



STATEMENTS AND SPEECHES

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No. 66/49 CANADA'S TRADING POLICIES AFTER THE "KENNEDY ROUND"

Extracts from a Speech by the Honourable Mitchell Sharp,
Minister of Finance, to the International Conference of
the Private Planning Association of Canada, November 18,
1966.

I would like to speak for a few minutes about what I think are the main commercial policy issues to which we must look forward after the "Kennedy round". And I suggest that there are four questions of major importance. The first question: how to accommodate ourselves to the regional groups that do now exist, and in particular the European Economic Community and the European Free Trade Area, and how to avoid a split in the Atlantic community between the European Economic Community and the rest of us. Secondly: how to meet the increasingly urgent needs of the less-developed countries for export earnings. Thirdly: how to trade with the state-trading countries. And fourthly: ...how to maintain the momentum and make further progress in the removal or deduction of trade barriers generally.

Now how do we live with the European Economic Community? One approach, which was taken vigorously by the United States, was to initiate the "Kennedy round", which was directed primarily at reducing the barriers between the European Economic Community and the rest of the world. The other approach has been the approach of the United Kingdom and the other EFTA members, of trying to join the European Economic Community. We have all been very interested in the recent statements by the Prime Minister of Britain, about British policy towards the Community. We hope that the desire of the United Kingdom and others to follow this second course -- that is, to reduce the degree of trade discrimination by joining the EEC -- will not inhibit the efforts that are under way under the "Kennedy round" (and, I hope, after the "Kennedy round") to reduce trade barriers generally. And I'm sure everyone here will agree that there is no inconsistency whatever between a good "Kennedy round" -- towards which the Canadian Government is working -- and the efforts of the EFTA members to join the EEC. As I see it, a good "Kennedy round" would ease the effects on outside countries of British entry into the European Economic Community and would, in particular, ease the effects upon the less-developed countries, who do not enjoy the preferences the European Economic Community extends to the former colonies of its present members.

Now, on the question of the trade requirements of the less-developed countries, I'm very happy to see, from the brief time that I had in order to devote to your papers, that this aspect of the matter has not been ignored in your discussions this week. I read Professor English's paper with particular interest in

this respect, where he singled this out as an urgent problem. Speaking personally, I believe that the potential impact of manufactures from the less-developed countries on industries in the Western industrial countries has been exaggerated. I said, in a speech in New York Monday this week, that if we Western countries were to devote as much effort to trying to solve the problems of the less-developed countries constructively as we do to restricting their exports of textiles, a great deal more progress would be made in the world than has been made recently. I believe that we should be able -- and that we will be able if we take this matter seriously -- to adjust to this competition, and thereby to increase the well-being, not only of the less-developed countries of the world, but also of ourselves and the industrialized world.

I very much doubt whether a new system of preferences for the less-developed countries, in the industrialized countries, would be the best way to meet their needs. We in Canada have had some experience with preferences over the years, and I think that it is safe to say that that experience does not lead us to conclude that this method of giving help to developing countries is likely to produce the best results. There are better ways of achieving our goals. And in particular, I'm not at all attracted by some of the European ideas that are now in circulation that there might be a system of preferences hedged about by elaborate import quota arrangements. This might give aid and comfort to those who have a protectionist point of view -- I don't think it should give any aid and comfort to those of us who believe that in freer trade lies great hope for the world. And I believe that the countries in the Northern Hemisphere in particular -- which includes the industrialized countries -- must take this problem of the trade requirements of the less-developed countries much more seriously than we have in the past. Not just because of our feelings as human beings for those who are less privileged than we are, but because this is in our own long-term interest as well. There are many things we can do, and some things that we are in the process of trying to do. I believe that it would be very helpful if we made more serious efforts to get commodity stabilization arrangements -- in tropical products, for example. I had some experience myself as the chairman of the International Coffee Conference in 1962, and there, if anywhere, I saw the nature of the problem. We did work out a coffee agreement. It has worked to some extent. It hasn't worked as well as many of us would have wished, but it has been a useful arrangement.

There are other agreements -- in sugar and cocoa -- that have been under negotiation for some time. These should now be promoted, and taken seriously, and an effort made to work out arrangements to stabilize prices and markets for these commodities upon which so many of the less-developed countries of the world are dependent for their foreign-exchange earnings. I believe, too, that we should move on the trade side of these tropical products, which are so important to the less-developed countries, by moving to free trade in the main tropical products. We have established this as a goal of Canadian policy. I believe that the United States has authority to remove tariffs on tropical products, and perhaps between the two of us we can also put some pressure on the Europeans to do likewise. And I believe that we ought to couple this with improving access for other products of the less-developed countries, especially where import quotas exist today. In short, I believe that we of the industrialized countries of the world are very much at fault in not trying to bring about a major improvement in the conditions under which the less-developed countries sell their products in the world today.

The third of the urgent problems that I think we face now is, how to increase trade with the state-trading countries where the tariff is largely irrelevant. We have had some experience, as Canadians, in trading with these countries, and the importance of this trade is growing from year to year. Negotiations with these countries, of course, are carried on in a rather different way from what they are with countries that have conventional barriers to trade, such as tariffs. And the fault does not lie altogether on our side for failure to work out arrangements that promote trade. Many of these state-trading countries, as you know, believe much more in bilateral balancing than even some of the countries of the Western world. And their purchase decisions are not based solely on market considerations. However, it is becoming clear that in some of these countries progress is being made towards more of a market-type economy, and therefore the problems that have hitherto existed in trying to work out trade arrangements as between state-trading countries and countries with a market economy are being reduced. There is every reason for us to explore the possibilities -- and not only for governments to do so, but also for businessmen and financial institutions -- to use more initiative and more positive thinking in their dealings with these countries than hitherto.

A fourth point, the one most closely related to the subject of this conference, is -- how to maintain momentum for freer trade after the "Kennedy round". This conference has been analyzing the implications of closer economic relations among the Atlantic countries, and in particular the implications of free trade among these countries and others. I am not quite sure whether you have been concentrating more attention on the implications of a free trade area between Canada and the United States, or whether it has been on a North Atlantic basis. But at any rate this has been the general area of your discussions.

I would like to suggest that we should not confine our attention -- in thinking about the possibilities of freer trade and the methods of achieving freer trade -- to such broad arrangements as have been discussed here. I think that it is possible to contemplate arrangements which I believe will help to promote freer trade, and to achieve free trade in some aspects, by methods other than the establishment of more free trade areas. As a matter of fact, I suggest that this approach may suit Canadian requirements more than the entry into arrangements for free trade with either the United States or even with the North Atlantic countries as a group. I think Canadians have come to realize, however, that we must move towards freer trade, and that we have to contemplate quite different initiatives than those that have been employed in the past. We have come to realize how much more dependent we are on exports of manufactured goods than in the past. We have in mind for example, the much larger increase in trade in manufactured products than in primary products. Certainly, in Canadian statistics, this trend is being shown: the increase in our exports of manufactured goods has been very much greater than the increase in exports of our primary products.

Our principal problem, which is recognized in all these discussions, is that we must get better access to markets for a wide range of manufactured goods, and in order to achieve this we undoubtedly must move towards greater specialization. The automotive agreement, of course, was an example of an approach along these lines. I believe this has puzzled many people, including some economists. But it is producing the type of results that I believe economists would regard as useful: namely, that there has been increased trade, increased specialization,

and increased economies. However, the question that has been raised about the automotive agreement on a number of occasions has been whether this is a pattern which can be followed in other industries. There are certain special factors about the automotive agreement that were recognized by those who engaged in the negotiations, and recognized by those who understood the nature of the problem. I believe that in other industries it would probably be a mistake to think only in terms of free trade between Canada and the United States. There are several products where a free trade arrangement on a broader basis would be of greater value to both Canada and the United States than a free trade arrangement confined to the two countries. One of these examples, of course, is pulp and paper, which I gather has already been brought to your attention. I should think also that in base metals a free trade arrangement, on a very much broader basis than between Canada and the United States, would be very beneficial to both countries, as well as to the others who would be practising free trade in these products.

Now, is a free trade area -- well, is it the right approach nevertheless? I think this is a question that has to be examined carefully. In a free trade area between Canada and the United States, it is not so much the question of harmonization of policy that is at stake, although this does arise in a particularly acute form in the area of agriculture. I think the aspect of this question that has to be looked at carefully by most Canadians is whether a free trade area between Canada and the United States would not lead fairly quickly to a customs union. That, it seems to me, is the way the question ought to be looked at. I have no doubt about the difference between the two. My concern is that those who advocate a free trade area tend to put the case in the best form, and sometimes don't look forward to the possibility that very quickly the logic of the situation would lead to the formation of the customs union, and there, certainly, the problems of harmonization are very great indeed. I would like, however, to raise some rather more political questions, other than the one that I have raised about the possibility that a free trade area might be converted very quickly into a customs union. Would not the formation of a free trade area, whether between Canada and the United States or more generally in the Atlantic community outside of the EEC, result in a more intense division between the EEC and the rest of the Atlantic community? This is a political consideration but I believe it is one of major significance. Moreover, there are other countries in the world, such as Japan which has become such an important trading partner of Canada and many other countries, and I would question whether Japan would be ready to join a free trade area, and whether the rest of us would wish to isolate Japan and appear to create another division in the world. Moreover, where do the less-developed countries fit into such an arrangement? This relates not only to those less-developed countries that happen to be related to EEC countries or to the British Commonwealth, but to those of Latin America that belong to neither.

Therefore I suggest that we should also consider, in our thinking, the possibility of maintaining the momentum toward freer trade in other directions. I am not suggesting that the studies that are going on now are not very useful indeed, nor am I saying that a free trade arrangement may not be a desirable objective, on whatever basis it is. But in terms of practicalities - in terms of trying to maintain the momentum - we should examine other possibilities. And, in particular, try to achieve free trade in selected industrial sectors wherever possible, and combine this with continuing efforts to reduce tariffs on

a most-favoured-nation basis. Now, this would maintain the momentum, and would lay the groundwork for subsequent progress to be made when the Europeans and the Japanese are ready to confer. And we should not underestimate, when we are thinking about these problems, the progress that has been achieved since the war, and what will be achieved if, as I hope, the "Kennedy round" is a very substantial one. We have made a good deal of progress towards freer trade, and we should not be at all discouraged by the record. I am suggesting to you that our efforts after the "Kennedy round" don't have to be of exactly the same kind as we have been following in our multilateral tariff negotiations.

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