promoted business?

Mr. SPIRO: Yes, we believe it has. If I may speak personally, we are great believers in the value of trade fairs overseas, because in those countries, particularly in Europe, people are very much more aware of the value of such fairs than we are here.

Hon. Mr. EULER: You reach your customers more directly in that sort of exhibition than you do in the Canadian Trade Fair, I should think.

Mr. SPIRO: On the other hand, Mr. Senator, through our fair here we get many people into our own grounds, and it is much easier to demonstrate our products and to negotiate with them if we can, than in their own country. We believe that we have derived great benefit also from the Canadian Trade Fair, although we have to compete with the foreign exhibitors who exhibit here.

Hon. Mr. EULER: My idea is that if you exhibit in the European centres, you are in direct contact with probable buyers; whereas, in the Canadian trade fair—and I am not depreciating it—the people who come there are not buyers of your products but are trying to sell their own.

Mr. SPIRO: Excuse me, but I cannot agree with you.

Hon. Mr. EULER: I would be glad to be corrected.

Mr. SPIRO: We had last year something like 30,000 foreign visitors actually registered as buyers at our Canadian International Trade Fair. Although this number, in our opinion, was quite satisfactory, we still thought we should try and further increase it. All the advertising effort of the Canadian International Trade Fair this year, in publications, through speeches and travel of some officials abroad, are mainly directed towards increasing the number of visiting buyers. We are looking forward with great interest to this figure of 30,000 registered buyers last year being increased this year.

Hon. Mr. DAVIES: Mr. Chairman, that is all very well, and I am in favour of two-way trade. But as I understand the situation, our textile factories, for instance, are having a rough time. Should we encourage Canadians to buy textiles from, we will say, Great Britain and other countries where the wage scale and standard of living is lower than in Canada by exhibiting their products at such things as trade fairs? No doubt we have exhibits of these various textiles in Great Britain and at our own fairs, but my understanding is that Canadian textile manufacturers find it difficult to compete with the textile products of Great Britain. Is that so?

Mr. SPIRO: Mr. Chairman, if you will permit me, we tried to cover this problem in our brief. On page 2 we say:

> It is recognized by the Association that an important part of the foundation for Canadian export business is a sound domestic manufacturing industry. This industry is entitled to prompt and effective enforcement of Canadian Laws on Customs and Dumping Duties.

We believe that the legal provisions which have only recently been further developed here would be sufficient to protect such Canadian industries which are exposed to dumping or any unfair foreign competition; otherwise some foreign competition may even be of a healthy influence to some of the lesser effiicient domestic industries in Canada. But we believe that the legal provisions made in this country are sufficient to protect those who are just working as efficiently as possible, but cannot bring their costs down.

Hon. Mr. DAVIES: It is not very helpful to the textile workers who are unemployed. I read in the paper recently that within the past month we have had seventeen textile factories close down in Ontario. Senator Burchill pointed out that in our various provinces we have a high standard of living, and our wages do not compare with those of Europe and the eastern countries. It appears to me to be quite a serious problem. If we are going to maintain a high scale of wages and standard of living, we are not going to be able to compete in the foreign markets, for the people who come here and exhibit at our trade fair can undersell us. Is that not the situation? Why should we encourage them to come over here and advertise the fact that they can undersell us?

Mr. MCKAY-SMITH: There is one other advantage that has come out of the trade fairs in the circumstances to which you are referring. Canadian companies—and I cannot say that any textile companies have done this—have made arrangements with these exporters to produce the exporters' goods in Canada. It may be an arrangement covering the whole or partial manufacture, but there have been a great many very profitable unions made in that way. I do not know the exact figure—perhaps Mr. Spiro may know them.

Mr. SPIRO: I am not quite sure about the textile industry, but there are a number of industries which have been established by reason of the fact that the exhibitors have first visited our trade fair and then either made a licensing arrangement here or opened up a branch in Canada. I am not a textile man myself, but we must not forget that some industries have perhaps been a little bit lacking in progress, and may therefore benefit by the trade fairs through seeing what other countries can produce by utilizing new materials such as orlin synthetic fibres, and make up-to-date designs.

I believe, Mr. Chairman, if the honourable senators had an opportunity to talk to such people as buyers of big chain and departmental stores in Canada, they would perhaps find an explanation for the difficulties of the Canadian textile industry today.

Hon. Mr. EULER: May I ask a further question related to the textile industry? Certainly the textile people are on a spot; and we have heard very serious complaints about the imports coming in from the United States, with the result that during the past session we enacted legislation which was directed at tightening up the dumping laws. Has that been of any value?

Mr. MCKAY-SMITH: To a limited degree, I believe it has.

Hon. Mr. EULER: You know what I am referring to.

Mr. MACKAY-SMITH: Yes. That is the case for a limited time. It is out of season selling.

Hon. Mr. EULER: You spread it over a six months' period—the prices?

Mr. MACKAY-SMITH: I believe that measure brought in by the federal government has included that.

Hon. Mr. EULER: I have heard it said that it did not do very much good although I sponsored the bill myself in the Senate.

Mr. MACKAY-SMITH: It is very difficult to put your finger on this question of dumping, unless you have actual proof.

Mr. MACDOUGALL: When this new law was enacted it was felt that it would probably take two years to feel the effects of it.

Hon. Mr. TURGEON: Are the textile people members of this organization?

Hon. Mr. EULER: Our textile people do not export very much.

Mr. MACKAY-SMITH: No, but they tried.

Hon. Mr. BEAUBIEN: Mr. Chairman, does it not all come down to this, that if you are going to export manufactured products or any other commodities, the country that you export to must pay you by their exports. Does it not all come down to that?

The CHAIRMAN: Correct.

Hon. Mr. BEAUBIEN: We are now selling a lot of wheat to Japan. I think we have developed a market in Japan for wheat, which is very, very important. A large delegation from the Canadian Wheat Board and the Canadian wheat pools took a trip to Japan recently and only this morning I saw the president of the Manitoba Wheat Pool, Mr. W. J. Parker, and he was telling me of the possibilities of a market for wheat in Japan. He said that the possibilities are tremendous. In fact, he told me this morning that there are greater milling facilities in Japan than in Canada. Of course, those facilities are not all operating, but the facilities are there. He said also that Japan is importing a lot of barley. The Japanese have managed to perfect a process which will separate the hull from the barley grain, and the barley is mixed with rice to make a very nourishing food. Now, if we are going to continue to enjoy that market for wheat, which is very, very important to the whole western world, we certainly will have to import goods from Japan in order to be paid, and if Japan can produce textiles cheaper than our own over-industralized textile plants, why should we not import those textiles in payment for our wheat, seeing that production and exportation of wheat is very essential to this country.

The CHAIRMAN: I think it is fundamental that a country is only able to pay for what it imports by its exports. Money does the bookkeeping, but that is all. I would like to hear a word along the lines of what Senator Burchill brought up, having to do with a question that is being studied in the United States, whether profits made in foreign countries by the exportation of lumber or potatoes are to be taxed less than profits made internally. In your opinion, Senator Burchill, would that help the lumber business? Or would it help the potato business, Senator Pirie?

Hon. Mr. BURCHILL: It would be difficult to segregate the profits. It would be a real accounting job, and I do not know just how it could be done.

Hon. Mr. EULER: That would be class legislation too.

Mr. MACKAY-SMITH: We are happy to know that there will be some discussion on this point. We believe there should be an incentive given to exporters, the same as is given to exporters of other countries, and we inserted that suggestion in our brief as a provocative statement to bring about a discussion.

The CHAIRMAN: I do not see why it could not be done on foreign or export business. What do you think along that line, Senator Pirie?

Hon. Mr. PIRIE: Well, I do not know, but I am sure, Mr. Chairman, as far as my experience in the export trade and the shipping of commodities is concerned, which we specialize in, I have to do the needle work myself. I do not think it can be done through the Canadian Exporters Association. I have to visit foreign countries and do the missionary work myself.

The CHAIRMAN: But I am referring to the question of lowering taxes on profits made in export trade.

Hon. Mr. PIRIE: Well, it is very competitive business and we run into very keen competition from the United States. For instance, in Cuba the United States has a preferential tariff over us. We have to try and meet that competition by cargo shipments instead of car shipments, and it is very difficult to do it. But I will say that if you establish confidence in the people who are using your goods in the export market, I think that that is half the battle. I do not know too much about it, though.

The CHAIRMAN: I am sure that you will get much keener competition when the United States lowers their taxes on profits that are made through trading with foreign countries.

Hon. Mr. PIRIE: The recommendations of the association are in their brief and I think the Canadian Exporters' Association can do a wonderful job in matters like that. I do not think there is any objection to that at all.

The CHAIRMAN: Mr. MacKay-Smith, have you anything to say on that?

Mr. MACKAY-SMITH: I would like to confirm Senator Pirie's beliefs about having to do it yourself. We are desperately trying to get presidents and directors of companies to become conscious of that. Too many companies today try to do export business by sitting at home and writing a letter. We try to convince them that they should travel abroad. We say that you have to go abroad and sell it yourself, that we cannot do it for you. I think that Mr. MacDougall has just returned from a trip around the world selling his products. That is really the only way it can be done. You have to show aggressiveness in selling your own products.

Hon. Mr. EULER: Were you serious when you said that freight rates should be reduced on export business? Do you think that is possible in face of the constant increases in freight rates?

Mr. MACKAY-SMITH: I would say that many contributions have to be made to make export business successful, and one is freight rates. The railways are not now getting as much traffc as they did when large exports were being handled by them. There is a meeting point for freight rates on exports that would give us a more competitive position abroad.

The CHAIRMAN: A greater volume would result?

Mr. MACKAY-SMITH: Yes, Mr. Chairman, a greater volume.

Hon. Mr. EULER: Of course we do have reduced freight rates to and from the Maritimes.

Hon. Mr. TURGEON: And the same treatment is given to wheat producers and shippers, and a good many other shippers are becoming fearful that reduced freight rates on export commodities may have the effect of increasing freight rates on commodities produced for domestic consumption. Mind you, I am not arguing against it but I am just offering you that thought. Is that thinking not prevalent in British Columbia?

Mr. MACKAY-SMITH: We believe today that the Canadian economy cannot support existing industries in Canada and, therefore, we must have substantial exports.

The CHAIRMAN: What percentage of over-capacity would you say that it is?

Mr. MACKAY-SMITH: It is as much as twenty-five per cent. As a matter of fact, I think you will find that we are more dependent on export trade than any other country in the world and if we do not export the domestic buyer is not going to be there—he is going to be out of work. That is what we are trying to point out to the labour unions in various discussions.

Hon. Mr. TURGEON: Suppose that the railway companies were to answer you by saying if certain freight rates are reduced, they will have to make up what they would call a loss by increasing freight rates on other commodities. How would you meet that?

Mr. MACKAY-SMITH: It happens in other countries—for instance, you will find in agreements made by steamship companies from Europe and the United Kingdom that the rates for like commodities from East to West are lower than those of similar commodities which are purchased from Canada and shipped from West to East. This, of course, helps make the European commodity much more competitive. It is one of the incentives and, I think you will find, it is fairly common practice.

Mr. FERRIE: The remark was made a few minutes ago, concerning the ports of Halifax and Saint John, that if the railways could offer some inducement on freight rates the volume of traffic going through those ports would be increased, by diverting it from the port of New York. In that way the railways would get a great volume of traffic. It is not necessarily the case that rates are lower from New York than from Halifax and Saint John, but there is a lot of traffic going through New York which should go through our Canadian harbours and ports.

Hon. Mr. PIRIE: But you can get a ship every day in the week out of New York, and you would have to charter a ship if you wanted to get it out of Halifax or Saint John.

Mr. FERRIE: That is true. I think an increased volume of exports would remedy that situation.

Hon. Mr. ISNOR: I wonder if I may ask another question. I was interested in what Mr. MacKay-Smith said as to there being no direct sailings to Canada from the potential countries of supply, and his endeavours to correct the situation. Did I understand you, Mr. MacKay-Smith, during your remarks to indicate that you had made representations to the Canadian Government in reference to C.N.S. or any other lines?

Mr. MACKAY-SMITH: Yes, we have. The statement was made in the press by the Minister of Transport or a representative of the department that C.N.S. might discontinue that service because it is unprofitable, and we have made representations to the Department of Trade and Commerce that the Exporters' Association take a very dark view of that, and we want the service maintained; if not by C.N.S., by some other line.

Hon. Mr. ISNOR: That is what I wanted to bring out in the open. I am inclined to think that the lack of trade is partly our own fault. We were shipping goods, as I mentioned before, to American ports in these C.N. steamships, which were not only calling at Montreal and Halifax but calling at Boston and picking up a large amount of freight which rightly, I believe, belonged to ports such as Halifax and Saint John. I would like to bring that to your attention so that stress may be laid on it in the future. I am of course strongly of the opinion that the C.N. steamships which are operating at present are not of the right type, that there should be another type of ship to look after our Canadian business. I am in accord with your thought in this matter.

The CHAIRMAN: Senator Campbell, you are interested in shipping. Is there anything you would like to comment on?

Hon. Mr. CAMPBELL: I might say that the whole shipping situation looks about as pessimistic as it has been in Canada for thirty-five or forty years. By June of this year we will have fewer ships operating under the Canadian flag than there have been for thirty-five years, and the likelihood is that there will be continuing deterioration in this matter. Of course you cannot make any firm long-term contracts with foreign ships, and you canont depend upon foreign ships continuing their service when more profitable business originates elsewhere. It seems to me that until a very definite shipping policy is laid down in Canada there is not a great deal you can do to help out in the movement of goods through Canadian ports. A number of companies have attempted to meet this situation, by encouraging foreign ships to come in on a liner basis, calling at Canadian ports, to render a service which in my opinion should be rendered by Canadian shipping, if you look at it over a period of many years; and I feel that since we are so dependent upon exports, it is extremely important that we have some shipping policy so that we know whether there is going to be a Canadian mercantile marine or there is not. Everyone realizes that the differential in wages is so great between foreign ships and Canadian flag ships that at today's rates it is simply impossible for Canadian flag ships to continue to operate and meet their fair operating costs. I do not know whether that is any help, Mr. Chairman.

The CHAIRMAN: Very, very good, Senator.

Hon. Mr. CAMPBELL: I would like to ask Mr. MacKay-Smith one thing about the tax situation. It rather appeals to me that there may be some benefit to be gained from a drawback on taxes paid on goods manufactured in Canada and shipped abroad, and I think, if you look into the situation, you will find that Germany has taken quite a substantial step in that direction. I was wondering whether the association had made any studies to ascertain what cost element in the manufacture of goods is represented by taxes.

Mr. MACKAY-SMITH: We have gone about it in a little different way. We are making a study right now of all the incentives, unofficial or official, given by other countries to their exporters. We want to eventually present that to various departments of our government to work out some sort of incentive. I think you are perfectly right about Germany. We are going into what can be done here. We have used it, as I said before, as rather a provocative point to get people to talk about it, so that people will think; because the moment you mention taxes to the government they say, "Oh, no, we would not do anything like that".

Hon. Mr. CAMPBELL: Is there not a provision now for a drawback on duties paid with respct to any element which goes into the manufacture of goods for export?

Mr. BROWN: You are quite right. If we bring in merchandise from the United States and incorporate it in a product we can get a drawback on duty.

Hon. Mr. CAMPBELL: Therefore you have got a precedent in that respect, and you have got a formula for handling it, and it seems to me that the same procedure might be applied where the manufacturer would apply for a drawback on the tax element in his cost, if it could be ascertained. If there are any hidden or indirect taxes in our whole economy in Canada, you would probably be confined to certain direct taxes; that is, a drawback with respect to certain direct taxes. It seems to me that that might be quite an incentive to manufacturers to seek foreign markets, and it would also enable them to meet competition in prices in many respects. There is one further question which I should like to ask. I was wondering if the association ever discussed or considered the benefits of establishing a free port in Canada?

Mr. MacKay-Smith: I think our recommendation in our brief for tax-free purchases for tourists is tantamount to that. When we first made this suggestion the press announced "Canadian Exporters Association recommend making Canada a free port".

Some Hon. Senators: Oh, oh.

Mr. MacKay-Smith: We are at the present time writing a brief to present to interested federal officials on this subject, but we have not talked about a specific port as being a free port. I suppose that this could carry on beyond just tourist trade. What we have suggested in our brief is a free port in that sense, because of the legislation Senator Campbell is speaking about. I mean, you can bring in a machine from Germany and sell it to an American and get a drawback.

Hon. Mr. Campbell: I think there is a free port in Rotterdam. There are many free ports in the world.

Mr. MacKay-Smith: We have not taken it up on that basis, sir.

The Chairman: Do free ports operate in the United States now?

Mr. MacKay-Smith: Yes, sir.

The Chairman: Well, if the United States can offer them perhaps we can do likewise.

Mr. Spiro: The free port in New York City has been maintained for a number of years mainly for the purpose of carrying out certain manufacturing operations within the confines of the particular free zone. For instance, American watch manufacturers are importing the movements from Switzerland and the cases for the watches from the United States into the free zone, where they are assembled. Then when they bring the completed watches into the United States they only have to pay customs duty on those watches. If they are left in the free zone and then re-exported to, say, Mexico, they do not have to go through the customs procedure at all. I think there is a free port in New Orleans and there is one in the Republic of Panama. A free zone was opened there about two years ago and many well-known international companies, such as Gillette Razor Blade Company, have set up small manufacturing operations in that zone. They import parts from the United States and other parts from, say, England, and export the finished product to various world markets.

Hon. Mr. Isnor: I think that our bonding system takes care of many of the problems that are now taken care of by these expensive operations in free zones or free ports.

Mr. Spiro: I believe you can open up a bonded warehouse where you can also carry on certain manufacturing operations. I do not believe anybody would have any difficulty in doing this, and it would obviate the necessity for opening up a whole free port.

The Chairman: I should like to thank the directors of the Canadian Exporters Association for having come here to present their fine brief and to answer our questions. The Canadian Exporters Association has carried on invaluable work in their field, and their efforts have done much to improve Canadian economy. We have often heard it said that England must export in order to live. I believe that about 17 per cent of English goods are exported. In the United States I think 6 or 7 per cent of the goods are exported, but here in Canada over 25 per cent of our goods are exported. Therefore it can be easily seen what an effect it would have on our economy if even a small portion of our export trade was lost. Thank you again gentlemen for having appeared before our committee this morning.

Whereupon the committee adjourned.

1953-54

THE SENATE OF CANADA

Proceedings of the

STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty.

No. 4

THURSDAY, MAY 27, 1954

The Honourable A. N. McLEAN, Chairman

WITNESS

Mr. R. M. Fowler, President, Canadian Pulp and Paper Association.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLean, Chairman

The Honourable Senators

Baird
Bishop
Blais
Buchanan
Burchill
Campbell
Crerar
Daigle
Davies
Dessureault
Duffus
Euler
Fraser
Gouin
*Haig
Hawkins
Howard
Kinley
Lambert
*Macdonald
MacKinnon
McDonald
McKeen
McLean
Nicol
Paterson
Petten
Pirie
Turgeon
Vaillancourt—(28)

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* *ex officio* member.

35 Members.

(Quorum 7)

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Tuesday, February 23, 1954:—

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(*a*) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(*b*) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry."

L. C. MOYER,
Clerk of the Senate.

91341—1½

MINUTES OF PROCEEDINGS

THURSDAY, May 27, 1954.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 11.00 a.m.

Present: The Honourable Senators McLean, Chairman; Baird, Daigle Euler, Gouin, Haig, Howard, Kinley, Lambert, McDonald, McKeen, Paterson, Turgeon and Vaillancourt—14.

In attendance: the official reporters of the Senate.

Consideration of the Order of Reference of February 23, 1954, was resumed.

Mr. R. M. Fowler, President, Canadian Pulp and Paper Association, was heard.

Further consideration of the order of reference was postponed.

At 12.35 p.m. the Committee adjourned to the call of the Chairman.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Thursday, May 27, 1954.

The Standing Committee on Canadian Trade Relations, which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 11 a.m.

Hon. Mr. McLean in the Chair.

The CHAIRMAN: Honourable senators, we will call the meeting to order. As usual, I do not think it necessary to read the resolution with which this committee is charged. As honourable senators know, it is based on Articles II and V of the North Atlantic Treaty.

We are honoured to have with us this morning Mr. R. M. Fowler, President of the Canadian Pulp and Paper Association. This association is one of the most outstanding business organizations in Canada, and by far the larger portion of the products of its industry are sent to countries outside Canada. I believe its exports in paper exceed 90 per cent of its production. The industry has done a great amount of pioneer work in introducing pulp and paper products to many countries of the world. In their broad experience they fully realize the harmful effects of restrictions on trade and commerce such as embargoes, inconvertibility, licences, bulk buying, quotas, etc., especially as they apply throughout the British Empire and NATO countries together with the rest of the free world.

I understand Mr. Fowler, the President of the association, has a brief which he will first present to us, and there will then follow a question period in which all honourable senators may participate and ask Mr. Fowler any questions they have in mind in order to clarify the subject or give further information. I will call on Mr. Fowler.

Mr. R. M. FOWLER (*President, Canadian Pulp and Paper Association*): Mr. Chairman and honourable senators, first may I apologize for coming to you rather late in your hearings. We had hoped I could attend at an earlier date, but for one reason and another that was not possible. I do hope I have not misconceived the purpose of your committee in what you hope to get from me. I might have brought with me some members of the industry, but frankly in our talks, Mr. Chairman, I understood that you wanted a brief from me and a sort of informal chat. I apologize for the length of my brief, because in preparing it rather hurriedly I was not able to condense it as I otherwise might have. It is a personal memorandum in the sense that while I am President of the Canadian Pulp and Paper Association and the Newsprint Association, and therefore in close touch with the facts of the industry and the men in it, I have not cleared the memorandum directly with them or taken it before the board of our association. In that sense it is personal to me. I will not attempt to read the entire brief, but I will go over it and speak to it, and deal with the pulp and paper industry in the Canadian economy.

Since the terms of reference of this Commitee refer specifically to Article 2 of the North Atlantic Treaty, it may be interesting to look at Canada's trade in pulp and paper commodities within the NATO group of countries. Since there is little pulp or paper imported into Canada the export figures are more important.

In 1953, 80·4 percent of all Canadian exports went to other countries in the NATO group. For pulp and paper commodities 94 percent went in 1953 to other NATO countries. The break-down is even more significant. In that year 58·7 percent of Canadian exports went to the United States while 88 percent of pulp and paper exports by Canada went to the United States. On the other hand 21·7 percent of all Canadian exports were made to the European members of NATO, while only 6 percent of pulp and paper exports went to the United Kingdom and other European members of the Atlantic Community.

BREAKDOWN OF CANADIAN EXPORT TRADE
WITH NATO COUNTRIES

	All Exports		Pulp & Paper Commodities
Trade With:	1952	1953	1953
U.S.	53·6	58·7	88·0
European NATO	24·5	21·7	6·0
Total NATO	78·1	80·4	94·0

These percentages reflect two things—the predominant importance of newsprint and pulps in our exports to the United States, and the curtailment of normal or average imports of pulp and paper commodities by the non-dollar members of the group. The total trade in pulp and paper has grown substantially in volume since before the War, but the emphasis has shifted as a result of the major upsurge of U.S. demand and the relatively low priority accorded by other countries to pulp and paper products in the allocation of dollars that your Chairman has referred to. Recently there has been some indication that the emphasis is shifting back, and that should be interesting. There are one or two instances of that later on in the memorandum. U.S. demand for newsprint is still rising but at a more gradual rate than in the last eight years and U.S. demand for Canadian pulps has fallen from its peak in 1951 and, with the rapid expansion of U.S. domestic pulp capacity, seems unlikely to grow very rapidly in the near future. On the other hand, as dollars are becoming more plentiful in the European members of NATO and as their economies improve, wartime rationing and currency restrictions are being gradually relaxed and even commodities that have had a low priority for dollar allocations are beginning to get dollars if buyers wish to obtain them. This does not necessarily mean that more pulp and paper will be bought by non-dollar countries from Canada—these Canadian products may or may not be competitive in these markets and that is a matter to be discussed later. But at least the opportunity is there as artificial restrictions in the importing countries are removed, and that is not the situation we have had over the past eight years.

There is a possibility that the discussion of exports—which I know is your major interest in this committee—will distort the picture of Canada's pulp and paper industry which this Commitee may form. The industry is divided into two main classes, between those commodities (such as newsprint and pulps) which generally move in world trade without encountering tariff barriers and all other commodities (including fine papers, paperboard, wrapping papers and specialties) which in the markets of the world generally face substantial tariff walls.

The latter group are predominantly industries to supply the domestic needs of Canada and have enjoyed only a small percentage of exports mainly with other Commonwealth countries; but this margin over domestic requirements will later be shown in this memorandum to have an important significance today. For the "free trade" group of newsprint and pulps—about 92 or 93 per cent of our newsprint is exported—these branches are predominantly export industries and provide a major percentage of Canada's earnings in other countries. The trading problems of the two groups are naturally different and will, as much as possible, be discussed separately, but before entering that discussion, I want to touch briefly on the place of the industry in our domestic economy.

The next paragraph of the brief is one that I have written so many times, that it almost is boring, but if you have not heard this before, it will reveal to you the place that Canada's pulp and paper industry plays in the Canadian economy.

For the industry as a whole, the contribution to our economy is a major one and a few statistics will indicate this clearly. There are 130 pulp and paper mills in Canada, employing nearly 68,000 regular workers (apart from seasonal or part time workers in the woods) and producing goods worth some \$1·1 billion to \$1·2 billion a year. The industry pays to mill workers and to woods workers some \$368 million dollars annually, and the transportation bill is \$200 million a year. Among Canadian industries pulp and paper ranks first in capital invested, first in employment, first in total wages paid, first in value of production, and first in value of exports. We calculate, directly and indirectly, pulp and paper operations generate one of every eight dollars of the income of every Canadian.

In the export field, I have already described briefly the overall pattern of pulp and paper exports to the United States and other NATO countries. It should be noted, too, that in the export of goods from Canada, the pulp and paper industry accounts for 15 per cent of all Canadian exports by value and 23 per cent of all commodity exports to the United States—very nearly one in every four of the trading dollars with the United States. Thus, the role of the Canadian pulp and paper industry in Canada's foreign trade picture is large indeed. But if we are to understand this role and, perhaps more important, if we are to consider what this role can become in the future, it will be helpful to begin by tracing the development of the industry to its present position.

The Trend of Pulp & Paper Demand and the Forest Assets of Canada

Taking a look first at the very long-run trend of World demand for paper products, probably the best measure is the trend of World wood-pulp production, since wood-pulp is, almost universally, the basic raw material. In 1913, this production figure was just under 9 million tons, against a figure of about 36½ million tons in 1952. In this period production—and therefore demand—for paper products has increased about fourfold. It is interesting to note that this is the period in which the Canadian pulp and paper industry grew to world prominence: its production in 1952 was 10 times as large as in 1913 and, in 1952, its production was roughly 25 per cent of the world total.

There are two points about this growth. First, there were great changes in the location of world production within the period, and secondly, the overall growth of production and demand—particularly if it is to continue—raises the question of the adequacy of the World's forest—or more accurately, fibrous —resources.

On the first point—the location of production—I have just mentioned the tenfold increase in Canadian production in the forty years 1913-52. U.S. production was 6 times greater in the latter year. The U.S. is the world's largest producer of woodpulp, with 40 per cent of world total in 1952. These two countries—Canada and the U.S.—now account for about ⅔ of world wood-pulp production. On the other hand, wood-pulp production in the 3 Scandinavian countries, Finland, Norway and Sweden, was only 1¾ times greater in 1952 than in 1913, and in all other countries rose by just 60 per cent over the 40 years under review.

The point which stands out is the pronounced shift of the principal location of pulp and paper production to North America. There are three main reasons for this.

(a) Demand for pulp and paper products in North America:

First, the shift occurred because of the relative growth and size of the demand for pulp and paper products on this continent and particularly in the U.S. The North American market now uses annually about 375 lbs. of paper products per person—400 lbs. per capita in the U.S. and 250 lbs. per capita in Canada. For the rest of the world, the figure is about 15 lbs. per capita per year. Of course, this average is deceptive: in many countries consumption is only a fraction of even this low average figure—I think the consumption in India is something of the order of one pound per person per annum—but in the highest-consumption overseas countries use per person probably does not exceed 150 lbs., or ⅗ of the Canadian figure. The action of demand on production has been a large factor in the shift.

(b) Effects of World War II on world pulp and paper production:

Secondly, the shift was accelerated by the effects of War II upon the European paper industries—principally the industries of the present NATO countries. Taking newsprint as a case in point, in 1935-9 the 12 NATO countries (i.e, excluding Canada and the U.S.) were supplied with 2,150,000 tons of newsprint, most of it from domestic or other European sources (see Table below). By 1946, the supply figure was down to 850,000 tons, a drop of 60 per cent. Even by 1953, the supply figure had only come back up to 1·6 million tons, still 25% below prewar.

That led to all the rationing controls, restrictions on publishers, on the use of newsprint. It led to very severe curtailment of packaging and other uses. I might just make one point here, that in some ways the demand for pulp and paper generally seems to be a reflection of economic activity, and in another way it seems to be a creator of better economic activity. In other words, unless you have the necessary papers, packaging materials, and the like, which enable you to enjoy a higher standard of living, you cannot have it. Nevertheles, when you have a greater income and a greater opportunity to expand, that naturally results in a higher demand for pulp and paper. The actual demand seems to be not one that is related directly to normal factors within an industry itself, but more particularly demand seems to tie itself in to the rate of economic activity generally. For example, they are not interested really in the boxes but in the things that are put in the boxes. It is a service commodity in that sense.

NEWSPRINT SUPPLY: EUROPEAN NATO COUNTRIES
(including Turkey and Greece)

	1935-9 Ave	1946	1953
Total Supply	2,150,000	845,000	1,612,000
Index	100	40	75
Supply From:			
Domestic and Europe	1,802,000	726,000	1,442,000
Index	100	40*	80
North America	348,000	119,000	170,000
Index	100	34	49

* Index is actually 40·2.

Thus there was not only a very severe drop between prewar and 1946 in newsprint supplies to European NATO countries but the effect is still being felt in 1953.

Now, briefly, here is the contrast presented by the North American figures. In 1935-9, Canadian and U.S. supply averaged roughly 3¾ million tons, again mostly from domestic (North American) sources. In 1946, supply for the two countries totalled 4½ million tons, up 20 per cent. (Actually all of this increase had occurred between 1945 and 1946; throughout the war, supply declined slightly.) By 1953, supply was up almost to 6½ million tons, almost 75% over prewar.

So that in very rough terms, in 1953, the rest of the NATO countries were down 25 per cent against their pre-war yardstick, and we here on this continent were up 75 per cent over ours.

NEWSPRINT SUPPLY: CANADA AND U.S.

	1935-9 Ave	1946	1953
Total Supply	3,742,480	4,578,601	6,481,034
Index	100	122	173
Supply From:			
North America	3,485,546	4,565,121	6,316,937
Index	100	131	181
Others*	256,934	13,480	164,097
Index	100	5	64

* All for U.S.; No newsprint imports into Canada.

I will return to the matter of the post-war demand and supply situation later. Here, I have been citing prewar, 1946 and 1953 figures for newsprint as a means of illustrating the effects on the overseas NATO group of wartime damage and economic dislocation. Of course, newsprint is not in all respects typical of the other pulp and paper products, but the general pattern is the same. Woodpulp production for example, in 1937 totalled 12·5 million tons for Europe, in 1946 totalled 6·2 million tons and by 1952 had reached 8·8 million tons, about 70 per cent of prewar. For North America, the figures were 11·5 million tons in 1937, 16·9 million tons in 1946 and for 1952 25·1 million tons, an increase of 48 per cent—I think that figure must be wrong; it is more than that. I think it is 148 per cent—over prewar. Notice, too, that European woodpulp production in 1937 was 1 million tons more than North American production (12·5 vs. 11·5 million tons); in 1952 North American production was almost 3 times as great as that of Europe (25·1 vs. 8·8 million tons).

(c) Forestry Resources: North America and Elsewhere

The third and final factor underlying the shift in world woodpulp production has to do with forest resources. I have mentioned that pulp and paper production in North America was impeded during the war period but the industry was not physically damaged; secondly, we experienced a remarkable post-war upsurge of demand which could assert itself without currency restraints but basic to all this was the fact that we had on this continent the resources economically available to permit the expansion.

It is probably not true of any of the important NATO or European producers that their lack of forest resources imposed an absolute ceiling on their expansion. We have seen that prewar these forests supported a larger production than they have been called upon to do. But there was extensive wartime damage done to European forests, partly because of physical destruction and particularly due to heavy new demands for wood for various military purposes and for fuelwood in the scarcity of conventional fuels.

You all know, of course, they actually used wood for the purpose of fuel to move motor cars. They had special fuel-burning devices, great big tanks on the back of motor cars. This was the case in Germany and Sweden and the Scandinavian countries generally. In wartime there was a special temporary demand which led to overcutting in the forests.

Add to this the heavy post-war reconstruction needs and it becomes obvious that wood requirements for pulp and paper, if indeed they could be met from areas which have been seriously over-cut, had to compete with other very high priority uses.

There were also, of course, problems related to the expanding use of the forests resources here in North America: there were labour shortages in the early post-war years; great areas which had heretofore been inaccessible had to be opened up for logging. But basically there was no doubt that our continental forest reserves could accommodate the growing market for wood products and so the westward shift of pulp production, stimulated by demand and particularly accelerated by the post-war upsurge, could take place.

Canadian Forest Resources

Against the rising trend of North American and world demand, I raised the question earlier as to the present and future adequacy of resources. Let us concentrate now on Canada's forest potential.

CANADIAN FOREST STATISTICS

Accessible Forests	Square Miles	% of Production	% of Total
Presently Occupied	318,000	39	21
Unoccupied	260,000	31	18
Total Accessible	578,000	70	39
Inaccessible	249,000	30	17
Total Productive	827,000	100	56
Non-Productive	659,000		44
Total Forest Area	1,486,000		100

Source: Department of Resources and Development

First, as to area, the total covered by productive forests—those which can yield tree crops—is 827,000 square miles. Some 578,000 square miles of this is now classed as accessible, that is, economically available for use. One of our reserves for expansion is the difference between these two figures: 249,000 square miles of productive forest land presently inaccessible by reason of location or, what is much the same thing, inaccessible under the existing economics of the market. This area makes up 30 percent of our total productive forests.

Secondly, within the 578,000 square mile accessible area, latest government statistics show only 318,000 square miles as presently occupied. The difference between the figures again constitutes a reserve available for expansion: 260,000 square miles of productive forest land—31 percent of the productive area—is already economically accessible but still unoccupied and therefore not in use.

Together these two areas account for 61 percent of the productive forests; this means, alternatively, that we now use only 39 percent of the productive area to supply present wood requirements for all purposes.

Apart from the expansion possible from a more extensive cultivation of our forests, more intensive cultivation on the forest lands now in use can bring much higher crop yields. Economically, this is the most attractive way in which to meet our growing needs since it cuts down on the distance which the wood must be moved where distance costs money in terms of access roads, fire protection, insect and pest control and labour procurement. Scientifically, this way is best because it means a more efficient utilization of our forest resources and incidentally, means better forests. Physically, more intensive cultivation also offers the greatest potential for expansion. Our present annual depletion works out at about 1/8 of a cord per acre on the land now in use (the 318,000 square miles mentioned above): this is first choice land and it can, I am told, be brought to an average yield of twice that figure.

By better application of the knowledge that is coming fast on the way in which to grow more wood.

Here are some of the ways in which this higher yield will be attained; in varying degree, all are under way:

(*a*) Better knowledge of our forests. We do not have an adequate forest inventory in Canada although in most provinces the work is well along. But we need to know more about our forests, rates of growth and depletion, soil capacity, and so on. Among other things, this will help our reforestation and afforestation work.

(*b*) Better forest management, which means a greater application of our growing silvicultural knowledge: improved cutting techniques, selective cutting, thinning our over-mature stands. There are great areas of Canadian forest that are not growing at all; they have reached a mature stage when they tend to deteriorate and decay, and become subject to fire, insects and disease. Actually, we would grow much more wood if those over-mature areas could be harvested and properly handled as tree-growing areas.

(*c*) Better fire and insect control: these too are coming with our increasing scientific knowledge and more machanisation in the woods. Some of you know of the experiments being carried on in the Maritimes by way of spraying against the spruce budworm, which is being carried on as a partnership effort between the Dominion, the province of New Brunswick and the pulp and paper companies in that area. It is a big operation, being carried on over thousands of square miles, and it now looks as though they are stopping the menace of the spruce budworm.

(*d*) The use of more species: great strides have been made here in recent years in the use of hardwoods, for example, and of certain under-used species which had grown slowly to over-maturity, specially subject to fire and insect damage. The nearby Hawkesbury mill has been turned over to the use of hardwood now; also, poplar which was a weed tree, is now being used extensively in the paper making process.

We in Canada have much to learn in the use and protection of our forests but the knowledge is coming fast. We can already confidently count on maintaining our present cut in perpetuity and we have the resources and methods at hand to increase materially the wood supply to meet increasing demand.

To this I would add one further point. Canada will always have high labour costs and labour is the major element in wood costs—and high transportation costs, where labour is again a major factor.

We want to have high labour standards but we must be careful to recognize that other producing countries have lower labour rates and we must compensate by mechanical and productive efficiency if we are to remain competitive in world markets.

Post-War Trading Developments:

During the years of World War II, there was added to the steady long-term rise in demand for pulp and paper products a large extra demand caused by the wartime economic boom. This led to shortages of pulp and paper products and made necessary restrictive rationing in all the allied countries. Canadian producers were faced with shortage of labour in the mills and in the woods, were unable to obtain steel and machinery with which to expand their capacities, and were called upon to supply essential requirements of allied countries whose normal sources of supply had been cut off by the war.

In 1945 and 1946, wartime controls were removed while demand was still far in excess of supply and a substantial pent-up demand was released on the producers before they had any possibility of increasing their capacities to meet it. It is a statistical fact that customers of the Canadian pulp and paper industry have been provided with more products every year since 1945 than they had ever received before. Capacity was increased in all branches of the industry as quickly as possible. But the totals made available were not as great as consumers wished to buy and, in this special sense, there were "shortages" of pulp and paper, on this continent and throughout the world, almost continuously from 1945 to 1951. These shortages led to the familiar results of a scramble for supplies, quotas by individual mills, back-logs of orders and some black or gray markets in newsprint and other commodities. For a politically explosive commodity such as newsprint, the shortages also led to numerous government inquiries—particularly in the United States—which produced few results except misunderstanding of the real causes of the situation and some international friction. Before the recommendations could be implemented the problem they sought to isolate was satisfactorily solved by normal commercial actions.

The producers of pulp and paper products throughout the world—like the producers of most other commodities—are in business to make and sell as much as they can. Faced with an unsatisfied demand the Canadian industry quickly expanded its capacity to meet it; both by improvements at existing mills and by the building of new mills. The record is similar for all branches of the industry—pulps, fine papers, wrapping papers, paperboard and specialties—but the figures for newsprint can be taken as typical of the process.

Capacity to produce newsprint in Canada, increased from slightly under 4,650,000 tons in 1946 to 5,900,000 tons in 1954—an increase of 1,250,000 tons. These additions to Canadian newsprint capacity in seven or eight years total more than the entire newsprint capacity of the United States at any time in the period. The new capacity came partly from new mills, partly from the installation of new machines but mainly from the mechanical improvement and speeding-up of existing machines. This was the quickest and by far the cheapest method for the creation of new capacity and it is a process that is still going on and can be continued for many years to come provided there is demand to bring such new capacity into existence.

I have often been asked whether or not we are running these machines so fast that they will burn up or wear out. I do not think that is so. The point is that a newsprint machine is really not a machine, but a series of machines. If for instance, the drying section, which is one stage, holds up the amount that can be run through, you put in more dryers and that bottleneck is corrected; but you immediately create another bottleneck or limiting factor somewhere else. It may be that the grinding capacity of the machine is not sufficient to grind enough pulp; you then find more grinders. Next you move on to the drive, which is an expensive operation, and you attain a higher rate of speed. But I would say there is no indication that there is any overrunning of these machines. In fact, there is a constant upward movement of technical knowledge which is changing the whole character of the industry from what it was twenty years ago.

The rate of increase of productive capacity has been faster than the rate of increase in demand. The war-induced shortages were steadily reduced year after year until today these shortages have disappeared. For newsprint—as for all the other pulp and paper products—no customer of a Canadian mill is unable to obtain prompt delivery of his requirements and if he needs any reasonable extra amount he can get it without having to wait very long for it. All branches of the industry are still operating at high levels, not far removed from their expanded capacities, but there is now a small surplus or "cushion" available to meet new and extra demands should they arise. Again taking newsprint as an example, the mills have averaged in the past four months of 1954 almost exactly 100 percent of their 1954 capacity. But for years when demand was pressing they have operated at 102 or 103 percent of their rated annual capacity and they could do so now, if demand called for it.

You may be surprised at an industry which operates above capacity. The explanation is that the capacity figure is a rated capacity based on proven past performance, and there is always a time lag between rated capacity and actual capacity, when the machines are being improved.

Hon. Mr. EULER: Is that capacity on a twenty-four hour basis?

Mr. FOWLER: That is actually the capacity by machines; in other words, it runs on a twenty-four hour basis on an average of six days a week. I am glad you raised that point, Senator Euler, because in the West some operations are on a seven-day week basis, and our capacity figures have been changed to take account of that fact. What we have done is take the actual machine records and the highest level attained for a day or a week on a particular machine, and give the maximum total for that machine. If required the mills could provide another 200,000 tons of newsprint beyond the rate their customers are now asking. For the next two years newsprint producers on this continent have announced additions to capacity which total 450,000 tons. These additions will comfortably exceed the historical long-term rate of growth of newsprint demand in Canada and the United States which has averaged about 150,000 tons a year, and will also provide additional supplies to other markets if they are wanted, as I very much hope they will be.

This is a picture of an industry emerging from the abnormal period of excess demand following the war and entering a new and more normal trading period. Its present operating rate is high but it is no longer unable to supply in full the demands that are made upon it. It is still growing, but the pressures causing growth in the last seven or eight years are now less heavy and the rate of growth is unlikely to be quite as fast as it has been. But the prospects are that capacity will increase at least as fast as demand and be able to take care of reasonable increases in demand should these fluctuations arise.

Further Trends in Overseas Markets:

You will have seen from the foregoing something of the efforts of the Canadian pulp and paper producers in catching up with the back-log of demand for their products. Most of these demands came from North American sources: overseas demand actually declined between 1947 and 1950, pinched off slowly by growing exchange stringencies. In the former year, overseas exports of newsprint, other grades of paper and paperboard and woodpulp totalled, in 1947, about 1,030,000 tons; by 1950, the figure was down to 387,000 tons.

Since the 1950 low there has been a gradual improvement in overseas buying power. Again, newsprint affords an example of the recovery process. In 1953, newsprint exports totalled 473,000 tons, up from a low of 207,000 tons in 1950. Both of the intervening years—1951 and 1952—showed gradual improvement, but the fact is we are still far short of the export volume which we once had and further still short of the volume which we know is or will be required by the overseas markets. Between 1945 and 1947, before monetary difficulties hardened into an international problem, the Canadian newsprint industry had an average export volume of nearly 700,000 tons. Between 1935 and 1939 our overseas newsprint exports had averaged 735,000 tons annually. Our present exports, therefore, are running at about 65 per cent of the pre-war level and, even more important, have not yet been called upon to supply a proportion of the long retarded growth of overseas demand. Pre-war, we exported 22 per cent of our newsprint production; today, the figure is just over 8 per cent—of a much larger production, of course. Probably it is unreasonable to assume that we might have hoped to maintain the pre-war export percentage had the war not intervened. This would imply that demand in the overseas markets would have paralleled the great post-war upsurge here in North America. But had we been called upon to maintain the proportion, we would now be exporting about 1¼ million tons of newsprint annually, instead of something under 500,000 tons as at present.

As it was, a speedier return of our overseas exports in either absolute or relative volume would probably have taxed our ability to expand. In the circumstances of sustained full employment and a booming capital investment program, I doubt very much if we could have raised more capital and grown fast enough to take up a growth in overseas markets equivalent to the rate of growth in the North American markets. In that sense, the retarted overseas demand afforded us an opportunity to meet the North American demand back-log and to strengthen and modernize our industry before the great suppressed or latent demands from these other countries made their call upon our resources.

It now seems, speaking of the general recovery of overseas trade, that we shall proceed toward recovering and increasing our export volume by a gradual easing of the currency and other restrictions which have hemmed us in these past six years. This is a process which has been going on not undetected but without a great deal of fanfare since about 1950 or 1951 and the implications of it continuing are most interesting.

In the next paragraph I make a suggestion concerning convertibility. We talk much about a return to convertibility but I do not think, in one sense, we are ever going to have convertibility and in another sense we have it today. The process seems to be a piecemeal process where one by one the restrictions are being relaxed, more goods are able to be bought more freely and dollars are being provided for them, and in that sense we are getting a degree of convertibility in fact if not in name. There is perhaps in that something that is helpful.

Under this gradual and piecemeal approach to freeing trade, we are already moving much closer to the convertibility of currencies. If the process continues—and I doubt that it has much farther to go—we will have convertibility in fact possibly before we have it in name. Increasingly we find commodities which can be traded internationally free of restrictive regulations, we find others which are still under such regulations moving in what would probably be their normal commercial volume even if such regulations did not exist. In short, for a growing list of items, demands are being fully met.

I would suggest that there is nothing especially unhealthy about these developments. Undoubtedly, they give rise to individual problems and frustrations. But in the broad sweep of international trade, I suspect that the gradual approach to convertibility has positive benefits. We will probably thus avoid the inflationary jolt that a sudden return to convertibility by decree would bring. If the gradual transition proceeds smoothly, we can also hope to avoid or minimize the unsettling effects of a sudden and large scale speculation in currencies.

Finally, we will move toward a greater volume of international trade within a general framework of balanced supply and demand, but this will be a more competitive market situation. As the buying power returns to the export markets, there will be capacity available to supply it.

The lesson in this for Canada, with our reliance upon export trade, is that we will obtain our share of this resurgent foreign trade only to the extent which we can hold our costs in line with our increasingly active foreign competitors. I was tempted to put something in here to the effect that sometimes we are a little prone to talk about our great unbounded natural resources. We have them and we are lucky to have them, but there are other countries in the world with great resources too, even in this natural-resource field of pulp and paper, and they have gone through much the same process as we have and they are entering again into the world markets, as we are, and therefore it is most important that our costs be kept in line with the increasingly active foreign competitors that we have.

Importance of Increased Exports and Problems Thereof:

The Canadian pulp and paper industry, although it is operating at a high rate, has now some surplus capacity available. Its markets in North America are likely to grow steadily as population in Canada and the United States continues to increase. There are signs of improvement in the effective buying power of many overseas markets. It is obvious that it would be desirable to apply presently available capacity and new productive power that can be brought into existence toward meeting the growing demand for pulp and paper products in the markets of the world. This expansion of international trade is in the interests of the Canadian economy but there are problems to be solved before this can be brought about. As the problems are somewhat different for the "tariff-protected" and the "free trade" commodities, they will be discussed separately, so I will divide them into two parts.

(*a*) Tariff Protected Commodities (Fine Papers, Paperboard, Wrapping Papers and Specialties):

These commodities are made in Canada mainly for the domestic market, as a result of the high tariff barriers imposed against them by most countries in the world. The domestic market for all these products is growing as Canada's population and economic activity increase. For example, domestic shipments of fine papers have increased from 96,000 tons in 1938 to 208,000 tons in 1953. Productive capacity in all these branches of the industry has increased and will continue to increase so as to supply Canadian needs with a wide variety of products.

For these branches of the industry the problem of the mills in their domestic business is the problem of making many grades in comparatively short runs. These are not standard commodities such as newsprint and pulps. They are varied groups of commodities which have no hope of getting into the mass market of the United States because of the U.S. tariff and must rely mainly on the relatively small and scattered Canadian market. For example, the fine paper mills in Canada produce nearly 500 different products; the wrapping paper mills make over 100 different grades. Undoubtedly these short runs add to the costs, in comparison with mills and machines that can run continuously on one or a few grades. In addition, Canadian distances increase the transportation costs for these commodities to reach the scattered Canadian market. Nevertheless for grades for which there is a substantial volume of Canadian demand, the mills have been able to supply domestic consumers with products comparable in quality and in price with those supplied to domestic consumers in the large volume markets of the United States and the United Kingdom.

That is to say that in the large volume markets of the United States and the United Kingdom that price comparison is arrived at without taking into account the duty. It is a dollar for dollar comparison of prices on grades of fine paper in Canada and in the United States and the Canadian price today is equivalent to, and in many cases below, the price of comparable grades of fine papers to American consumers in United States dollars. The importance of the Canadian tariff on these grades is that it protects against the invasion of the market by the over-run on long-run production by foreign mass-volume mills and also it encourages the Canadian mills to produce new lines on which the initial costs of production are always higher. The steady increase in recent years in the variety of fine papers, wrapping papers, paperboards and specialties would not have occurred had there not been a Canadian tariff on these grades.

For these branches of the industry the volume of export business has not been large—seldom running higher than 10 or 15 per cent of the total production. It has, however, been important and is likely to be increasingly important in the years ahead. With the large increases in all costs of production that have taken place, the break-even points—as I suppose, in most Canadian industries—is much higher today than it was before the war. For many producers, an extra 5 or 10 per cent in volume will make the difference between bare subsistence and good profits. With capacity in all branches of the industry now exceeding domestic demands, there is available an ability to produce for export markets, and if these sales can be made it will materially aid the present soundness and the future growth of these branches of the industry.

Unfortunately the current picture in the overseas market is not encouraging. Total production this year for most of these commodities is running slightly ahead of the figures for last year, but the increase is entirely in the domestic part of the business and exports have declined. For example, using the first quarter of 1952 as a base for comparison, paperboard exports were off about 62 per cent in the first quarter of 1954; wrapping paper exports were down 43 per cent and fine papers down 37 per cent.

No doubt part of the solution can be provided by the manufacturers themselves. They must adapt themselves to the changed climate in export markets. Until very recently there was little real possibility of making substantial sales of pulp and paper products in overseas countries because of the stringent rationing and currency controls they imposed against imports. Moreover there was little incentive for mills to seek new markets overseas; while the post-war shortages in the domestic market continued, with mills running at capacity, there was little to compel a seller who had nothing to sell to seek buyers who were unable to buy. With the increase in capacity beyond domestic demand there is now something to sell and with the gradual removal of buying restrictions in other countries, overseas buyers are becoming more able to buy. In short, this is a problem of salesmanship, which must be more vigorous and ingenious than it has been if Canadian exporters are to be successful in competition with producers from other exporting countries who have had much the same post-war history as have our own mills.

But the limits of what can be done in export markets by the producers of tariff-protected commodities are narrowly set by those tariffs. The whole question of tariff revision is a large and complicated problem far beyond the scope of this memorandum. In general it can perhaps be said that present trade patterns are largely determined by existing tariffs; that unilateral tariff reduction by Canada in pulp and paper products would be a fruitless exercise in giving away something for nothing; but that expanded export trade in products now facing tariff barriers would be advantageous to the Canadian economy. The major contribution of the pulp and paper industry to Canadian international trade has already been quoted. This comes almost entirely from the tariff-free items of newsprint and pulps. However, these commodities have no special attributes which make them peculiarly advantageous for Canadian manufacture. The makers of other products are equally skilled, equally efficient, and equally able to supply products that will meet competition from producers in other countries.

Perhaps there is one particular problem connected with tariff barriers and customs administration in the United States that is worth mentioning. It concerns papers for the publication of magazines—usually machine-coated paper, (i.e. paper that is finished with a coating applied during the manufacture of the paper rather than being coated in a secondary operation). Since June 1951 following the tariff negotiations at Torquay this paper, when used by publishers, enters Canada duty free. In addition, all printed magazines enter Canada without duty. On the other hand, this paper when made in Canada faces a tariff duty equivalent to roughly 27 percent in entering the United States. No doubt there could be lengthy debate as to whether, if American paper enters Canada duty free, there should be similar treatment given to Canadian magazine paper entering the U.S. market. But there can be little argument against the proposition that Canada should be able to sell magazine paper to U.S. publishers for their Canadian circulation without payment of U.S. duties when the printed magazines are admitted to Canada duty-free. In fact this is Canadian consumption of paper, even though it is printed in the United States. As a matter of fact, the law permits this; an American publisher is entitled to a drawback of all, or almost all, the duty paid on imports if the paper is subsequently re-exported. But in practice it does not work out this way because of U.S. tariff administration and "red tape". Under their administrative rules, a shipment is given a tentative or temporary valuation for duty purposes when it crosses the border. There is no real question as to the rate of duty but the tentative valuation is subject to appeal or revision for two years after the date of entry. Under another administrative rule, no application for drawback can be made until the rate of duty has become final, and no way has been discovered to make the rate final until the lapse of the two-year waiting period. In the result, a U.S. publisher who is willing to buy Canadian magazine paper for printing his Canadian circulation—several actually started to try it in quite sizeable volume—is faced with having 27 percent of the price tied up for nearly three years before he can get the drawback to which he is legally entitled. One of the larger publishers at the moment has $85,000 worth of drawback duty tied up, and is waiting his three-year period to get it back. In practice this portion of the domestic Canadian market for paper is closed to Canadian producers. And it is a substantial market. We calculate that the tonnage of paper imported into Canada in the form of printed magazines amounts to 40,000 to 50,000 tons a year. For three leading publications using a known grade of paper, the tonnage involved is about 19,500 tons per year. The total tonnage of such paper now manufactured in Canada amounts to about 21,500 tons annually; so that, if this one situation could be corrected, there would immediately be an opportunity to expand this branch of the industry by 90 percent without any change in tariff levels between the two countries.

The broader question of tariff revision between Canada and the United States is a more complex one. We are today running a trade deficit of about $450 millions which is only being supplied by the current inflow of U.S. capital to Canada. Should this investment decline or cease we would immediately be faced with a serious problem in our balance of payments with the U.S. There would be only two solutions open to us; we would either have to buy less from the U.S. or sell more. There is no doubt that a reimposition of import controls and quotas on American goods would impede our economic expansion and lower our standards of living and it would also be a serious blow to the expansion of multilateral world trade. I suggest that the constructive solution is to find ways in which we can expand the flow of Canadian goods to the United States market so as to balance our trade at a higher rather than at a lower level. In any such development, it seems to be inevitable that the natural resource industries of Canada—and particularly the pulp and paper industry which is the largest of them—should make a major contribution to this expansion of trade. We have the forest resources, the necessary hydro-electric power, and the skill and experience to do so. And I believe that this can be done without serious dislocation and damage to the existing paper industry in the United States. I can best make this point by quoting from a speech I made last November to the National Foreign Trade Convention in New York, when I said:

"I think there is far too much talk about free trade between Canada and the United States. That goal, however desirable it may have been in the past or may still be, is probably unrealistic and unattainable. We have to face the facts of history and the rights and interests that have been built on those facts. Both Canada and the United States have had tariffs for more than 75 years and they cannot be suddenly swept away without great damage and dislocation in both countries.

"But I urge that we should approach the problems of tariff reduction with more flexibility of mind than we have in the past. There is nothing sacred about a tariff rate. There is more dynamism and adaptability in American and Canadian industry than we usually give credit for, and an industry can often absorb the shock of a tariff change and be better off than it was before. There are many misconceptions about the true effect of past tariff changes.

"I will illustrate again from the paper industry. One of the most frequent complaints of my friends in the American pulp and paper industry has to do with the removal of the U.S. tariff on newsprint in 1911. They say, 'Look what happened to the American newsprint industry when tariffs were removed!' Well, what did happen? The impact on the U.S. newsprint mills was neither immediate nor catastrophic. Capacity to produce newsprint in the United States and shipments of newsprint by U.S. mills continued to expand for fifteen years after 1911. It was not until 1935—twenty-four years after the removal of the tariff—that domestic capacity in the U.S. fell below what it was in 1911 and the causes of that shrinkage had nothing to do with tariffs. Now it is true that newsprint demand in the United States was steeply rising and the percentage of supply from Canada rose steadily after the removal of the tariff. We had natural advantages of ample wood and water-power which enabled us to meet expanding United States demands for newsprint. We built a great industry which today provides one out of every four American dollars used by Canadians to buy American goods. Meanwhile, the U.S. pulp and paper industry, with typical vigour and ingenuity, has emphasized many other, and new, types of pulp and paper production and has also grown enormously to meet the rising needs of the American market.

"I wonder if this example may not provide a key for the solution of some of the problems of trade balances between Canada and the United States. Your American population and your economic activity are increasing rapidly and I, for one, believe they will continue to increase. You have by no means reached the end of your dynamic growth. Apparently, you will need supplies of many commodities to maintain the standards of living you wish to have for your increasing population. Why not make a selective approach to the problems of tariff revision? Could we not look for those commodities for which there is a growing market in the United States and allow goods to enter from Canada to provide for the increase in your consumption? We do not ask to take markets away from your producers, but instead of attempting to provide for increasing demands of your people by developing new and costly methods of expanding your capacity, could you not let those industries for which Canada has a natural advantage provide for your growth in demand. Perhaps we could make some products you need from our ample supplies of aluminum and base metals. Perhaps the many new chemicals that are obtainable from our Alberta oil and gas could, if tariffs are changed, find and make new markets in this country. I know too little about these industries to be able to say. But I do believe that by breaking down the tariff problem into smaller components, by selectivity as to the items that are changed, and with much more flexibility of mind than we have yet shown, it should be possible to build up Canadian exports to the United States to provide goods that American consumers will need and to do so without damage to existing American industries."

(b) Free Trade Commodities (Newsprint and Pulps)

This second branch of our export trade in pulp and paper products can be covered more briefly. It is an established international trade that is generally freed from most of the complicated problems of tariff revision. It is now a major part of Canada's export trade and is likely to grow steadily in the years ahead. I will only mention two or three particular problems connected with it.

First, as to trade with United States. In newsprint we now provide 80 per cent of U.S. requirements—a total of nearly 5 million tons a year, valued at nearly $600 million. That is, four out of every five pages of newspapers printed in the United States come from Canada.

Hon. Mr. EULER: What percentage of the 80 per cent of our production goes to American consumption?

Mr. FOWLER: It happens to be almost exactly the same thing. It is within a percentage point or two. Eighty-three or eighty-four per cent of our production goes to the United States, and this provides about 80 per cent of their requirements. Relations between Canadian producers and U.S. consumers are today excellent. They have not always been, but they are today.

American publishers, I believe, regard Canada as a reliable and satisfactory source of supply for the major part of their requirements. It is true that some American politicians occasionally express concern about what they call the "dependence" of the U.S. on a "foreign source of supply" for their press. But I do not believe this concern is shared by American publishers, who buy the product and can assess the situation from personal knowledge.

The publishers themselves have estimated that the consumption of newsprint in the United States and Canada will continue to increase and will by 1960 total 7,950,000 tons. If we deduct Canadian consumption and assume that the present 80 per cent of U.S. supply will continue to come from Canada the resulting estimate of the U.S. market for Canadian newsprint in 1960 is close to 6,000,000 tons. That is an increase from present levels of about 1,000,000 tons per year which we can reasonably expect.

There is only one possible danger. Various official inquiries held in the United States during the period of post-war newsprint shortages have come up with proposals for the artificial stimulation of new newsprint mills with government financing and special tax concessions, and also for the development of new sources of fibre supply which have not yet been proved to be satisfactory for making newsprint.

Hon. Mr. HOWARD: Is the International Paper Company's new mill in the southern part of the United States making any newsprint?

Mr. FOWLER: No. I think that a new mill was built in Natchez to make dissolving pulp for artificial fibres. Various southern mills also make great quantities of packaging material, cartons and boxes and the like.

Hon. Mr. BAIRD: What about the mill in Coldwater in Tennessee?

Mr. FOWLER: As to the mills in the south that make newsprint, there is the Southland Mill in Texas.

Hon. Mr. BAIRD: That mill is using southern pine?

Mr. FOWLER: Yes. There is a new mill at Coosa River in Alabama. That is the one in which the Kimberley-Clark people are interested. Then there is the new Bowaters mill in Tennessee which will be making pulp and newsprint from southern pine.

Hon. Mr. BAIRD: That will not be a predominant factor?

Mr. FOWLER: As far as I can see, the economic growth of the southern United States calls for this kind of production. It is there and easy to deliver, they have the raw materials, and it is a natural, I think. But there is, as I say, this result of some of the enquiries in the United States.

Whatever might have been said about the soundness of these proposals at the time they were made—and there is much that could have been said—their validity is clearly open to question today. The shortage of the past few years has passed; capacity on this continent is now slightly in excess of demand and projected capacity through to 1960 is well in excess of estimated growth in demand.

There is no need for government intervention or assistance; the matter can be safely left to private interprise. Left alone, individual producers will appraise the market and will prepare to meet it. Our only danger is that the abnormal relation between supply and demand in 1947 will be applied to a totally different situation in 1954 or 1955. If that should happen—if there were government-financed or government-promoted mills built to meet a shortage that does not exist—we could easily repeat the mistakes of the 1920's and 1930's and find ourselves with an artificially-created state of over-capacity.

And I do not think I need to go into the history of the 1920's and 1930's with this committee.

I know the newsprint producers of Canada will welcome any sound commercial venture that decides to enter the business of meeting the expanding needs of the world for newsprint. But I suggest we look with suspicion on any proposal to promote a newsprint mill because someone has discovered a newsprint "shortage" that does not in fact exist.

I might mention another problem connected with newsprint trade with the U.S., which surprisingly raises a question of the tariff. "Standard newsprint" is admitted to the U.S. duty free, but the inclusion of the word "standard" makes it necessary for the U.S. Tariff Board to define standards and, under American practice, the definitions are based on the quality and specifications of newsprint existing when the Tariff Act was passed in 1930. Developments in the last 24 years in the publishing industry have called for improved paper until today the tariff standards leave no further room for improvement in quality. They may also prevent the manufacturers from applying new mechanical and chemical discoveries and new techniques for conserving wood resources which have developed since 1930. It may well be that the competition for advertising with magazines, radio and television will compel newspaper publishers to adopt new formats and new devices in their newspapers. And this might well call for a different kind of newsprint. It is likely that present tariff definitions of "standard newsprint" would prevent this, and even today it is making impossible the experimentation that such developments would require. I am thinking of colour in newspapers, and so on. However, this problem is probably one for American publishers and American government authorities, rather than for Canadians.

In pulps, the prospects are somewhat different than for newsprint.

Without reading the whole of this, I can summarize. With the great growth of pulp production in the United States, Canada, while it has maintained its tonnage totals and slightly increased them, has really done so by taking away that business from Scandinavian exporters, and we are likely in the pulp business, I think, to be a marginal supplier of pulps to the United States, with all that that implies, with either a feast or a famine. This leads one to the point that I think we ought to perhaps seek ways to use increasing quantities of these pulps at home.

Hon. Mr. EULER: Why can they not produce more newsprint in the United States?

Mr. FOWLER: I think the short answer to that is that they don't want to.

Hon. Mr. BAIRD: In other words, if they subsidize—if the government lends the money they still would not have the pulp—the raw material.

Mr. FOWLER: They would have great difficulty in getting pulp. Pulp is not something that you can keep in storage for a great length of time, it is something to be used. It is perfectly true that the Americans have made enormous strides in reversing their profligate tree use. As we did, they cut down forests most lavishly, but they have turned around and now have a fine forestry policy. All members of the industry in the United States may not agree with it, some think it should be more in private hands, and that sort of thing, but they have gone a long way.

Hon. Mr. BAIRD: In other words, they will have to rely on the foreign market for the greater portion of their newsprint needs?

Mr. FOWLER: I think so, and the natural market for them is Canada.

Another digression, but an interesting one, is that the big trees are being overcut very fast in the United States. Even though there is a total fibre growth, apparently within their annual use and loss. That there is likely to a big shift away from the big timbers into a fabricated form of building materials, and that means a larger call on the small trees, and we in Canada have the reserve supply of small trees in North American forest asset picture.

Hon. Mr. MCKEEN: There is usually a big enough spread between newsprint and the fine papers, is there not?

Mr. FOWLER: It is more expensive to make finer papers, but speaking now from memory, the figures, as I remember, are $126 base price per ton on newsprint, and the cost of fine papers range $160 up to $225 and beyond.

Hon. Mr. MCKEEN: Then there is not much danger of their ever stepping heavily into newsprint?

Mr. FOWLER: I do not think so. Except the situation arises, as I say, from these congressional investigations. The United States congressional investigation is quite an experience, I have been through two or three of them. Actually, I admire much of the work these committees do, but in newsprint particularly it is the raw material that all the publishers use in the daily papers, and if a political man wants to get on the front page of every north American paper he only needs to say something startling about newsprint.

Of course the reason for that deviation between these two commodity groups is the existence of tariffs.

The CHAIRMAN: Perhaps we should allow Mr. Fowler to finish his brief, and then we can question him.

Mr. FOWLER: I am mentioning this matter of cost of newsprint and the picture in the marginal supply of pulp. Now just a word about the supply of Canadian newsprint to the United Kingdom.

The United Kingdom is the second largest export market for Canadian newsprint. It's post-war history has been a discouraging one. From a pre-war average level of 347,000 tons and, in 1945, 214,000, Canadian exports fell to a mere 13,500 tons in 1950. This latter figure was made up of little more than token shipments, designed to keep the trade channels open. By 1953, the volume had been built back up to about 175,000 tons and within recent weeks, the British Treasury has approved the annual import of 50,000 additional tons from Canada—of which 25,000 tons will be shipped in 1954.

By next fall, newsprint will be the only commodity still rationed in the U.K. Despite several small relaxations of control, British newspapers are still severely curtailed in size. Before the war, they averaged about 20 pages a day but now are still only at 8 pages. This again is a matter for decision by the importing country but it is to be hoped that this last wartime control will soon disappear. It is questionable if controls can be successfully and fairly maintained on one commodity when all others are freed from control. Apart from these administrative problems, there may be another reason why the restrictions on newsprint in the U.K. will have to be removed. The British economy has made an amazing recovery; it has improved its productive capacity and (as we have in Canada) has caught up with demand and eliminated post-war shortages of consumer goods. During the period of shortage there was perhaps little need for advertising to dispose of available production. But as supply has improved, one commodity after another has passed from control and from wartime "pooling" and standardization. There is no longer one standard government-defined grade of petrol; chocolates are once more sold under individual brand names; consumer goods are no longer so scarce that the entire production can be sold without selling effort or advertising. It may well turn out that the need to maintain a high level of domestic production and consumer demand will compel an early removal of British newsprint rationing. Some part of the extra demand can be expected to be required from Canada.

A High-Cost Economy:

In conclusion, I would like to suggest to the committee some general ideas which must be regarded as personal and, by their nature, tentative. As a nation dependent to a major degree on exports, we find ourselves encountering difficulties in competing in world markets; certainly we are facing problems which have not been familiar in recent years. The stock explanation is that we have become a high-cost economy; that we have "priced ourselves out of the market". How valid is this excuse?

The answer is probably not to be found by looking at any single factor; such as high taxes or high labour rates. No doubt both have a bearing on the problem and both could if they increased materially from present levels seriously impede Canadian producers from competing in world markets. But these matters are relative. Undoubtedly our costs are high relative to pre-war or pre-inflation periods. Such rising costs and prices were inevitable during years when all factors of production—labour and capital—were fully employed, when there were sellers' markets and shortages. Moreover, being dependent on imports for about one-fifth of our gross national product we could only resist the movement of world prices within narrow limits, unless we had been prepared to take a real cut in living standards. But there is no evidence to suggest that our post-war inflation has been severe relative to that in other countries and that, relative to our competitors, we are a high cost economy.

On the contrary, nearly everyone would agree that our inflationary pressures have been well handled. Much the same conclusion applies to productivity; we have had a better-than-average investment program and there is nothing to suggest that it has been unwisely made or has caused us to fall behind others in productivity. So also with our taxation levels, which are inflationary or become inflationary when taxes are passed on in the prices of our goods; but again relatively Canada is not out of line with other countries.

This is not to say we have done a perfect job. Perhaps we have raised our living standards, our real incomes, too rapidly—including the leisure of a young, rapidly expanding country. Undoubtedly we have sacrificed some efficiency and thus have lower productivity than we would have had if we had not gone through a period when full demand for our production was assured. Possibly we should have squeezed our welfare program a bit to make room for defence spending, instead of expanding both together. But relative to other countries—both our competitors and our markets—the claim that we have become unduly high in our costs is not borne out by the facts.

If the stock answer is not valid, what then is the explanation for our current problems in international trade? In some industries there may have been over-expansion, although this does not seem to be a general condition. In the pulp and paper industry it does not seem to have occurred. Some industries may have acquired markets under shortage conditions in which they cannot now compete with foreign industries returning to traditional markets in which they have special advantages of favourable location or currency relations.

We supplied some markets which were unnatural to Canada, for transportation reasons and the like. Such factors may provide a partial explanation of our current problem.

But there may be another important factor to take into account. There seems to be a change in the climate of international trade. The post-war shortages are over; supply conditions for many commodities throughout the world have improved with the expansion of productive capacity, not only in Canada but also in all producing countries. There are now surpluses to sell. With higher power to produce, more goods can be made; and with expanded buying power more goods can be bought and consumed. This adds up to the possibility of a substantial increase in real standards of living throughout the world. And that is surely a good thing.

But for Canadian traders to get their share of the new business they must recognize that conditions are not the same as they have been for the last eight years. The rules of the game have changed. We now have something to sell and must resist the habits of inertia that have grown up during the post-war years. We can no longer expect the buyers to come to us. We must go to them, and be prepared to adapt ourselves to their needs, as to product design, methods of distribution and terms of financing. This, incidentally, is what we expect foreign sellers to do in our market. We must be ready to accept small orders and to find new buyers.

I am personally confident that, when Canadian exporters have adapted themselves to the changed climate of the international market-place, they will succeed in getting their share of its business.

Hon. Mr. EULER: Mr. Chairman, may I ask Mr. Fowler a question? Before the war, while there was not very heavy competition in the newsprint from the Scandinavian countries, did not that slight competition have a considerable effect on the price that you could get for your newsprint; and is that the case now, or in your opinion will it likely be the case?

Mr. FOWLER: I was not with the industry at that time, but I have heard about it and I think it is undoubtedly a fact that the constant slide in newsprint prices was at least partly due to the Scandinavian offerings. We have one of our men in Finland at the moment, and as far as I can make out inflation in that country has been considerably higher than ours. In 1951 when demand was very high, the Scandinavian countries followed the policy of taking what the market would bear, and prices skyrocketed. As the market price went up of course there were demands for higher labour rates and general costs increased. Now they are stuck with very high costs, as a result of these special inflationary conditions. I believe the answer to your question is "No, that kind of danger is unlikely."

Hon. Mr. EULER: As far as their newsprint is concerned, it goes into the United States free?

Mr. FOWLER: Yes, on newsprint.

Hon. Mr. EULER: One further question: Senator Howard and I happened to be in New Zealand some years ago, and we noticed with a great deal of interest that they had planted, I think, spruce—

Mr. FOWLER: California pine.

Hon. Mr. EULER: They had planted about 60,000 acres, and at that time the trees had grown to a considerable size. Apparently they grow rapidly in that climate. I notice by the newspapers some time ago that these trees were now being cut, and that they had established a newsprint plant in that country.

Mr. FOWLER: It is actually the fact that one is being built there at the moment. It may interest you to know that one of the Canadian newsprint companies is providing a substantial amount of the engineering—

Hon. Mr. EULER: The Abitibi Company.

Mr. FOWLER: —with no ownership interest at all. Undoubtedly there will be newsprint production there which will take a good portion of the present markets of Australia, New Zealand and the Southern Pacific. I personally regard that as something like what I said about the southern states; the raw material is there, it is a sound commercial venture, transportation is much less, and all in all a very good thing it is. One thing is this, that Australia is growing very rapidly, New Zealand quite rapidly also and they have been severely held down in their newsprint consumption, as in Britain, so that I personally believe that, while there may be some slight reduction in usage of newsprint from Canada by Australia and New Zealand, it has already been severely curtailed there from pre-war levels, and I do not think it will go much lower, but once they get more they will use more.

Hon. Mr. EULER: Would you say that they could supply their own demands?

Mr. FOWLER: No, I do not think so. I do not think their forests will allow them to supply all their potential demands in the future.

The CHAIRMAN: Do you find a tendency for other countries to establish pulp and paper mills owing to the shortages that exist in those countries?— In other words, is there a tendency to establish in those countries uneconomic industries?

Mr. FOWLER: There are some things going on throughout the world such as you suggest. There are some suggestions making it seem as if it were possible to manufacture newsprint and plups anywhere. I think there are some cases where mills are being stimulated in countries which have not got raw materials or the power to do it. As soon as they are established it will lead to demand for tariff protection and will end up with a loss to the Canadian market and with very high cost supplies to the people that depend on those mills.

Hon. Mr. HOWARD: Mr. Chairman, I want to congratulate Mr. Fowler on his presentation here this morning. He has given the finest treatise on the question that I have heard up to date. Now, I would like to ask Mr. Fowler this question. Do you definitely consider that production in Canada now is in line with the regrowth of our forests, and that the saving from this and that is equal to what you are cutting?

Mr. FOWLER: We are satisfied as to that. I did mention the point that we have not final and complete inventories, but the information we have now would indicate that. Five years ago we were worried, but the information we now have has led us to believe that Canada is living within the annual increment and that the consumption by pulp and paper companies, lumber companies, fuel wood, fire, and disease, is in line with the regrowth. I do not think this situation applies over all areas in Canada, but I think the record of living within one's annual income is better on the pulp and paper held limits than perhaps other places in Canada, because these mills have expensive mills that have to be kept going.

Hon. Mr. HOWARD: I have another question to ask Mr. Fowler, and that is, do you quote exactly the same price for your export business as you do for your local consumption, your Canadian or American business, or do you change it according to the situation?

Mr. FOWLER: I am not in the merchandising end of the industry so I am reporting what I believe the individual companies do. I think their export price is generally based on the equivalent North American price that they quote, although there are charges for ocean freight and ocean packing involved, but I think it is a one-price structure generally speaking throughout the world. One other thing I should mention, if I can just take a second—I forgot the effect of the exchange rate as between Canada and the United States.

Hon. Mr. HOWARD: Yes, we know about that.

Mr. FOWLER: That has been quite a serious item to us because we do have to sell for American dollars in the American market and it simply means if there was a difference of 3 per cent, that is just \$3 or \$4 less Canadian money that you get for your product.

Hon. Mr. HOWARD: So when the American dollar again goes higher than our money you will be in clover?

Mr. FOWLER: We will be much better off.

Hon. Mr. EULER: And if it goes lower, why don't you raise your prices?

Mr. FOWLER: There seems to be a limit to that.

Hon. Mr. HOWARD: Have you any idea what percentage of the pulp and paper industry is owned by United States capital?

Mr. FOWLER: No, I have not, sir.

Hon. Mr. HOWARD: Do you think that that situation has a good effect on the relationship which exists between Canada and the United States?

Mr. FOWLER: I do not think it has a bad effect. I think it is one of the good ties that binds our countries together.

Hon. Mr. LAMBERT: Excluding, of course, the Chicago *Tribune*.

Mr. FOWLER: They are a couple of good members of ours. With all due respect to you, Senator Lambert, they have two very fine mills indeed in Canada.

Hon. Mr. LAMBERT: You mentioned a figure of 450,000 tons increase in output in the next couple of years. Would a large percentage of that be composed of this country's production? You mentioned the continent as a whole.

Mr. FOWLER: Yes, a good deal of it is in this country, probably not 80 per cent, because it includes the new Bowater's Mills in Tennessee, there is one in Northern Ontario and one in British Columbia and other potentials beyond that in Canada.

Hon. Mr. TURGEON: When I ask this question I am thinking of the new trade treaty with Japan. Does your industry look forward to trade with Japan with any great expectations?

Mr. FOWLER: I have not studied that agreement very carefully. Individual companies in the industry sell a good deal of dissolving pulp to Japan. We have sold some newsprint but the dissolving pulp is the main export from mainly the west coast. I certainly would like to see more flow of trade between our countries. I think the problems connected with Japanese trade and Japanese economy are enough to stagger you when you look at them, what with their population and lack of raw material, so I would like to see us expand that business, but as I said, I have not studied the impact of this treaty.

The CHAIRMAN: Well, I am sure, Mr. Fowler, that you have the thanks of every senator here for the fine presentation you gave us. You gave us more information about the pulp and paper industry than we have heard in this room for many a day.

Mr. FOWLER: I am very glad to come.

Whereupon the Committee adjourned.

1953 - 54

THE SENATE OF CANADA

Proceedings of the

STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty.

No. 5

WEDNESDAY, JUNE 23, 1954

The Honourable A. N. McLEAN, Chairman

WITNESS

Mr. A. de V. Leigh, M.B.E., Secretary, London Chamber of Commerce.

REPORT OF THE COMMITTEE

APPENDIX B
Submission by the Agricultural Institute of Canada.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLean, Chairman

The Honourable Senators

Baird	Duffus	MacKinnon
Bishop	Euler	McDonald
Blais	Fraser	McKeen
Buchanan	Gouin	McLean
Burchill	*Haig	Nicol
Campbell	Hawkins	Paterson
Crerar	Howard	Petten
Daigle	Kinley	Pirie
Davies	Lambert	Turgeon
Dessureault	*Macdonald	Vaillancourt—(28)

*ex officio member.

35 Members.

(Quorum 7)

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Tuesday, February 23, 1954:—

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(*a*) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(*b*) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry."

L. C. MOYER,
Clerk of the Senate.

91969—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, June 23, 1954.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10.00 a.m.

Present: The Honourable Senators—McLean, Chairman, Bishop, Burchill, Crerar, Gouin, Haig, Hawkins, Howard, Kinley, Lambert, Macdonald MacKinnon, Petten and Turgeon.—(14).

In attendance: The official reporters of the Senate.

Consideration of the order of reference of February 23, 1954, was resumed.

Mr. A. de V. Leigh, M.B.E., Secretary, London (England) Chamber of Commerce, was heard.

At 11.00 a.m. the Committee adjourned.

At 4.00 p.m. the Committee resumed.

Present: The Honourable Senators—McLean, Chairman, Burchill, Crerar, Daigle, Dessureault, Gouin, Haig, Hawkins, Howard, Kinley, Lambert, Masdonald, MacKinnon, Petten, Turgeon and Vaillancourt.—(16).

Mr. A. de V. Leigh was further heard and questioned.

A submission by the Agricultural Institute of Canada was ordered to be printed as Appendix B to these proceedings.

A draft Report, read by the Chairman, was considered.

On motion of the Honourable Senator Turgeon, the said Report was adopted. (See page 130).

Consideration of the order of reference was concluded.

At 5.15 p.m. the Committee adjourned to the call of the Chairman.

ATTEST.

John A. Hinds,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Wednesday, June 23, 1954.

The Standing Committee on Canadian Trade Relations, which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10 a.m.

Hon. Mr. McLean in the Chair.

The CHAIRMAN: Honourable senators, the meeting is called to order. As we are now all familiar with the resolution with which this committee is charged and which is based on Articles II and V of the North Atlantic Treaty, I do not believe it will be necessary to repeat it.

We are honoured this morning to have with us Mr. A. de V. Leigh, M.B.E., Secretary of the London (England) Chamber of Commerce, which is one of the largest organizations of its kind in the world. Mr. Leigh has been Secretary of this great organization for over thirty years, and has been in close touch with all parts of the British Empire and with other nations of the free world, especially with those which belong to NATO. He is regarded as one of the top authorities in Europe on international trade and economics as he is extremely well informed on these matters.

Mr. Leigh has come a long distance and has made considerable sacrifice to be with us here today, and we are certainly thankful for the great interest he has taken in the work of our committee. His last visit to Canada was to attend the Empire Trade Conference called by Prime Minister Bennett in 1932.

I shall now call upon Mr. Leigh to present his brief, at the conclusion of which there will be the usual question period, when each senator can, in turn, ask Mr. Leigh to enlarge upon and clarify any points which he may wish to have brought out.

Mr. A. de V. LEIGH, M.B.E., (Secretary of the London (England) Chamber of Commerce): Honourable senators, the London Chamber of Commerce were greatly honoured by receiving your invitation to submit evidence to this committee, and I myself feel, indeed, highly honoured to be here to present those views.

Honorable sénateurs, malheureusement je ne parle pas français assez bien pour vous adresser la parole dans cette langue, et je vous demanderais d'être bien indulgent en cette instance.

I will, if I may, read the memorandum which is in front of you, and might I suggest that you should mark any points as we go along and come back to them when I have finished, as there are questions that may be answered later on in the brief itself.

THE LONDON CHAMBER OF COMMERCE (INC.)
69 Cannon Street, London E.C.4

Memorandum of evidence for submission to the Standing Committee on Canadian Trade Relations of the Canadian Senate

PART I

The London Chamber of Commerce has 13,000 direct members with another 50,000 represented on its Council through 45 affiliated associations. A very high percentage of its direct members are engaged in overseas trade. That applies not only to the merchants of whom there are some 6,000 but also to the manufacturers of whom there are about the same number. In fact, the manufacturers belong to the Chamber primarily on account of the help it can give them in their overseas trade. The Chamber also houses and staffs the National General Export Merchants' Group, the members of which are solely engaged in the export trade.

Prior to 1914, the main risk which an exporter took was that his buyer abroad might prove to be dishonest or incapable of paying. That a buyer might be both honest and solvent, and yet that the exporter here might not receive payment, because a foreign country had no foreign currency and put an embargo on payments, was so remote a risk as to be relatively negligible. But after the first world war suspensions of payment by Governments became a serious risk; and since the second world war a major one.

It will be seen therefore that the question of international payments is of consequence to those engaged in the export trade. It is not a matter of academic interest to them, but vitally affects their daily transactions.

Realizing this trend the Chamber set up a Special Committee on International Payments as long ago as 1931 and, from time to time since then, this subject has again been reviewed by the Chamber, and the broad conclusions reached some 23 years ago have on more than one occasion been reaffirmed.

It will be appreciated that those engaged in international commerce cannot be satisfied with anything less than the establishment of a system of multilateral payments covering the whole world: only when such a system is established and functioning can goods and services move freely from country to country. This was possible prior to the first world war and to a less extent during some of the inter-war years, but has not been possible during the eight years which have followed the second world war.

To remove the Money Curtain which effectively divides the dollar area and the rest of the free world is, in this Chamber's submission, the major economic problem of to-day, beside which all other economic problems sink into relative insignificance.

It seems to be tacitly assumed that the only way in which this highly desirable objective can be realized is to restore the nineteenth century technique, under which national currencies were freely bought and sold for what they would fetch on the international exchange market. In this Chamber's view the old technique is out-of-date and cannot be restored and therefore if the objective of freer trading is ever to be reached, new techniques must be found in harmony with twentieth century conditions. It appears to this Chamber to be entirely unrealistic to advocate the restoration of a system which has been completely outmoded by the immense revolutions which have taken place in the methods of production and distribution; in the sphere of politics; in the social sciences and, more particularly, in the organization of labour.

It was recognized by this Chamber some 23 years ago that many of the factors which had made the nineteenth century system of international payments work, had either disappeared or had become greatly modified; and it is evident that the second world war completed what the first world war had begun. It may therefore be well to consider what those factors were.

The United Kingdom up to the outbreak of the first world war was the World Creditor. Being unable to grow enough food for her people she was obliged to import very large quantities annually, as well as practically all her raw materials with the exception of coal. The system of international payments which she evolved was based upon these quite exceptional and peculiar circumstances. The Industrial Revolution had taken place in England at the end of the eighteenth century. She was the workshop of the world throughout the nineteenth century, and not until the beginning of the twentieth century did any rival appear. The nineteenth century system of International Payments which in its simplest terms was a system of international free trade in national currencies, i.e. convertibility, could only be made to work if each nation, of the one part, and the rest of the world, of the other, could, by one means or another, be kept in approximate equilibrium. This the United Kingdom made it its business, as World Creditor, to enable every nation to do. The chamber wishes to emphasize that it is not attributing any special virtue to the United Kingdom in this respect. It was a system which suited the special circumstances of the United Kingdom and of the rest of the world at that time. The United Kingdom had no cause to fear competition with its domestic manufactures by imports of manufactured goods, since the other nations, by and large, only had foodstuffs and raw materials to offer. Under a system of free trade, then, the United Kingdom received annually imports of foodstuffs and raw materials which were double the value of her exports of manufactured goods. Half of these imports were payment for her exports, and the other half were in payment of interest on the loans which she had made, and for shipping and banking services, etc.—the invisibles. Her willingness to accept imports to double the value of her exports was the first provision made by the United Kingdom as World Creditor to enable the other nations of the world to maintain their balance of payments. The second provision was that if a nation had a bad harvest and for that or other reasons was unable to pay with its exports for its imports plus interest on its loans, it came into the London Market for another loan. It has been estimated that the United Kingdom lent £100 millions a year for some 60 years, i.e. some £6,000 millions by simple addition. At compound interest this sum would have been astronomical. On the outbreak of war in 1914 the market value of the United Kingdom's foreign investments was some £4,000 millions—not even the original £6,000 millions: the rest, for the most part, had been repudiated.

The truth of the matter is that a relatively high rate of interest was paid on these foreign bonds, so that by the time they began to fall on the Stock Exchange, the first holder who sold and took a loss felt he had not done too badly. The next man, in his turn, took his rate for two or three years and sold again at a loss, so that as a rule the loss, by the time the bond was finally repudiated, was spread over a very large and wealthy investing class. They felt that they had known the bond was speculative, otherwise there would not have been a high rate of interest, and that they had just been unlucky. The United Kingdom did in fact give away an immense amount of real wealth to the world through making loans on which the debtors defaulted.

It will be appreciated that if a borrower in a foreign country failed to pay interest and amortization to the United Kingdom this was not due to any obstacle being put in his way by the United Kingdom. The latter was ready and willing to accept an excess of imports over exports. Whilst defaults on a substantial scale did take place, as indicated above, many borrowers overseas paid their interest regularly and ultimately repaid the capital. Had this not been the case the private investors in the United Kingdom would not have been willing to lend their money abroad.

Now it is quite obvious that if the present World Creditor, the United States, is going to insist on an excess of visible exports over imports every year, that system cannot work.

The first provision set out above for enabling each nation to maintain approximate equilibrium, namely, that the World Creditor should be prepared to receive an excess of imports over exports, is reversed, and the United States, by having a large excess of exports over imports, is itself the unbalancing factor. It necessarily follows that if the United States has a favourable balance annually with the rest of the world, the rest of the world must have an unfavourable balance with the United States: that is merely the other side of the same balance sheet. Nor can the second provision mentioned above come into operation under these circumstances. The world would be unable to earn enough dollars to pay the United States for her current exports, much less for interest on loans and for other invisibles as well: it is therefore unlikely that potential investors in the creditor nation would be prepared to make loans. In short, the nineteenth century technique cannot possibly work in the second half of the twentieth century under the totally different circumstances of the New World Creditor and the changed conditions in the world at large.

It may now be well to review some of the other factors present before the first world war which have since either disappeared or become greatly modified, and which played an important part in the functioning of the nineteenth century technique.

The Cunliffe Committee on Currency and Foreign Exchanges, in its first Interim Report issued in August, 1918, and the Macmillan Committee on Finance and Industry which presented its Report in June, 1931, both described the orthodox theory of bank rate. The effect of a high bank rate on the internal situation was to curtail credit, to diminish enterprise and cause unemployment, and then that unemployment would tend to bring down wages so that costs of production generally would fall.

When it was decided in 1921 to make the pound "look the dollar in the eye" this was the policy which was pursued. The result, however, was not, as in pre-war days, to enforce a general reduction in wages, through unemployment, so strengthening the competitive position of this country internationally: instead, it set up a complex of internal stresses and strains which, amongst other things, led to the General Strike of 1926.

The growth in the power of organized labour, and the political and psychological consequences of the prolonged and severe unemployment, not only in this country, but throughout the world, which followed the crisis of 1929/1931, have made it quite certain that no government in any of the Free Nations will to-day deliberately bring about unemployment on the grand scale in order to force down wages.

Nor would this old technique prove acceptable to industry and commerce. Mass production implies mass consumption. The overheads in modern industry can only be met, and a profit made, when goods are being turned out at a high percentage of capacity.

Further, it was generally true before the first world war that the reason why a nation was out of balance was that is internal prices were too high in relation to world prices; and that if its products were cheap enough they would find a ready sale in the world's markets.

That the nations nowadays are not prepared to accept imports merely because they are cheap was fully demonstrated between the wars, when many nations took special measures to keep out Japanese goods because they were too cheap and so threatened their own domestic industries. Moreover, as has been said elsewhere, the problem of maintaining full employment is now a dominant preoccupation with all governments.

It is admittedly extremely difficult to adjust one's mind to the vast changes in the political, social and economic life of the world which have taken place since the first world war, and to abandon long held and once true theories and beliefs. If, however, we are to be realistic—and at this crucial turning point in the world's history it is essential that we should be—it is necessary to recognize, and to admit, that nations will no longer take imports merely because they are cheap. It is useless to say that nations should do so; that they would be richer if they would; the fact remains, in the world as it is, the nations don't and won't. It may be true—but if true it is irrelevant—that a country which excels, e.g., in the production of dairy produce and wool should concentrate on those productions and should export them, buying in return the manufactured goods it needs, and that by this international division of labour the world's wealth would increase. In practice, however, rather than see those of their sons and daughters migrate who are not content to be dairy farmers, the people of that dairying country will prefer to pay more for possibly inferior but locally produced good if, by so doing, they can keep their children and their grandchildren round them and, through sacrifice, build up a well-balanced economy.

The first world war gave a great stimulus to industrialization in all countries since, for the first time, they experienced the discomfort and hardship of being cut off from their overseas sources of supply. They also became acutely aware of the defenceless position of a nation which, having no industry of its own, was entirely dependent on imports even for rifles and ammunition. Thus industrialization has become a political matter, apart from purely economic considerations.

Between the wars, so long as loans from the United States enabled the economically weak nations to balance their accounts with the world, international convertibility of currencies was somewhat precariously maintained, but with the withdrawal of American loans from Europe in 1931, Germany, Austria, Italy, Turkey, Spain, Hungary, Bulgaria, Yugoslavia, Roumania, Czechoslovakia, Greece, Denmark, Latvia, Estonia and Portugal (the last two named confined it to capital transactions from 1933-34 onwards), joined in 1936 by Poland, adopted exchange control for the rest of the inter-war period. Whilst the United Kingdom itself was forced to abandon the gold standard in 1931 the pound sterling remained convertible into gold and other currencies throughout the whole period betwen the two world wars but only at the expense of widely fluctuating exchange rates. Several South American Republics also adopted exchange control in 1931-32, and after a period of relaxation, intensified it in 1937. There can be no doubt that so long as the debtor nations had been able to find a ready buyer of their exportable surpluses and, in times of difficulty, obtain a loan on the London Market to tide them over, they had not appreciated the weakness of their position but, in the inter-war years, thrown back upon their own resources, fear gave an immense stimulus to the desire for self-sufficiency. If they imported goods there was no guarantee that they would be allowed to pay for those goods with their exports. Instead, the money which they had paid for their imports might be used to buy not their exportable goods but their existing fixed assets—their land, their industries, their newspapers, hotels, cinemas, etc. This was a prospect which no country wishing to maintain its economic, and therefore political independence, could contemplate with equanimity. This further peril then was met by Bilateral Trade Agreements, Barter Deals for the exchange of goods against goods, quotas, etc.

The fear of having their existing fixed assets bought by foreigners was also a potent factor in encouraging nationalization as the one sure means of ensuring that industries did not fall under foreign control. Since the second world war the fears which are here described are still potent. All the nations are busily engaged in trying to build up, through industrialization, a balanced economy with the maximum possible degree of self-sufficiency as their objective. To attempt to force them to abandon their protective mechanisms, exchange controls, quotas and the rest, will merely convert fear into panic. Only by removing the very real perils against which these mechanisms are their defence can that fear be eliminated and humanity saved from the colossal economic waste which economic nationalism, carried to its logical conclusion, would represent. Violent gusts of wind merely cause a man to wrap his coat more tightly round him, but he will himself remove it when he feels the heat of the sun.

Under the existing conditions the United States each year earns an immense quantity of foreign currencies which she does not wish to use for the purpose of buying imports in return. So long as the countries in which that money is legal tender maintain exchange controls, the American owners of it cannot offer it for sale to other Americans for what it will fetch in dollars. As other Americans would have no use for it either, it would clearly fetch very little in dollars.

In other words, if it were not for exchange controls, the exchange rates of those foreign monies, in terms of dollars, would be knocked down to next to nothing and their economies ruined. Nor is it to be thought that when their currencies had been thus devalued in terms of dollars, their goods would be allowed to flow freely into the U.S.A., and so restore balance. If, for example, the British £ depreciated in terms of the dollar to a point where our goods did defeat the American tariff, it would be represented in America that they were produced by sweated labour, and so they would appear to be, if British wages were converted into dollars at the depreciated exchange rate. The United States would thereupon stop British imports. These then, are the reasons why the non-dollar nations are not willing to remove exchange controls.

The only other course open to American owners of that foreign money is to use it to buy up fixed assets in the country where it is legal tender. Those investments will produce interest, dividends, etc., and these will be added to the excess of foreign currency earned by the United States in the next year so that the amount of foreign fixed assets which will have to be bought as year follows year will progressively increase. This type of foreign investment by the U.S.A. far from helping to close the dollar gap, will, on the contrary, tend to widen it.

A clear distinction should, it is submitted, be drawn between two very different forms of foreign investment. The first consists of putting a new capital asset into a foreign country on loan, an asset which that country could not have afforded to buy out of its current foreign earnings, and which is calculated to increase the economic strength of the borrower. To put capital into a foreign country to develop latent resources; to send men with skills not possessed by the inhabitants of that country, are forms of foreign investment which the recipient country, if alive to its best interests, should welcome. The second is the type of foreign investment to which reference has been made in the foregoing paragraph, where a country exports current consumer goods, refuses to accept payment by taking imports either directly or indirectly, i.e., either from the country to which it sold or from some third country, but instead uses the proceeds of that sale to buy up the existing fixed assets of the country to which it sold its goods. This, far from increasing the wealth of a debtor country by increasing its productive equipment, merely results in the ownership of its existing capital assets passing out of the hands of its own nationals, and into those of foreigners. Whilst no great harm may be done if this happens on a small scale, it can only create extreme tension, illwill and fear, if it reaches dimensions which threaten the economic, and therefore the political, independence of the nation which suffers from it.

Part I of this Memorandum has been designed to show:

(i) what the fundamental conditions were which made workable the nineteenth century technique of international payments, i.e. convertibility.

(ii) that the vast changes in the political, social and economic conditions which have taken place in the last 40 years, have either destroyed or greatly modified the very basis upon which the old system of international payments rested.

(iii) that that system is therefore an anachronism in the second half of the twentieth century and cannot be restored.

This was a view which this Chamber reached 23 years ago, and the passage of time has merely confirmed the correctness of that view. So long, however, as the nations refuse to recognize what is admittedly an extremely uncomfortable fact, and persistently reiterate their determination ultimately to restore the nineteenth century system, they will not be prepared to consider possible alternatives which would work in the very different world in which we now live.

This Chamber was naturally challenged to advance an alternative system which, in its view, would work. It was evident that any fundamental change would involve substantial sacrifices on the part of certain sections of the community and that nothing but fundamental change could be effective. Perhaps, most difficult of all, it involved the abandonment of long-held and deeply cherished sentiments and beliefs.

This Memorandum has therefore been divided into two parts so that those who are not convinced by Part I that the old system can never be restored, need not spend time in considering a possible alternative.

PART II

In its suggestion for a twentieth century technique, the Chamber did not aim at theoretical perfection, nor did it suppose that any system it might put forward would remove, as by a magic wand, all the economic ills from which humanity suffers. Its modest aim was to find a system which would enable the traders of the world to go about their business of exchanging goods and services between the nations on a multilateral basis. If this objective was to be realized it seemed to them that certain fundamental ills must be cured, even if lesser ills must be endured.

It will have been seen from Part I of this evidence that, in the Chamber's submission, the primary cause of the breakdown of the Nnineteenth Century System of International Payments was the unwillingness of the World Creditor to take its payments from the world in the only possible manner, namely, in imports. The consequences of the collapse of the old system have been far-reaching indeed. Nations no longer held together by a common international financial system have moved along most diverse economic paths, driven by the urge of self-preservation. Many of the economic theories accepted without question in the nineteenth century are now rejected, and the techniques upon which that system depended are no longer acceptable, and would not be tolerated.

The Chamber felt therefore that in seeking a new system which would work in the modern world it was necessary to return to first principles.

In the early days of international trade the Merchant sent out his ship filled with beads, axes and other merchandise which he believed would be rare and acceptable in the country with which he proposed trading, and exchanged these for ivory, spices and other commodities which were rare and acceptable in his own country: trade was a matter of simple barter. The introduction of money was designed to facilitate the exchange of goods of one country for the goods of another since it enabled a three-cornered deal to be done. It enabled our Merchant to sell his goods in the first country, receiving their money in exchange, then to buy goods in a second country, paying for them with claims on the goods of the first country, i.e., the money of that country. The bargain was not complete until the second country utilized that money to buy the goods of the first country. It will be seen that implicit in the transaction was the conception of an exchange of goods and services between countries to their mutual advantage: that the giving of money was merely a convenient halfway house towards the final completion of the transaction.

This same conception is to be found in operation internally in every country. If a man in Canada owes another a dollar, he has discharged his debt when he gives him a dollar. As a piece of paper a dollar is worth nothing. Its ultimate value is that, being legal tender in Canada, it will exchange for Canadian goods and services. Whether the creditor does in fact exchange his dollar for Canadian goods or not is no concern of the debtor. He is not called upon to see that his creditor does, in fact, exercise his right to buy Canadian goods with that dollar. It is recognized that you can take a horse to the water but you cannot make it drink; and in no country is one citizen expected to remain in debt until his creditor spends the dollar he has given him. Here then is the fundamental weakness of the Nineteenth Century System of International Payments.

Whilst in theory every nation now agrees that it cannot be paid for its exports unless it is prepared to accept equivalent imports, in fact, no nation has hitherto faced the logical corollary. This corollary is simple, namely, that should the exporting nation be unwilling to exercise its claim to the goods of the importing nations, it is illogical that the importing nations should be treated as though they were defaulters, and subjected to all sorts of pains and penalties. The importing nations cannot, in fact, compel the exporting nation against its will to accept imports, nor should they in equity be required to do so. To the extent that they are able to force their goods into a country which is an unwilling buyer they must expect to make a very bad bargain. And to the extent that they are prevented from making a sale, even on unfavourable terms, they find themselves with an unpayable debt—unpayable not because they are unable or unwilling to pay but because their creditor refuses to take payment. A transaction which they had envisaged as a mutually advantageous exchange of goods and services with a neighbour, when they made their purchase, is frustrated half way through by the unwillingness of that neighbour to accept their goods and services in exchange (or those of a third country in the case of multilateral trade); instead they find themselves in the position of insolvent debtors. If they have a freely convertible currency, it can be sold for what it will fetch, and so be knocked down on the foreign exchange market. If, through exchange control, they protect themselves against this injury, they may find that the money which they handed over in payment for their imports, instead of being used to buy their exports, may be used to buy their existing fixed assets, or in order to prevent the money which should have gone to buy their exports being used for either of the foregoing purposes, they may be forced into borrowing it at interest. This last course merely postpones but does not solve the problem: it makes it worse.

These are perils connected with international trade against which nations try to protect themselves as best they may by all manner of restrictive practices and by doing their utmost to become self-sufficient. International trade, which should be a matually advantageous thing, and a bond of union between nations, has been perverted into a form of cold war conducive to international ill-will and fear. These then are ills which must be cured if international tension is to be eased, the movement towards extreme nationalism halted, and the money barriers which now prevent the Free Nations from exchanging their goods and services removed—especially those between the Dollar and Sterling Areas.

No doubt there are many techniques which could be employed to give effect to the fundamental principle enunciated above, namely, that a nation which exports goods and services to the world should receive in return nothing—more not less— than a right to the goods and services of the world. Whether or not it then chooses to exercise that right and import the goods to which it is entitled should be its own affair. It could either do a small export trade and a small import trade, or a large export trade and a large import trade. These are matters which it alone could decide. It could also, if it so wished, do a large export trade and a small import trade, but in that case it must recognize that the surplus of its exports over its imports constitutes from its point of view a form of public works abroad in order to keep its own people fully employed. That again is purely a domestic matter. It might equally well do public works at home. It could either pay men to make goods, which are then exported and nothing comes back in exchange (public works abroad), or it could pay men to dig holes and fill them up again (public works at home). The essential change from the old technique must be that a nation which decides to do public works abroad, i.e. export in excess of its imports, must not thereby be given the means to inflict injury on the economies of other countries, whether by knocking down their exchange rates or by buying up their existing fixed assets.

The particular technique, to give effect to these principles, which commended itself to the London Chamber many years ago, had the advantage of great simplicity, and further, did not require the businessmen of the world to learn new methods: the Bill of Exchange which has been in international use since the fourteenth century would continue to be used. Moreover, it would enable nations with very different internal economies and at different stages of economic development to trade together on a mutually advantageous basis. Under the proposed system a nation which takes the imports from the world to which it is entitled will be paid. A nation which does not wish to take those imports will not be paid: in fact, as is now generally recognized, it cannot be. Therefore the system is merely being realistic in recognizing fact. It is not asking any nation to forego anything which it has at present, except the power to harm other nations, without helping itself. Moreover, the system would restore international financial discipline: this was one of the good features of the Gold Standard. A nation which consistently imported from the world beyond its ability to pay for those imports with acceptable exports to a willing buyer—and willing is the operative word—would soon destroy its international credit. A nation which indulged in internal inflation would soon find itself getting out of balance in its international payments, and under the new technique it could not alter its exchange rate unilaterally as it can at present.

Further, the adoption of this system would be a most effective answer to Communism. It is represented to the Marginal Nations that under present conditions they have the choice between being over-run by the Communists, or being bought up by the Capitalists—a choice which is not likely to arouse great enthusiasm in their minds for either side. If, however, the free nations adopted a system embodying the principles here enunciated, that system would be so vastly more attractive than the Communists', that the U.S.S.R. would realize that in the event of war their Satellites would come over to our side at the first opportunity, and this in itself would constitute a great deterrent. One might go further and say that if, in fact, such a system did exist, the news of it might well penetrate into Russia itself. To eliminate economic tension and fear between nations has, with the arrival of the Hydrogen Bomb, become an urgent and vital matter. To abandon cherished sentiments and beliefs may be painful, but the consequences of not doing so may be disastrous.

The broad outline of the Chamber's scheme was given in non-technical language in a Memorandum on a System of Multilateral Contra Account (*vide* Appendix) submitted by it to the International Payments Committee at the 16th Congress of Chambers of Commerce of the British Empire held in South Africa in September, 1948.

13th April, 1954

APPENDIX

SIXTEENTH CONGRESS
of the
FEDERATION OF CHAMBERS OF COMMERCE OF THE BRITISH EMPIRE

SOUTH AFRICA—1948

Extract from Memorandum on a System of Multilateral Contra Account Submitted by the London Chamber of Commerce to the International Payments Committee

The Chamber's solution, put forward seventeen years ago, is as follows:

Exchange rates would be fixed by Convention—they have been for the last nine years.

All international trade would be done on Bills of Exchange. Goods could not leave the country without a Bill of Exchange being discounted: it would be a necessary shipping document just as an invoice, an insurance policy and a bill of lading are now. For example, if I wish to sell a motor-car for £1,000 to Smith in Boston, I should draw a Bill of Exchange for $4,000* on Smith. If I wished to give him 30, 60 or 90 days' credit, this would appear in the price I charged him. I should discount that Bill in the ordinary commercial way with one of the banks and receive my £1,000 less the discount rate. The bank would be under legal obligation to re-discount the Bill with the Bank of England, i.e., the nation, and they would receive £1,000 less the re-discount rate. My sole anxiety would be whether Smith would prove to be an honest and solvent buyer. I should not be concerned with foreign exchange. I should, in fact, have received my money at the time I shipped my goods. If, on due date, Smith met the Bill by paying $4,000 through his bank into the American Exchange Control, Smith too would have met his obligation in full and would be out of the picture. The American Exchange Control would then chalk up on the board "Credit the United Kingdom with $4,000." Great Britain could not take that $4,000 and use it for any purpose. It could only

* In 1948 the exchange rate was approximately $4 to the £.

clear its credit of $4,000 when the process was reversed and an English importer bought goods from an American. The English importer would pay his £1,000 through his bank into the Bank of England, which would then credit the United States with £1,000. These two amounts would then cancel out (Contra Account). This is a simple case of bilateral clearing.

In order to make it multilateral, all that would be necessary would be to have a common meeting place where the Central Banks of all nations would have their representatives. This would in no sense be a World Bank. It would then be possible, e.g., for the Bank of England to ring up its representative at this Central Clearing House and instruct him to go on to the floor of the house and try to exchange a claim on one country for a claim on another. There would be no question of buying and selling as the exchange rates would be fixed. Through this mechanism the claims held on one country could be exchanged for claims on another so making the exchanges three or four cornered (Multilateral).

The essential feature of this scheme is that nations would recognize that exports could only be paid for by imports: that it was their duty and obligation to maintain their own external payments with the world in balance. To give effect to this concept it would be agreed amongst the nations that if they did not clear their claims on other nations within a period of years, e.g., seven years, that claim would automatically lapse under a Statute of Limitations. For example, if the United States ran a surplus at the present rate of £2,000,000,000 per annum for, e.g., seven years, she would have £14,000,000,000 outstanding credits. At the end of seven years from now, credits created this year would have been in existence, uncleared, for seven years and would therefore lapse, reducing the American holding to £12,000,000,000. Of course if they did another £2,000,000,000 excess in that eighth year, the total would be back to £14,000,000,000, but at the end of the eighth year the £2,000,000,000 of credit created seven years before would also lapse, again bringing the total down to £12,000,000,000. In other words, the United States would have all the insurance against disasters necessitating abnormal imports which she could possibly need. At the same time, these credits would not constitute a threat to the exchange rate of any other nation, nor could they be used to buy up other nations' existing fixed assets.

Let us now consider the position of a nation which deliberately imported far beyond its capacity to pay with acceptable goods to a willing buyer. This situation would very speedily become apparent to the other Central Banks. They would find that the outstanding credits which they held on that nation were growing. They would also find that when they went into the Central Clearing and tried to exchange those claims for claims on other nations, no other nation would be anxious to acquire them. They too would already have outstanding surpluses with that nation. In short, that nation's credit would become bad, and if it persisted in its misbehaviour the other nations would ration it. This they could do quite simply by informing their exporters that next quarter they would only re-discount Bills drawn on the nationals of that country to a total value of, e.g., £20,000,000, instead of, e.g., £25,000,000, and that before agreeing to ship goods, an exporter had better ascertain whether the delinquent nation had already used its quota for that quarter. If so, they would have to wait until the following quarter before shipping their goods.

The technique of the last century, under which loss of gold was regarded as a barometer indicating that a nation was getting out of balance was extremely primitive. The loss of gold might, of course, be due to large capital movements and have no relationship to the trade balance.

It will be noticed that under the scheme here advocated, the Central Bank could know, at any moment, exactly how it stood with the world as a whole, and with every nation in it. It would make payment to its own nationals for their exports when it re-discounted their Bills of Exchange, and it would receive payment from its nationals for all imports when those nationals met their Bills of Exchange.

Interest and amortization on foreign loans would be paid by the borrower into his National Central Bank, which would thereupon credit the lender's Central Bank, which would pay the lender. The credits created in this way would be indistinguishable from the credits created by importers paying for current imports, and could similarly only be cleared when the creditor country created a contra account by importing.

The CHAIRMAN: Thank you indeed, sir. The meeting is now open for honourable senators to ask questions.

Hon. Mr. LAMBERT: Mr. Chairman, I do not want to ask any particular question at the moment but I should like to draw attention to the fact that this statement which has just been delivered is full of interesting and slightly provocative material. I do not think in the time that is left to us before 11 o'clock, when another committee meeting is to be held, we could begin to encompass this subject. I should like to suggest, therefore, that some thought be given to a later sitting with the witness at which time we could have a better opportunity of discussing this matter.

Hon. Mr. GOUIN: We would be delighted to have an opportunity to ask questions, but with the five minutes that we have left it is impossible to have such an interesting question and answer period. I should like to congratulate the speaker and to thank him for having made a few remarks in French.

There are two expressions which I shall never forget. The first is, "Money Curtain", and the second, that international trade has become a form of cold war.

Whereupon the committee adjourned until the Senate rises this afternoon.

At 4 p.m., the committee resumed.

The CHAIRMAN: Honourable senators, I call the committee to order. For the benefit of those who were not here this morning, Mr. Leigh presented his brief, and afterwards it was moved that the committee adjourn until the Senate rose this afternoon, for a question period. Now, the meeting is open for questions, and Mr. Leigh will answer any questions honourable senators wish to ask, in order to clarify any statements in the brief.

Hon. Mr. HAIG: Mr. Chairman, I listened this morning to Mr. Leigh read the brief, and apparently he suggested an arrangement to solve the problem by a central bank in some country, but the point that worries me about it all is this: The only country, apparently in the world which has a surplus is the United States of America, and may be Canada has also, I am not sure. But let us take the case of Canada. We buy more from the United States than we sell to her. Before the war we used to do the same thing, but we sold then to Europe more than we bought from them, and they gave us American exchange and we used that to pay our bills to the United States. Now that has been largely cut off. It is true that money from the Marshall Plan helped us to some extent. But in the last two years the trade of the United States has taken another slant. We sell less goods to them than we buy from them, but they are investing large sums of money in this country by way of permanent investment. The result is that our money is above the par of exchange, but that can only last until that investment stops.

Now, what is going to happen in a country where production is not sufficient to keep up the standard of living that is enjoyed now, and to which they have become accustomed, under your scheme, Mr. Leigh? How is that ever going to be met? And remember, a great many of the countries of the world—Iran and others, have decided that they want to be independent. How are we going to meet that deficiency in those countries?

Mr. Leigh: Senator Haig, I think I can explain the first point fairly easily. It is whether you can meet it by a multilateral scheme. I think you could. In other words, this is not designed to be a bilateral scheme. Canada would get credits as usual in the country where she sold, and then go into the international clearing and exchange the credit with that country for credits in the United States. You may say that does not put the United States in balance. Of course, it does not, but the United States must put itself in balance by taking imports from somebody, not necessarily Canada, and if she does not take her payments in the form of imports she cannot be paid under any circumstances or under any system.

Hon. Mr. Haig: How are you going to make the American people believe that?

Mr. Leigh: Well, I do not honestly think, if I may venture to say so, that they will do other than they are doing at present, namely, have an excess of exports, because there are only two other courses open to them, as I see it. An excess of exports is a method of getting rid of their unemployment. The United States by their method has been extremely prosperous for the last 14 years, because any manufacturer who over-produced anything could always export it and get paid by the United States taxpayer. Instead of saying, "Jones, we cannot consume your product in this country, and therefore you are out of a job, and the American taxpayer must pay you to do some public work at home"—you say to Jones, "Go on producing your product; we will export it, and nothing shall come back, and the American taxpayer will pay you your wages." Well, that is far cheaper than the other way. I have heard it estimated when President Roosevelt was in office, about 80 per cent of the money voted by the taxpayer went to organize the work of the unemployed, and only 20% in wages to the unemployed. If you leave the man at his ordinary job, his employer will continue to organize his work, and this is the much cheaper way for the taxpayer.

The second point is this: If you do in fact take him out of his usual employment and find something for him to do—even something quite useful—he knows that work is being created as an excuse or as a reason for giving him a job, and he feels himself to be an unwanted member of society; he is out of his union, and he has no security and he is doing something which normally would not be done; he feels that people are saying of him, "I am keeping that man out of the taxes I pay." I suggest that is a way to embitter a man and make him ready to listen to the agitator. On the other hand, if he is left in his regular job he feels he is a useful member of society. On the whole, I believe the United States will in fact prefer public works abroad to public works at home.

I may be asked, if there is any other course they could pursue? They could export to the world only enough to pay for necessary imports, and increase the effective demand in the U.S.A. of those with the lowest standard of living by more extensive social services. They would then have to reduce the productive capacity of those industries which now export heavily—such as engineering, which I think exports 20 per cent of its output. The labour thus released from the export industries would be diverted to satisfy this new demand. I suggest that is one of those things that can only be done gradually over a period of years, if you do not want to have very serious social troubles in your country.

Hon. Mr. Lambert: I wonder if the witness could tell us the value of British exports to the United States per year?

Mr. LEIGH: I am afraid I cannot lay my hand on the figure at the moment, although I feel sure it is among my papers. The imports of British goods by the United States are quite considerable.

Mr. LEIGH: Quite considerable.

Hon. Mr. LAMBERT: Over a billion dollars a year.

Mr. LEIGH: I think it is about the same as the export business we are doing in Canada.

Hon. Mr. LAMBERT: It is much greater.

Mr. LEIGH: I do not think it is very much greater; about the same.

Hon. Mr. LAMBERT: I do not have the exact figures on that, but I think you are mistaken.

Mr. LEIGH: I am sorry, I do not seem to have the figures here. I was more interested in the question of balance of payments.

Hon. Mr. LAMBERT: We can get those figures. However, I think it is a mistake to suggest that there is a complete exclusion of British goods from the United States.

Mr. LEIGH: I would not suggest that.

Hon. Mr. LAMBERT: I think, from my own casual observations in the United States, that in the line of woollen goods, for instance, British goods were more saleable in the United States, and were selling more freely, than corresponding goods in Canada. That same characteristic of the export trade of Great Britain applied also to the West Indies, where high priced goods were more saleable than corresponding goods in Canada. It is not altogether a problem of the relationship of the dollar with the pound; it is pretty much, I think, a problem of inflated prices and values. Would the witness deal with that point? I do not think there is any question about the fact that inflation characterized the prices of goods in Great Britain immediately after the war, and probably to a certain extent still does.

Mr. LEIGH: Mr. Chairman, I have the figures now as to the exports to the United States. In 1952 the visible exports from Great Britain to the United States amounted to $575 million.

The CHAIRMAN: Have you the figures for Canada's imports? I think they run fairly close.

Mr. LEIGH: They are not far off.

Hon. Mr. LAMBERT: I think they are less than that.

The CHAIRMAN: I recall reading the figures less than a year ago, and to my surprise noted that they ran fairly close to those of the United States. However, we can get the exact figures from the Bureau of Statistics.

Mr. LEIGH: The point I was wishing to bring before you did not relate to the balance of payments of the United Kingdom. I think the U.K. is going to be all right. I am concerned with the question of the Free World vis-a-vis the United States. In 1952—which was the last year for which we have figures on visible and invisible account—the U.S.A. had an excess of 4,973 million dollars' worth of business with the world. If we made the pound convertible, other nations would sell to us, would refuse to buy from us, but would instead demand dollars. That is what happened and is happening today with Spain. Spain sells to Germany, France, Belgium and she gets currency which can only be used in those countries; she therefore has no option but to buy there. She sells to Great Britain and she gets transferable sterling which she can use to buy wool and wheat from Australia or any part of the sterling area; it is the only currency she can use in that way, and so she cannot afford to use it to buy our manufactured goods. We are living in one world today. It is not a question of whether the U.K. can balance her accounts with the world, but a question of whether the United States is going to balance her 5,000 million dollar surplus with the world. If she has a favourable balance annually with the world of $5,000 million, then the world must have an unfavourable balance to the same amount with the United States: it is simply the other side of the same balance sheet.

Hon. Mr. HAIG: Where does all that end?

Mr. LEIGH: The fact that the U.K. is able to balance her account does not help the world situation; it only means that other nations are in greater indebtedness; they are going to be in difficulty and be obliged to stop imports, and thus interrupt world trade.

Hon. Mr. TURGEON: May I ask a question to see if I have interpreted your answer correctly? Do I understand you to claim that in the light of the world situation today, the United Kingdom would be in a better position to allow the pound sterling to remain inconvertible than to make it convertible?

Mr. LEIGH: Thas is my view.

Hon. Mr. LAMBERT: To follow up that question, at the end of the war, in 1945, the United Nations Charter was signed by all the allied countries. That charter included a special agency called the National Trade Organization which has subsequently held four meetings, one at Geneva, another at Havana, one at Annecy and one at Torquay. Did Britain take any part in those meetings?

Mr. LEIGH: Yes, Britain certainly was quite interested in the possibility of setting up such an organization and taking part in it. The United States congress however did not like it, and so we were thrown back on GATT, a sort of substitute for a much more comprehensive and powerful body which was to have been set up after the war.

Hon. Mr. LAMBERT: But it is true, is it not, that the British decided on the sterling bloc policy of financing and trade, and did not become participants in the International Trade Organization conferences? True they were observers, but I think they discarded any possibility of becoming a party to the trade agreements.

Mr. LEIGH: I think that is quite wrong. I think we were quite definitely in. It was the United States that would not have it.

Hon. Mr. LAMBERT: I beg your pardon?

Mr. LEIGH: I think we were quite definitely interested in the proposal. We never did get to the point where legislation would have been necessary.

Hon. Mr. LAMBERT: I think it was stated in the British House of Commons at the time that they were not taking any part in the Geneva conference.

Mr. LEIGH: I am quite sure the Honourable Senator is mistaken in that.

The CHAIRMAN: The British took quite a big part in it.

Hon. Mr. KINLEY: Mr. Chairman, I think it is fair to assume that trade is based on need, the need of goods, and inasmuch as we are in a free enterprise economy, individuals will, if they see it is to their advantage, buy from the United States. It is assumed that people buy the goods that they do buy because they calculate it is to their advantage to do so. Now, how would you balance that trade with the United States?

Mr. LEIGH: Well, under the technique which I am advocating, you would buy from the United States, you would sell to the rest of the world as you used to before the war, and it would be up to the U.S.A. to clear the account by importing, although not necessarily from Canada.

Hon. Mr. KINLEY: Their need is there but they cannot buy.

Mr. LEIGH: The United States would not?

Hon. Mr. KINLEY: No, you say we sell to the rest of the world. The rest of the world will buy what they need, if they have the funds. But how can we control that?

Mr. LEIGH: Under my scheme it would not work like that. It would not require all that to happen. Your exporter would get his money when he shipped the goods and Canada would get a blocked account in the country to which you sold.

Hon. Mr. KINLEY: But how are you going to balance the advantage in the value of the money as between the countries?

Mr. LEIGH: Well, at the present time the exchange rate between Canada and the United Kingdom is $2.76 for the pound sterling, and I see no reason why that rate should be altered.

Hon. Mr. KINLEY: Is not the United States at a great disadvantage by reason of the high rate of exchange on their money as against the sterling exchange in Europe?

Mr. LEIGH: I do not think you can say it is a great disadvantage. They are able to sell an excess of $5,000 million worth to the world. I do not think it would be to their advantage to be able to sell more. In fact, the United States did have an excess of exports over imports of $11,478 million in 1947.

Hon. Mr. KINLEY: Of course, the United States is so well contained that she does not need to import things as much as other countries may have to, and she is the greatest exporter in the world notwithstanding that she has the highest standard of living in the world. Now, is that an achievement?

Mr. LEIGH: I am not quite clear as to what you are asking me, honourable senator. That is so, but what are we going to do about it?

Hon. Mr. KINLEY: That is the point, what can Canada do about it?

Mr. LEIGH: Well, we should do something about it. Either the United States should do a small export trade and a small import trade, or she should do a large export trade and a large import trade or he should do a large export trade and recognize a small import trade. In the last case she must recognize that the balance is a means of getting rid of unemployment: she is exporting her unemployment and has had her reward.

Hon. Mr. KINLEY: I was talking to a relative of mine who was in Portugal the other day. Portugal is very friendly to Britain. Their fishermen have bought all their machinery and trawlers from United States firms. I suppose they did that because they secured the best material at the price they wanted to pay. But what can we do about that?

Mr. LEIGH: I do not think I should get deeply into this, being, as it is, so far away from the subject.

Hon. Mr. KINLEY: Now, consider the Trade with the United States. The impression is that their duties are so high that they keep out foreign goods. I remember a short while ago I went into a shoe store in one of the cities of the United States, and tried on a pair of shoes, and in the course of doing so I said to the clerk, "These shoes are made in Britain," to which he agreed. I said, "If that is the case I can buy these shoes in Canada," and he said that they are cheaper there because they enter the United States free of duty. Well, that is a concession by the United States. I cannot imagine that British shoes should be allowed free entry into the United States.

Mr. LEIGH: Some things are free and a great many are not. Some duties are very high. I think myself that that is not really the crucial question that the United States has to answer. Either she does want imports or she does not want imports.

Hon. Mr. KINLEY: Well, it is her people who do the buying, and it is a free economy.

Mr. LEIGH: I think you will find that the various techniques used to keep out goods are quite considerable. You have the Buy America Act as an instance. British firms tendered in the United States for the supply of electrical equipment and their tenders were far below the American tenders but they were refused under the Buy America Act. It was not a question of price. Then there are certain other techniques, for instance, the customs, under which you cannot discover what your duty on the goods will be, and you may not know for two or three years after they have been imported.

Hon. Mr. KINLEY: Take our trade with the West Indies, for instance. The British West Indies and Canada in an entirely free economy would have a balance of trade which would be in favour of the West Indies, but Canada has always had an adverse balance of trade with the West Indies, which is one of her natural markets. However, we have been excluded from the British West Indies market by regulations, and in the Maritimes especially we feel we have lost money in the last number of years and that these conditions affected our economy considerably. If we were allowed to have free trade with the British West Indies, we feel that considerable business could be done by both countries.

Mr. LEIGH: The whole object of my submission is to enable the barriers which now exist owing to dollar shortages to be eliminated, to enable all the nations to trade together once more as they could before 1914. That is the whole object of this exercise.

Hon. Mr. ROBERTSON: Mr. Chairman, I would like to ask the witness a question. In effect his proposals seem so reasonable and attractive to me that I find it hard to grasp why the United States, as the great creditor country, would not prefer it as a basis rather than to require specifically Britain to make sterling convertible again, knowing as she must, or as you suggest, that under existing circumstances, it would merely run out as it did before and we would be worse off.

Now, in effect, what this proposal says is that if a country voluntarily wishes to export more than she imports over a period of years, if she wishes to do that for whatever prompts her to do it, at a certain period of time—Mr. Leigh's instance is seven years—those credits which she accumulates will automatically lapse, if she prefers to do that.

Mr. LEIGH: Yes, entirely right.

Hon. Mr. ROBERTSON: If I am, why would not the United States and its financial authorities prefer a regular basis like this, rather than the other? I do not seem to grasp that.

Mr. LEIGH: In reply to that, one hesitates very much to say why anybody does not want to do something or other, because unless you have been told, you are merely guessing. But quite evidently you cannot have a system which has existed as long as the old system has existed without establishing very strong vested interests in that old system, and therefore any change must, on the face of it, appear disadvantageous to those vested interests. But if, as I believe, the old system cannot in fact be restored, that it is as dead as the dodo, then you are not in reality depriving these interests of anything, because it has gone anyway. And I believe that to be so. I believe that the old system will not in fact be capable of being restored. When one considers that the old system has not functioned for 40 years adequately and satisfactorily, that is, enabled all nations to trade together freely and knowing that short of their buyers being insolvent or dishonest they will be paid, the probabilities of its successful restoration seems remote. During those forty years we have had two attempts to restore the system. The first was when we went back to gold in 1925. We remained on the system for six years; it produced severe unemployment and conditions which brought about the general strike of 1926. That was a six-year period. Thereafter we kept the pound convertible up to the outbreak of war, but only by having widely fluctuating exchange rates.

That is one experiment in forty years. The other experiment lasted exactly six weeks. So it is six years and six weeks out of forty years in which something like the old system was restored. Yet we have been trying the whole of that forty years to restore it. I think it is high time we recognized that the old system cannot be restored under the very different circumstances of the second half of the twentieth century, and that we thought again, and fundamentally, about this thing, trying to find some system which will work in the second part of the twentieth century.

Hon. Mr. LAMBERT: When you speak of "the old system" and "the new system": to put it more simply from the point of view of trade, is there anything in the immediate future that can be looked forward to comparable to the system under which this country and others did international trading before the war, where it was possible to deal in terms of other peoples' currency within a fraction of a cent of the value of one's own currency? I am not referring now to the old gold standard that used to underlie it all, but there was a technique in international trade which certainly worked out very well, and to dispose of that by saying that it will never come back, and that we have got to look forward to a different sort of technique which will involve the pound sterling in relation to the dollar on some planned basis, certainly does not satisfy my mind as being the ideal state for the future.

Just while we are on that point: I wonder if the witness could state approximately when the sterling bloc basis of financing and trading commenced in Great Britain's relations with other countries which are still within the sterling bloc. Approximately, I think, it was around the beginning of the war, 1940.

Mr. LEIGH: The system as we know it now did, but long before it was in existence in a different form than we have got it now.

Hon. Mr. LAMBERT: It was not as exclusive in those days as it is now?

Mr. LEIGH: No, because, as I said, the pound was convertible into all currencies between the wars, but only at the expense of having very widely fluctuating exchange rates. We never managed to keep a stable exchange rate with that system, after we were driven off gold in 1931.

Hon. Mr. LAMBERT: That wide fluctuation really did not occur till the early thirties, did it?

Mr. LEIGH: No. Between 1925 and 1931 we maintained the gold standard. We were driven off the gold standard in 1931, and after that we still maintained sterling convertible into all currencies, but at a fluctuating exchange rate.

Hon. Mr. LAMBERT: You had an Exchange Fund in London which was the main guiding influence in connection with that international trade?

Mr. LEIGH: Yes.

Hon. Mr. LAMBERT: And that Exchange Fund was under the control of your Treasury Department?

Mr. LEIGH: Yes.

Hon. Mr. LAMBERT: But this is what I am trying to get at. Today, and for some time now since the end of the war, Britain has been the nerve centre of the sterling bloc system, and has represented in that system the major part of this world's population. Now, British trade under that system has increased, I believe, until at this date and in the last few years it has exceeded what it was prior to the outbreak of war. That trade would be represented mainly in its relations with the sterling bloc countries, I presume?

Mr. LEIGH: No. I think that is not so. I think the answer really is that the peoples of the world have always been in the habit of using the pound as an international currency; in fact they sold in pounds and they still do. They have considerable confidence in London and they do what they have always done. It is very largely a matter of habit. Countries in the sterling area bloc have a common reserve fund. There is no such thing as a United Kingdom reserve fund; it is a reserve fund of the sterling area.

Hon. Mr. LAMBERT: What you call "the pool"?

Mr. LEIGH: The pool. Before the war Great Britain had very large investments and therefore imports were considerably more valuable than her exports. During the war Great Britain's visible export trade went down to one-third of what it had been before the outbreak of hostilities. That was a deliberate policy. Great Britain did not lose that trade; she handed it over. Great Britain concentrated on war, and the United States took over that overseas trade. It was part of the arrangement that they did so. At the end of the war not only had we relatively few investments, and precious few ships which used to earn a lot of money for us, but our export trade was only one-third of what it had been prior to the war. However, in the course of about nine years we have built up our export trade, as obviously we had to in order to pay for our imports.

Hon. Mr. LAMBERT: It is far in excess of what it was in 1938-39.

Mr. LEIGH: It is bound to be because we have not got those investments. We have to pay for our imports with our exports.

Hon. Mr. CRERAR: I should like to ask the witness a question. Would he agree that the trade policies of various countries are influenced largely by their unemployment problems at home? That is to say, there appears to be a general acceptance of the fact that the business of governments is to maintain full employment in their own countries; a step of course towards the magnification of the state and its place in the body politic. Take Great Britain. If British textiles are threatened with competition from a low-cost country like Japan—

Hon. Mr. LAMBERT: Or India.

Hon. Mr. CRERAR: —or India ultimately—would the reaction be to impose prohibitions on these goods or impede their entry into the country, for the reason that unemployment would be affected. We have seen the same thing happen in Canada. After the war when there was a great vacuum to be filled we got along very well, but now we have agitations against cheap Japanese goods coming in, and the same is true in respect to wools from Great Britain. We must protect our employment at home by taking the steps necessary to curtail or exclude these goods. We see the same thing happening in the United States today where different interests say to their government: "These foreign goods are competing with our standard of living and therefore you should exclude them." Does not this problem of unemployment have a rather strong bearing on the trade policies that each country can adopt?

Mr. LEIGH: Mr. Chairman, the answer to that question will vary widely in each country and according to particular circumstances. For instance, under GATT you have agreements not to put on more tariffs on certain commodities, as you know. Presumably, therefore, you cannot break your agreement with respect to those. Commodities may come in from other countries and undersell your own. Exactly the same thing happens in Great Britain with respect to textiles coming in from Japan and Czechoslovakia. But we do not immediately proceed to put on a duty or stop them, for we realize that international trade is a two-way affair and if you are going to stop anything that comes in that may undersell you, then you have stopped one side of the flow. Therefore, you have to accept that position. If, of course, you had an important industry with a very large section of your population engaged in it, or only one industry in a locality, then you might decide to protect it. I think that is a matter which every nation must decide for itself. One of the attractions of my scheme is that the nations would be quite free to decide for themselves. In so far as they stop imports they will stop exports, unless they wish to make a present.

Hon. Mr. CRERAR: That is true, but they do not see that; they see only the problem immediately in front of their noses.

Mr. LEIGH: I know, but I am talking about a scheme that will have that effect as a general principle. In some cases you would decide you would protect a particular industry, and in other cases you would not do so. But in so far as you cut down the total value of your imports, then to that extent you would cut down the total value of your exports, if you wished to be paid. It would be up to every nation to balance its accounts with the world, and I think you would do away with a tremendous amount of argument and unpleasantness and tension between nations under such a system.

Hon. Mr. BURCHILL: I am very much interested in this discussion and the scheme which has been outlined before us today by Mr. Leigh. I am one of those unfortunate exporters who have suffered from the fluctuations of the pound sterling. The suggestion made by Mr. Leigh as to machinery to facilitate the flow of international trade seems to me to be very interesting. I was just wondering. I notice that it was put forward by the London Chamber of Commerce in 1948?

Mr. LEIGH: 1932.

Hon. Mr. BURCHILL: Senator Robertson asked a question about what action was taken in the United States. I take it they were not favourable towards you. How does the British Government react to it? What is the opinion of the United Kingdom?

Mr. LEIGH: That is a difficult question to answer. Originally when it was put forward it had a very poor reception. I think now you would find that it has not such a bad reception. By that I mean that most people would agree that the analysis of the situation is correct. Then, as to what they would say after that would depend very much on their interests. We are all liable to be influenced by the nature of the particular business in which we are engaged.

Hon. Mr. LAMBERT: I should like to ask again about the operation of the sterling bloc. The witness referred to the pool and I have referred to the central organization. How many countries are identified with the sterling bloc, do you know offhand?

Mr. LEIGH: Not offhand, no.

Hon. Mr. LAMBERT: Well, it is true that the pool or the central organization of the sterling bloc is in London and that the direction of the whole operation of the sterling bloc, financially, is directed from that pool. Is it not so that there are certain member countries of the sterling bloc which would prefer to trade with dollar countries but are prevented from doing so by the central organization or the pool—for instance, India?

Mr. LEIGH: No country, so far as I am aware, is obliged to be in the bloc at all, and there is nothing to stop them going out tomorrow.

Hon. Mr. LAMBERT: They can get out any time they like?

Mr. LEIGH: Yes, any time. Moreover, it is not rigid, as you rather implied it might be. It is a question of co-operation between the participating nations. It is done by arrangement, and then if the pool is being reduced, there is generally a meeting of the member governments, and they agree to help by cutting down their demands. But it is a mutual effort, and while as you say a country might do better if it were on its own in a given year, it is generally true that all do better in the long run by being in. It is a measure of insurance to all of us. We all put our bit in, and take it out as we need it. It is spreading the risk. No one country need be quite so alarmed at the prospect of suddenly having no foreign currency as if it were on its own, because some years a country will put in considerably more than it takes out, some years vice versa.

Hon. Mr. LAMBERT: Some are in a better position, though, with regard to dollar exchange, are they not—Belgium, for instance?

Mr. LEIGH: Belgium is not in the dollar bloc.

Hon. Mr. LAMBERT: It was a member of the sterling bloc, though.

Mr. LEIGH: No.

Hon. Mr. LAMBERT: Are the Scandinavian countries members?

Mr. LEIGH: I think not, but am not sure.

Hon. Mr. HORNER: Mr. Chairman, I should like to ask a question, which I think we are all interested in. What effect would it have, for instance, if a country with surpluses for sale accepted the currency of the purchaser country? For instance, if Canada were to accept the British pound for wheat at the present time, what effect would that have?

Mr. LEIGH: What is she going to do with the sterling when she has got it?

Hon. Mr. HORNER: Could she not invest it in another country and make a large profit?

Mr. LEIGH: Well, she could invest it, but nations are not too enthusiastic, if they are developed nations, in somebody selling current production, refusing to receive current production in payment, and instead using the proceeds of that sale to buy up existing fixed assets. It is a very different thing if a country puts a new capital asset in on loan. What would your reaction be if a country said, "You must not discriminate against me, you must accept my motor cars, refrigerators and vacuum cleaners, because you accept them from others; it is true that others are prepared to take your goods in payment, and that I am not prepared to take your goods nor the goods of any other nation in payment. I want your fixed assets." Most of us would prefer not to have the goods of that country on these terms.

Hon. Mr. ROBERTSON: Referring to the point that Senator Horner brought up, is not your proposal, in essence, this, that if it suits the convenience of Canada, in selling its wheat and selling its lumber, and so on, in relation to what it buys again, to accumulate over a period of years an excess amount of sterling over and above what you have any intention of buying, you will write it off, or you will have the chance at the end of the time of writing it off, or imposing it? Your proposal says, for instance, "Burchill, here is your market for your lumber, and here is your market for your wheat. And if for everything that you want to sell, but to buy little or nothing from us, you accumulate a balance against us at that point, and at a certain period you have to choose between tearing it up or buying the other fellows goods"?

Hon. Mr. HORNER: Exactly. I would suggest, Mr. Leigh, that when you return to Britain you might point out that every season in the building industry in Canada there is a great shortage of cement, and that boats will be leaving Churchill in a month's time for your country, and that your salesmen should get busy and endeavour to secure sales, particularly for Western Canada. Our Hudson's Bay port is available to them. I merely offer that as a suggestion; there is an opportunity there for you to do some business.

The CHAIRMAN: In connection with our domestic trade, if a debt is not acted on in six years, it disappears, because we have a statute of limitations.

Hon. Mr. HORNER: Yes.

The CHAIRMAN: If we accumulated sterling and after seven years could not find a place to spend it—in Australia, Malaya, South Africa or anywhere else, it automatically disappeared.

Hon. Mr. HORNER: I was interested in what the witness mentioned this morning in regard to seven years. The term "seven years" is an old favourite, biblically.

Mr. LEIGH: That is why I chose it.

Hon. Mr. LAMBERT: There is no shortage of sterling exchange in this country now.

The CHAIRMAN: No, but the Bank of Canada does not recognize sterling.

Hon. Mr. CONNOLLY: Mr. Chairman, this scheme, I take it, does involve rigid import and export control on the part of any country that participates, in the last analysis?

Mr. LEIGH: No, I would say not at all rigid. I would say the position would be that your exporters would do their business with the private importers anywhere in the world just as in the past. They discount their bills when they ship the goods, and those bills go into the Bank of Canada, or whatever authority may be entrusted with the work, and thereupon the Bank will send them over for collection. In due course, Canada will get a credit in that country. Exporters will be paid by the Bank of Canada when they export, and importers will pay their dollars into the Bank of Canada when they import. On the other side of the sea the Bank of Canada will be credited with the foreign currency which those shipments represent. Therefore, they can say exactly how they stand with the world and with each individual country at any given moment of time.

Suppose Canada found her credits in country "A" were mounting, she would go into the Central Clearing and try to exchange them for credit in some other country. But if country "A" was importing from the world beyond her capacity to pay with acceptable exports to willing buyers, the other Central Bankers would be unwilling to take more credits on country "A". Country "A's" international credit would be bad. The Central Banks will say to country "A", "you will have to reduce your imports or increase your exports, otherwise we shall be obliged to ration you. Unless you take appropriate action we shall have to warn our exporters that next quarter we shall only re-discount bills drawn on your nationals to the vale of E.S.$300 million instead of E.S.$400 million.

Hon. Mr. CONNOLLY: That is exporter control.

The CHAIRMAN: That is banker control.

Mr. LEIGH: You are not controlling any particular export, but merely controlling the total volume of credit that you are prepared to hold in that country. The exporter will then have to find out whether country "A" has run through her $300 million quota for that quarter, and if she has, he will have to wait until the next quarter to ship his goods. It is a perfectly simple method of control.

Hon. Mr. STAMBAUGH: Mr. Chairman, may I put a question to the witness. Let us assume that Canada, over the past seven years, has built up an export business and now has a surplus which has to be written off.

Hon. Mr. HORNER: A surplus credit.

Hon. Mr. STAMBAUGH: Yes, a surplus credit. That must be written off, but must it be charged back against the exporters who did the business?

Mr. LEIGH: No; the exporters have received the money at the time of shipment. It is presumably Canadian policy which prevents adequate imports from coming in, and it is right that Canada should bear the loss.

Hon. Mr. HORNER: That is quite right. A nation may refuse to import sufficient to offset its exports and bring its trade into balance. That makes it impossible to do business with that country. It is similar to the situation of a creditor refusing to do business with a man who owes him money, when he should wipe out the indebtedness and start over again.

Hon. Mr. ROBERTSON: Yes; nobody is to blame for it.

Hon. Mr. HORNER: I take your statement to mean that is the new approach that we will have to adopt towards the countries of the world.

The CHAIRMAN: Yes.

Hon. Mr. HORNER: I agree with you on that point.

The CHAIRMAN: Mr. Leigh, an important witness from the United States told us that pound exceeded dollars, and that there was far more business done in pounds sterling than dollars. Is that correct?

Mr. LEIGH: That always has been so and still is. You cannot do international trade in a scarce currency; it must be freely available, and of course the dollar is not.

The CHAIRMAN: Of course the profits of the world come from world trade, do they not?

Mr. LEIGH: Well, I take it that the wealth of any nation is the acquisition of something it wants in exchange for something it does not want. In other words, you may exchange the things of which you have a surplus and somebody else needs, for something of which they have a surplus and you need. That obviously increases the wealth of both parties.

The CHAIRMAN: More exchanges are made today in sterling than in dollars.

Mr. LEIGH: That always has been so.

Hon. Mr. STAMBAUGH: I take it there is no machinery set up by which any nation could balance its trade with gold.

Mr. LEIGH: Most nations, if they accumulate a balance this year, will probably clear it off within the next two or three years by taking more imports. It is only if the balance is allowed to remain uncleared for seven years, that it will lapse.

Hon. Mr. STAMBAUGH: I understand that.

Mr. LEIGH: In the ordinary course, nations would have a balance, perhaps a running balance, but they will clear it over a period of time before it becomes due for cancellation.

The CHAIRMAN: Senator Stambaugh's question was whether gold could still be used to bring about a balance, in your system.

Hon. Mr. STAMBAUGH: Yes.

Mr. LEIGH: Have you in mind an increase in the price of gold?

Hon. Mr. STAMBAUGH: No, whether gold could be used for balance of payments.

Mr. LEIGH: In so far as countries are willing to take gold, certainly. Why not? After all if you are buying something, such as wheat, and you want to pay for it by a manufactured article, such as a piece of machinery, that is quite all right; and if a country would prefer your gold to your machine, why not let them have the gold?

Hon. Mr. STAMBAUGH: You are speaking of gold as a commodity.

Mr. LEIGH: Yes.

Hon. Mr. ROBERTSON: If you have it.

Mr. LEIGH: I think gold would play a definite part in this scheme, because it is a thing all nations would like to hold in reserve against a bad day. It can be put in a vault and does not deteriorate; nobody is going to accuse you of hoarding something that could be used for manufacturing purposes. I feel it could still play a very useful part.

Hon. Mr. TURGEON: Do you think the gold standard will come back?

Mr. LEIGH: No.

Hon. Mr. ASELTINE: Would not a return to the gold standard be a solution of our problem?

Mr. LEIGH: The total amount of gold produced per annum, apart from the U.S.A. and the U.S.S.R., on which we have no information, calculated at $35 an ounce is $700 million. If the people of the United States were going to use that as a means of receiving payment for their $5,000 million worth of balances, they would have to pay seven times the current price. I do not think it is practical to suggest that gold can ever be a means of settlement for these balances which today have grown so large that we could not meet them with gold. Gold was used in the past for the settlement of small amounts.

Hon. Mr. TURGEON: In the light of what you say, why is there worry on the part of other countries of the free world over the amount of gold that Russia may have accumulated during the past years? There seems to be an uneasiness over that situation.

Mr. LEIGH: I think the uneasiness rises from the fact that if, for example, the United States agreed to pay a higher price for gold than $35 an ounce, they would make a considerable grant in aid to the U.S.S.R.; if the U.S.S.R. then started to sell its gold on the market at an enhanced price, it would be able to buy world goods with the proceeds.

Hon. Mr. TURGEON: If the only reason for the uneasiness over Russia's supply of gold is that the American people might increase the price and buy a huge amount of gold, and thereby supply Russia with her requirements, how could that uneasiness be based upon anything but the feeling that gold might return to the position it held some years back?

Mr. LEIGH: The United States is the only country where they have a statutory obligation to buy gold as offered in unlimited quantity at $35 an ounce and therefore, clearly if the United States increased that price, say, doubled it, anybody who wishes to sell gold can get that price for it.

Hon. Mr. TURGEON: But why would the United States increase the price for gold if gold is never going to come back into the position it used to occupy?

Mr. LEIGH: It would be on the basis of one of two grounds: either to close the dollar gap or because they feel that the cost of production has increased very considerably and the price has not been raised since 1934. There are not many commodities which sell at the same price as they did in 1934.

Hon. Mr. TURGEON: The only point I cannot understand in your statement is the explanation of the uneasiness concerning Russia's amount of gold, because if gold is not going to occupy the position of value it once had, the cause of the uneasiness as stressed by you could never take place, in my opinion at least. So, it seems to me there must be some other cause for the uneasiness in parts of the world over the amount of gold that Russia might have under her control.

Mr. LEIGH: That has rather a political angle, and I should like my reply to be off the record.

(Discussion took place off the record.)

The CHAIRMAN: Are there any other questions, gentlemen? Senator Robertson?

Hon. Mr. ROBERTSON: I have no other questions. If there are no other questions, I would like to express my personal appreciation to the speaker for coming here today with his interesting and challenging proposal in regard to this question of trade. To me it is so interesting that I would have liked to have had somebody here who is skilled in matters of economics to a greater extent than I am to present what I presume everything else has, the other side of the story, because, if this matter did not have another side to it, it would be universally adopted. I cannot imagine any country that does not want to see the question of international trade solved, and a lot of attention has been directed to that end. Nevertheless, I do not know that that is possible. So speaking for myself, I would like to express my appreciation to you, sir, for this very, very interesting address and the very challenging proposals that you have made in connection with it.

Hon. Mr. TURGEON: I want to second that motion made by his Honour the Speaker of the Senate. I am positive that every member of the Senate committee very deeply appreciate your presence.

Hon. SENATORS: Hear, hear.

Hon. Mr. TURGEON: And I would like to mention particularly that we do appreciate the way you answered all the questions that were directed to you, sir.

The CHAIRMAN: I am sure we are all in favour of the motion. It has been a wonderful question period and we are indeed very grateful to you for the manner in which you answered the questions arising out of your brief.

Gentlemen, there is a brief on file from the Agricultural Institute of Canada which will be made available to senators. There is nobody here to present the brief. That will be the last one for this session of parliament.

(See Appendix B)

I have a report that I want to be passed this afternoon so that I can read it to the Senate tomorrow.

WEDNESDAY, June 23, 1954.

The Standing Committee on Canadian Trade Relations beg leave to report as follows:—

1. Pursuant to the order of reference dated February 23, 1954, whereby your Committee was authorized to continue to enquire into and report upon the most practical steps toward further implementation of Article 2 of the North Atlantic Treaty, your Committee has heard submissions from ten witnesses representing leading commercial and industrial organizations, as well as economic and trade experts, from other NATO countries.

2. Your Committee is aware of the continuing interest being shown by various groups within this country, as well as without, in achieving a freer trade as contemplated by Article 2 of the North Atlantic Treaty and the general desire, as expressed by leaders in these member countries, that conflict in international economic policies be avoided wherever possible.

3. Your Committee realizes that there are additional groups who wish to be heard and that time has not permitted during the present sitting of Parliament to accommodate all those who wish to appear and present their views. For this reason, it has not been possible to complete the findings and submit a final report.

4. Your Committee therefore expresses the hope that at the earliest possible date during the next session of Parliament your Committee may be authorized to complete its work by hearing the remaining witnesses who wish to appear and the preparation of the final report. It is hoped that from this report may emerge constructive ideas for closer economic collaboration among the members of the North Atlantic Treaty Organization.

All which is respectfully submitted.

A. NEIL McLEAN,
Chairman.

Hon. Mr. TURGEON: I move the adoption of that report.

Hon. Mr. ROBERTSON: I second that motion. But would not the question of employing someone be better left till the committee is reconstituted at the next session?

The CHAIRMAN: That recommendation is nothing new. It is just a copy of a recommendation that was in the last report.

There is just one question Mr. Leigh. I want to ask this: were not your recommendations at the last conference of the Chambers of Commerce of the British Empire held in South Africa referred to all parts of the Empire for study?

Mr. LEIGH: Yes.

The CHAIRMAN: I thought I would mention it because you were too modest to tell us that.

The meeting adjourned.

APPENDIX B

A SUBMISSION ON THE SUBJECT OF TRADE RELATIONS AND ECONOMIC COLLABORATION AMONG NATO COUNTRIES AND OTHER COUNTRIES OF THE FREE WORLD

Presented to the Standing Committee of the Senate on Canadian Trade Relations by the Agricultural Institute of Canada

The Agricultural Institute of Canada appreciates the honour of being given this opportunity to present its views to the Senate Committee on Canadian Trade Relations on the most practical steps to further implementation of Article 2 of the North Atlantic Treaty. The Institute wishes to commend the Senate Committee on its initiative and forethought in providing a forum for discussion of the vital question of economic co-operation among countries of the free world.

The Agricultural Institute of Canada representing the professional agricultural workers in agriculture, industry and commerce in ten provinces respectfully submits to the Standing Committee of the Senate on Canadian Trade Relations the following statement of its views on trade relations and economic collaboration between the NATO countries and with other countries of the free world.

Collaborating among the NATO countries in the political and military spheres has been effectively achieved. A weakness in the foundation of the whole structure is the retarded development of economic co-operation. If we are to build a sound, stable and lasting defence we must be sure that it is set upon a sound economic footing on which multilateral trade over the widest possible area can be developed.

Major obstacles in the way of an expansion of international trade continue to be the financial difficulties confronting many countries. As a large part of the world's wealth, including surplus food and agricultural products, is concentrated in the North American continent problems of distribution and payment have arisen which have been intensified in recent years. There has been a shift of economic strength and production which has been accompanied by a movement of world trade in increasing proportions to North America. The aftermath of war accelerated this changing pattern.

Although the pattern is improving a lack of balance persists between the North American position and that of the rest of the Western World. While it persists trade is blocked by quantitative import and exchange restrictions and currencies remain inconvertible.

The solution is difficult but not impossible if the barriers to trade are not raised and countries pursue monetary and fiscal policies which lead to a balance in trade and payments with the outside world. If the barriers to trade could be dropped, even part way, and appropriate internal policies adopted the possibilities of overcoming present balance of payments difficulties would be great.

To do this however requires action by all countries, debtors and creditors alike. The main element in the solution of these difficulties must be for Canada and the United States to increase the opportunities for trade to the free nations. Foreign countries have placed restrictions on the importation of Canadian and United States goods, not because they do not want them but for the reason that the demand for our goods is greater than their supply of dollars. If the opportunities are provided for overseas countries to earn dollars import restrictions would disappear and the market for North American products would be widened greatly.

This is by no means the whole story. In overseas countries the inflationary conditions generally have made it impossible for them to export in sufficient volume to pay their way. There is today a growing understanding of the relationship between internal inflation and disequilibrium in external payments. With the new understanding there may be a fresh approach to a solution of the exchange difficulties confronting the Western World. The experience of the past few years has helped us to understand that a country with relatively high internal prices coupled with fixed exchange rates is handicapped in selling in a competitive export market. The same high prices attract imports which deplete foreign exchange reserves and create balance of payments difficulties.

Too often in past years there has been a tendency for countries to look outward to find the causes of economic dislocation and the cures for it. A look inward may come closer to finding the roots of the difficulties.

In the conclusion of the Report of the Bank of International Settlements published June 1952 this relevant statement is made, "a number of countries which had succeeded in putting their own houses in order have suddenly found that most of their balance-of-payments difficulties have disappeared as if of their own accord."

THE COMMONWEALTH ECONOMIC CONFERENCE

In December 1952 the Commonwealth Economic Conference issued a communique dealing with measures for increasing the economic strength of the commonwealth countries. The communique stressed the importance of adopting internal economic policies designed to curb inflation and rises in the cost of living. In dealing with corrective internal measures the communique pointed out how inflation caused damage to the external balance by stimulating excessive imports and by diverting to internal use goods which would otherwise be available for export. The Conference agreed that sound economic development should be encouraged and that a multilateral trade and payments system should be extended over the widest possible area.

The communique went on to say that the attainment of the objectives outlined by the Conference would require individual action by commonwealth governments, co-operation among them and international action with other trading nations and existing international organizations. The international agencies and the instruments for economic collaboration to which particular references are made in the communique are the Bank for Reconstruction and Development, the International Monetary Fund and the General Agreement on Tariffs and Trade.

The Agricultural Institute of Canada believes that the Official Communique of the Commonwealth Conference, 1952, setting out as it does the direction which not only commonwealth but all countries must take to improve their fundamental economic strength, is an important basic document which is directly related to the objectives of Article 2 of the North Atlantic Treaty.

THE BALANCING PROCESS

During the last seven years countries of Western Europe have been working under tremendous handicaps, brought about by the devastations of war, to solve their trade difficulties. They have been striving to restore a balance between their spendings and their earnings and at the same time maintain a reasonable standard of living for their citizens. In other parts of the world particularly in the under-developed countries the pressure of growing populations striving for higher standards of living through industrialization has enlarged the area of disequilibrium. The struggle of these people to develop resources has posed important economic problems affecting internal and external equilibrium.

Short run balancing measures to meet some of these difficulties in the early post-war period were provided as outright gifts of food and agricultural products and other essentials through UNRRA and comparable agencies. The European Recovery Program followed. ERP was intended to prime the industrial pump, get the wheels turning again in Western Europe and restore viability.

Another step in the reconstruction program was a number of long term loans at moderate interest rates by the United States and Canada to Western European and other countries.

A fourth step in the balancing process was an attempt to promote a more adequate use of resources by lowering and removing barriers to trade through international collaboration and negotiation.

SUPPORT FOR EXISTING AGENCIES

The Institute believes that in the broad field of international economic relations existing agencies, if given support by member governments, can do much towards making Article 2 of the North Atlantic Treaty a realistic and useful instrument. Such agencies, which now have the benefit of several years of experience and with that experience are increasing their usefulness through economic collaboration, include the Food and Agriculture Organization, the International Monetary Fund and the Bank for Reconstruction and Development. In the field of commercial policy we believe that the General Agreement on Tariffs and Trade has already made an outstanding contribution in co-ordinating and bringing into harmony the trade policies between the countries who are signatories to the North Atlantic Treaty and other countries of the free world.

While we recognize that concentration of military power is necessary for defence we believe that expansion and diversification of trade on the broadest possible scale are necessary for economic strength.

We are opposed to any grouping of countries, even the NATO group, into exclusive or restrictionist trading blocs. We believe that the interests of the NATO countries, both military and economic, can be served best by expanding trade among all countries of the free world as suggested in the Resolution. We are, however, convinced that a great opportunity and a grave responsibility rests with the Atlantic Community of Nations to take the lead in lowering trade barriers and expanding trade.

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

In the view of the Agricultural Institute the countries of the Western World are heading in the right direction. We do not need to strike out on any bold new plan but we do need to support and strengthen existing agencies concerned with economic co-operation. If the existing agencies are not as effective as we would have wished them to be it is not because of inadequate planning.

Rather than contemplate the development of a new institution to improve international trade relations we believe that effort should be directed to the strengthening of the General Agreement on Tariffs and Trade. This instrument provides a sound basis for economic collaboration and for improving trade relations among the nations of the free world. It would be useful, we think, to reiterate some of the principles laid down in this international agreement.

The General Agreement represents a long term effort to restore trade on a multilateral basis with freely convertible currencies as contrasted with bilateral and barter deals and other special trading arrangements of a discriminatory nature. Under a multilateral world trading system commercial considerations govern the conditions of trade and price is determined on a competitive basis. Under such a system there is a minimum of government subsidization of exports and buyers can import freely without encountering restrictive quotas and licenses.

The General Agreement comprises the international code of law under which the principal trading nations have agreed to conduct their commercial relations. As contracting parties to the Agreement, countries have undertaken serious and important obligations. These obligations have a direct effect on foreign agricultural trade relations.

A basic principle of the General Agreement on Tariffs and Trade is that the customs tariff is recognized as a legitimate form of protection to producers and it is to be the only form of protection against imports. Customs tariffs, however, are subject to reduction and elimination through negotiation and the granting and receiving of compensatory or balancing concessions.

The principle of most-favoured-nation treatment applies whereby, with the exception of existing preferential rates, the most favourable tariff rate granted to any country is generalized and extended to all parties to the General Agreement.

The principle of non-discrimination applies to preferential rates of duty. A ceiling is placed on existing preferences. No new preferences are to be established and no existing preferences may be increased but their reduction can be negotiated in exchange for tariff concessions.

After importers have paid the customs duty the principle of "national treatment" must apply. That means that imports shall not be subject to internal taxes or internal charges of any kind in excess of those applied to like domestic products.

The General Agreement has something to say about export subsidies. The Agreement does not put a ban on the use of production and export subsidies and if a member country feels that its trade is being seriously injured by the export subsidy program of another member the injured member has a right to complain to the Contracting Parties and seek redress.

Subsidies in themselves are not regarded as malicious but if used to acquire more than a fair share of the world market their use can be disrupting to the trade of others.

The Geneva Agreement contains the general obligation that contracting parties shall not use quantitative restrictions to regulate imports or exports. Government measures which restrict by absolute quotas the quantities of commodities which are allowed to be imported into, or exported from a country, are recognized as the most damaging forms of restraint on international commerce. To the extent that they are used, quantitative restrictions defeat the purpose of the Agreement. Contracting parties agree to the general elimination of quantitative restrictions on imports and exports and thereby undertake to support what has been regarded as the most important single principle contained in the Agreement. After setting out the general principle with respect to the elimination of quantitative restrictions, the Agreement then deals with circumstances under which exceptions can be made and lays down definite limitations on the use of restrictions even in these cases.

Within certain limits the General Agreement gives recognition to the operations of state trading enterprises. If the government of a country engages in purchasing and selling commodities in a commercial way, or grants to any enterprise exclusive or special privileges to purchase and sell commodities which involve external trade, such operations are recognized in the General Agreement as state trading.

The Agreement obligations place the state trading member of GATT on a parallel with the private enterprise member with respect to purchases and sales involving imports and exports and with respect to the protection the state enterprise may afford to domestic producers.

The General Agreement is open for membership to all countries which through negotiation reduce their tariffs to levels satisfactory to existing members and are prepared to accept the GATT code of commercial policy.

All of the North Atlantic Treaty Organization countries are contracting parties to the General Agreement and combined contribute over 70 per cent of world trade.

The establishment of the General Agreement on Tariffs and Trade marks the most significant and important development in the field of international trade policy in recent years. This development is significant because the Agreement has now passed through a testing period of over five years of provisional application. It is important because of its wide acceptance, its accomplishments to date and because of the increasing recognition which it is receiving from governments and the public. Thirty-five countries which contribute over 80 per cent of the world trade are contracting parties to the General Agreement. Since its establishment at Geneva in 1947 there have been three rounds of tariff negotiations under the Agreement which involved a reduction or a binding against increase of rates of duty on more than 55,000 tariff items.

In the forum of the Joint Meeting of Contracting Parties to the General Agreement which has to date held eight sessions, the last in Geneva in October 1953, difficult problems in the field of commercial relations have been discussed frankly and in many cases the differences resolved.

It may be thought that the terms of the agreement restrict our freedom to act independently and quickly to protect our home producers against imports. It must be remembered however that by this international agreement our exports are accorded similar treatment and our rights are protected abroad. It is on this balance which is pretty much the application of the golden rule that an international agreement stands or falls.

A PERMANENT TRADE AGREEMENT

This submission from the Agricultural Institute of Canada has been almost entirely devoted to a discussion of the policy phases and implications of the General Agreement on Tariffs and Trade. We have reason for doing so for we believe that the General Agreement overshadows all other developments in international trade in recent years.

Of late the General Agreement has received two major set-backs; first the widespread use of trade restrictions in many parts of the world and secondly the growing signs of protectionism in the United States.

The Institute believes that these difficulties can be overcome if the United States will continue to play the role it has played since the end of the war in promoting a more liberal trading world, and if overseas countries are prepared to adjust their domestic policies to conform to requirements of external stability without resort to restrictions. The General Agreement should then become a more meaningful instrument and provide the basis for more effective co-operation in the field of international trade. What is needed is a better understanding of the Agreement which would lead to its ratification by signatories and give to the General Agreement that degree of permanence which is contemplated in the Resolution.

Ottawa, November 24, 1953.

SENATE OF CANADA

Standing Committee on Canadian Trade Relations
1st Session, 22nd Parliament, 1953-1954

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