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THE OUTLOOK FOR TRADE POLICY

Text of an Address by the Honourable Mitchell Sharp,
Minister of Finance, to the Canadian Manufacturers
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You may well wonder why a Canadian Minister of Finance would choose the topic of trade policy to speak on to this association of manufacturers. I have chosen this topic for a variety of reasons. First, the Minister of Finance in Canada, as in many other countries, is the minister with the prime responsibility for economic policy. In Canada, simply because we are a trading nation, trade policy is necessarily a major part of national economic policy. A Canadian Minister of Finance who ignored this fact would not last long. Second, as most of you know, the most important instrument with which the Government operates in the field of trade policy is the customs tariff. And since Confederation - which was based, in a fiscal sense, on the tariff of Alexander Galt - the setting of tariff rates has been the responsibility of the Minister of Finance. I have, therefore, concluded that you might find it useful if I gave some account of how this responsibility has been discharged in the important negotiations which concluded two weeks ago in Geneva, and of how I see that responsibility being served in the future, looking beyond the "Kennedy Round".

Of course, no minister needs any excuse to speak to the Canadian Manufacturers Association about trade policy. No association has a greater stake in Canada's trade - you number among your members some of our major importers - and it is on your shoulders, as manufacturers, that the responsibility lies to expand our exports of manufactured goods as the tariff cuts of the "Kennedy Round" come into effect in the markets of our trading partners, and as we move into the trading world of the 1970s.

I'd like, therefore, to talk to you about the "Kennedy Round", and the role Canada has played, and then to suggest the problems that will come after the "Kennedy Round" and how we might go about dealing with them.

First, as to our role in the "Kennedy Round".

Three years ago, when these negotiations formally began, the Government formulated a clear line of policy. This policy was set out, in its most definitive form, in the budget speech of 1964. The Honourable Walter Gordon said (and I'd like to quote his words at some length):

"... The prospects are that the 'Kennedy Round' will rank with the important trade negotiations that have taken place under the auspices of the GATT since the end of the war....

"Canada will not, of course, be negotiating on the basis of across-the-board linear tariff cuts. Our trading partners have recognized that such a system would not be appropriate for countries such as Canada. For us, the objective is an exchange of concessions of equivalent value. Our participation should, I suggest, be guided by the following considerations.

"First is the principle of reciprocity. There must be a reasonable balance between concessions obtained and those which we grant, which must be judged in terms of their practical effects on trade. Moreover, account must be taken of the degree of adjustment and time required to adapt to tariff reductions in terms of shifts in resources and employment.

"A second key consideration is that the outcome of these negotiations should contribute to the balanced growth of the Canadian economy. Certainly, we shall be seeking to expand the opportunities for our traditional exports of raw materials and foodstuffs. But these negotiations will be more concerned with manufactured products and we must keep clearly in mind that the expansion of efficient secondary industries is necessary to provide adequate employment opportunities for Canada's growing labour force. For this reason, we shall be looking for those particular tariff reductions abroad which will open up new export markets for the products of our secondary industries. This will help them to achieve better economies of scale, which are vital to the attainment of cost efficiency.

"A third important consideration is that there must be a reasonable balance between concessions given and concessions gained for the various sectors and regions of the Canadian economy. Each of the major productive sectors should get some benefit from and should make its contribution to the negotiations. This should be broadly true also for the various regions.

"A fourth consideration relates to our balance-of-payments position. A successful tariff negotiation should help all the participating countries to become more efficient and more productive. But, clearly, it cannot help them all to improve their balance-of-payments position. In our situation of continuing large current-account deficits, we must be especially careful that any tariff bargain we strike does not aggravate our balance-of-payments position.

"Guided by these considerations, Canada will play an important part in the 'Kennedy Round'."

That is exactly how we went about negotiating agreements for Canada in the "Kennedy Round". For us, these trade and tariff negotiations had three parts:

First, the wheat agreement. We and other wheat exporters - and, indeed, some importing nations - had hoped this might encompass a good deal more than the present IWA. We had hoped to bring under one agreement a series of renewed and improved commitments by importing countries about market access -- that is, about tariffs and import levies. Some of us had also hoped to include obligations about production levels and policies. Others had hoped to include in this agreement not only obligations about wheat but also about coarse grains. And we had all hoped to add a meaningful food-aid component, so as to bring some order into this vitally important area and to share the burden of feeding the hungry in a predictable and equitable fashion. On this last point our hopes were justified, if not on all other points. For the first time, there has been international acceptance by all the industrialized countries that food aid is not just a responsibility of the wheat-exporting countries. The "Kennedy Round" agreement on wheat prices is an important achievement for the free-world trading community. It gives our producers, and our customers, a necessary and improved guarantee of stability in the trade in wheat.

A second element in the "Kennedy Round" is the proposed code to govern the application of anti-dumping duties. As I forecast some months ago, we played an active part in the negotiation of this code, and in this our negotiations had the benefit of technical advice from many of you, who, as individuals, gave freely of your knowledge and expertise to help us deal with this complicated issue.

The code will not be published until the end of June -- so, for the details, you must wait until then; but I can assure you that it meets the two tests which I laid down when authorizing Canadian participation in these negotiations. First, it provides an assurance that our exports will not be exposed to the arbitrary use or capricious threat of anti-dumping duties by other countries. Second, it provides that Canada - like other countries - has the right to apply anti-dumping duties quickly and effectively when dumping threatens injury to domestic producers.

Until the end of next month, you have to take my word for this. However, I should like to make clear that we do expect - and, let me assure you, we shall need - the ideas and the opinions of all interested Canadians as to how the code should be given expression in Canadian law. We have until July 1, 1968, to give effect to the code in our legislation and practice.

I propose, therefore, that, when the code is made public, those of you whose interests are involved take the time necessary to study the code carefully, and then let us have your views. We shall be setting up in Ottawa a committee of officials from the departments concerned to meet with businessmen to hear their views and comments on just how we should translate the broad provisions of the code into the detail of Canadian legislation. I should think by mid-September or early October you will have had time to formulate your views, and we shall put together a group of technically-experienced officials to meet with you then.

Now, as to the tariff bargain -- the third and, of course, the most important component of the "Kennedy Round". It would not be proper for me to go into detail, except to say that I believe that, following the policy enunciated in 1964 by Mr. Gordon, we have negotiated a series of tariff bargains based on the principle of full reciprocity for concessions in the Canadian tariff and based on the requirement of balance for the major sectors of the economy and for the major regions of our country. We have secured tariff reductions by the United States for virtually the whole range of dutiable Canadian exports, and we have secured important concessions in the tariffs of the EEC and Japan. For Canada's part, we have promised important reductions in tariff protection, and we have taken the occasion to improve and rationalize our tariff structure. Many of you, who will find your tariff protection reduced, will also find that the costs of raw materials and components are being reduced at the same time. I know, of course, that there will be objections from those who depend exclusively on the domestic market and who would, therefore, prefer to live in a more sheltered world. But I also expect that, when the tariff bargains are revealed at the end of June, Canadians in every part of the country, both producers and consumers, will recognize at once that for Canada the "Kennedy Round" has been one of the greatest and most successful trade negotiations of our history, and certainly one from which our country must not fail to profit.

Some sceptics have asked how it is that all the participants are able to claim that the "Kennedy Round" was a success from their particular points of view. The answer is, of course, that the mutual reduction of barriers to trade is mutually beneficial and the truth of this statement is becoming accepted in this country as it is elsewhere in modern industrial societies.

It seems to me that the old question of free trade versus protection, which has been such an issue in Canadian politics, is no longer a real issue. No one with any perspective beyond his parish pump (or ought I to say, beyond his factory door?) any longer advocates protection as the highroad to prosperity. Secondary manufacturing is no longer confined to serving the Canadian market; many of you are becoming more and more conscious of Canada's need for markets beyond Canada's borders and for greater specialization in production.

What used to be an argument about free trade versus protection has been converted to an argument about the best means of attaining an objective Canadians generally accept -- that of freeing trade, broadening our markets and rationalizing our industrial structure. We know that we must increase our trade with the rest of the world, and thus that we must increase our production of more sophisticated goods. We all know we must modernize and rationalize our industrial complex, so that we specialize in the goods we in Canada are best suited to produce.

If we look at the trends of world trade since the Second World War, it is quite clear that trade in manufactured goods has grown very much more quickly than trade in primary commodities. To say this is not to downgrade the importance of the continued expansion in the exports of our great forest and mining and refining and food-producing industries. Demand for these products will grow steadily, but it has become obvious to us all that we must develop the potential of the Canadian economy to supply other kinds of goods for which world demand is growing much more rapidly.

In looking at our prospects, and in considering our trade policy for the future, it is important to realize that, in the great modern economic entities such as the United States and the European Economic Community, the tariff after the "Kennedy Round" will play a relatively small role in the shaping of the economy or in the solving of real trading problems. In these big mature economies, the tariff is becoming more of a taxing device than a protecting device, and the real trading problems - the problems of trade in agricultural products, East-West trade, so-called "low-cost" import problems, and trade with the developing world - are dealt with by other means.

But, in the smaller but highly industrialized economies, such as Canada and Australia, the tariff has had, and will have, a more decisive impact on structure of industry and on the allocation of resources. It is essentially for this reason that, in formulating our approach to any tariff negotiation, we have always shied away from simple formulae. We adopted a more selective approach to the "Kennedy Round" than did the United States, the EEC and Britain, and I expect we shall continue to favour the more selective approach to tariff cutting in the future.

What I mean by this is that we are bound to concentrate our negotiating efforts on those products for which a significant tariff adjustment in markets abroad will give us the chance to move out of the confines of our small national market and to sell on the same continental or world-wide scale as do the industries of the United States, the European Community and Japan.

Let me give an example. One broad sector of production for which there is obvious scope for a better international division of labour, and scope for the expansion of Canadian exports and the related rationalization of Canadian production, is in forest products -- lumber, wood products, pulp and paper. And it is important to note that the great expansion of markets for these products will be in Europe and Japan.

Let me give another example. I believe that for all industrialized economies it would make a great deal of sense to provide for the free movement of basic materials -- for example, for a variety of chemicals, and for nickel, aluminum, lead and zinc. Related to this is the need to reduce barriers to trade in the secondary products of these base metals. I should like to see all the free world move to freer trade in these products -- primary and secondary -- in a concerted fashion. We should all gain.

What does all this mean for future trade policy? First, it suggests that for Canadians it will make sense to proceed, as I've said before, not according to formulae (under which head I include schemes for percentage tariff cuts or for complete free trade between groups of countries) but selectively, seeking deep tariff cuts or free trade in sectors of production where tariff changes mean new business. This approach has been called the "sector" approach. That is an accurate but not very fetching term. Second, it suggests to me that we must focus on world markets -- on the United States, our major customer, certainly, but also on the markets of Europe and Asia, the great growth markets of the next few decades. It means, too, that, as tariffs come down, we should begin to look more closely at other devices which impede or divert trade. You will all have examples in mind. Some that occur to me are the covert and obscure

government purchasing directives that seem to quite effectively block sales of our manufactured goods to government or quasi-government agencies in Europe and elsewhere. This is an area of policy where the United States and Canada are being criticized and the criticism, not surprisingly, is coming from those who enforce highly restrictive policies by administrative direction and guidance which is difficult to identify but effective enough in practice.

Another area I have in mind is the pressures exercised in different countries by various legal devices, by laws about the establishment of foreign enterprises, by tax provisions, by foreign-exchange controls, which limit the right of foreign enterprises to invest abroad. These are restrictions to trade because, particularly for highly-manufactured goods, trade follows investment. I think, too, that, now that tariff barriers are being significantly trimmed away between industrialized countries, many problems will arise out of differences in taxing policies -- and there is bound to be more pressure for some measure of tax harmonization.

You might well ask what sort of time scale does all this envisage? Obviously we are not going to embark on our post-Kennedy policy on July 1 next. All of the governments which negotiated these new agreements have the task of implementing them, and that will take time.

Immediately, too, we shall want to see what changes are impending in the shape of Europe. Prime Minister Wilson has made clear what he hopes that shape will be. Just what the organized negotiating response of the EEC will prove to be is not yet clear. I, for one, shall not join in the game of trying to interpret the press conference of the President of France. But, clearly, the outcome is important not only for Europe but for North America too. If Britain does join the Common Market, we stand to lose our preferred position in the United Kingdom market and, for many products, to face tariff preferences against our goods. But we do stand to gain from the greater economic strength of a Britain in Europe, and of a greater Europe.

In policy terms, this raises the problem of safeguarding our essential interests in the United Kingdom market to the extent that safeguards are possible, and it may also raise the question of what becomes of the tariff preferences we accord to United Kingdom goods in this market. The contractual character of these preferential tariff rates will be changed should Britain join the EEC, and some revision of our tariff schedules, no doubt involving negotiations with our trading partners, will consequently become possible, if not indeed necessary.

What I have been talking about so far is essentially how I see trade policy issues as related to Canada's own hard commercial interests. This, as I've made clear, involves finding ways to improve significantly our prospects in the markets of other industrialized countries around the North Atlantic and the North Pacific. But I should be failing in my responsibility as a Canadian if I did not recognize that one of the most difficult -- perhaps most intractable -- policy issues of the next decade is how we industrialized peoples can help the developing nations increase their earnings from trade. They must trade more with us, for neither we nor they want them to live by aid alone.

The virtual sweeping-away of colonial rule and the emergence of many new nations in the less-developed parts of the world raises difficult questions about how we can continue the non-discriminatory multilateral trading system as embodied in the GATT and as signalized by the success of the "Kennedy Round". In the United Nations Conference on Trade and Development, these emerging economies are pressing for special tariff preferences in our markets. They believe these new tariff preferences would help them sell more of their manufactured products and give them greater returns. They have also pressed for international agreements to increase and to stabilize their earnings from primary products.

I must say that, on the basis of our Canadian experience, I doubt that new preferential tariff systems will be of great assistance to developing countries. On the other hand, I am sure that, if all of the industrialized countries, acting together, scrapped their protective tariffs on goods from the developing countries, there would be few serious problems of adjustment for our own manufacturers. The real difficulty facing most of the developing countries is that their industries, by and large, are simply not efficient enough to find real outlets in our highly competitive economies.

I am not attracted by the schemes that have been advanced in Europe from time to time for systems of tariff preferences for the developing countries limited and confined by import quotas and licensing schemes to be negotiated between certain metropolitan countries and those underdeveloped countries which they think fall in their "spheres of influence" -- to use a political term for what is essentially a political, not a commercial policy, matter. If we industrialized countries are to give tariff preferences to the developing world, I don't see any merit in attaching all sorts of conditions to such preferences. The result would likely be a series of increasingly anarchic preferential arrangements between the metropolitan powers and their former colonial territories. I was, therefore, particularly interested to hear of the announcement by President Johnson at the Punta del Este meeting that the United States is now prepared to work with other industrialized nations in trying to evolve an agreed system of tariff preferences by all the industrialized nations for all the developing nations.

The United States has thus, I take it, set its face against a Latin American-United States preferential arrangement, and the United States now joins the British in opposing the elaboration of narrower and essentially bilateral preferential deals by the great metropolitan powers. If we are to have tariff preferences for the developing countries, clearly the only sensible way to proceed is on a multilateral basis. I should predict that here in Canada, in the next few years if not sooner, we should have to think out in detail just how such a new preferential tariff scheme for the developing countries can be grafted on to our customs tariff. I should predict too that, as we give more attention to the broad issue of helping the developing countries earn their way, we shall have to put much more effort into working out agreements regarding the trade in key commodities. I, for one, am quite convinced that agreements to stabilize prices for sugar and cocoa would do a good deal more -- much more in purely financial terms -- for the less-developed world than would any system of tariff preferences.

I mentioned earlier the problem of East-West trade. This will continue to play an important part in trade policy. We have had some experience, as Canadians, in so-called East-West trade, and the importance of this trade is growing from year to year. Mainland China, the U.S.S.R. and the state-trading countries of Eastern Europe are becoming increasingly significant in the world trading pattern. Certainly they are important customers for us in Canada.

In my experience, the markets of the state-trading countries are difficult to cultivate. Their willingness to buy is often limited by the preoccupation of their governments with achieving bilateral balances with their individual trading partners in the West, as well as by their shortage of foreign exchange.

And, of course, the working out of trade agreements with these countries presents rather different issues from the development of trade policy with open-market economies -- in which we acquire for Canadian exports the right to compete on an unlimited scale with domestic producers once the tariff hurdle is cleared. However, it is becoming evident that, in some of the state-trading countries, progress is being made towards more of a market-type system and, therefore, the problems that have hitherto existed in trying to work out trade arrangements between state-trading countries and countries with a market economy may be eased.

But I should predict that, as regards Canada's own arrangements with these countries, the pattern of the last ten years is likely to be followed for the next ten. This means, for certain of these countries, trade agreements involving the grant by us of most-favoured-nation tariff treatment for a fixed period of time, as against a commitment from them to purchase a minimum quantity of Canadian goods. For others, there will likely continue to be purchase contracts for wheat and perhaps other Canadian products, involving, on our side, obligations to supply and to provide credit guarantees. It is likely that, as an area of trade policy, this aspect of our trading relations will become more complex and certainly, for anyone in Ottawa involved in these negotiations, more time consuming.

In a general way, I think that is about all it is useful to say about trade policy after the "Kennedy Round". We are, after all, still at a very early stage in thinking out what our policy guidelines should be. You may think I have given you little more today than a list of problems and a list of prospects.

Of course, even this list of problems and prospects does involve making certain assumptions. It assumes, for example, that Canada, along with other major industrialized countries (and most importantly the United States), will continue to devise and apply successful policies for economic stability. It assumes that we shall continue to manage the business cycle. It assumes too that we shall find agreed international solutions to monetary questions and that we shall put in place agreed machinery to create additional liquidity in the payments system when it is evident that more liquidity is necessary. Somewhat closer to home, it assumes that we Canadians shall be able to remain competitive in an increasingly competitive world. Obviously we are going to have to give much more attention to measures to increase productivity and to be sure that our Canadian costs don't advance more rapidly than costs in our potential export markets.