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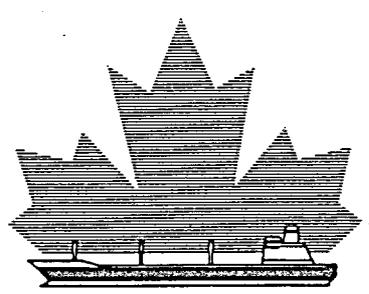
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Canada's Trade
With the Developing World

Trade Solutions to
Transportation Problems

Ottawa, Ontario
4 June, 1987

A Report on a Cross Canada Seminar Discussion
and Conference



The Exporters Coalition on
Canadian Maritime Policy



EXPORTS BUILD CANADA EXPORTER, CA RAIYORTE

The International Trade Branch
Department of External Affairs

Catalogue No. E 74-22/1988E
ISBN O-662-16178-5

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Witness my hand and seal of office
this 1st day of January 1917
at New York City

John J. [Name]

Superintendent of Schools

Foreword

Faced with increased evidence of shipping-related disruptions in trades with the developing world, the Exporters' Coalition on Canadian Maritime Policy brought this problem to the attention of the Honourable Pat Carney, Minister of International Trade.

The genesis of many of the difficulties faced by Canadian exporters and importers appeared, on first examination, to have their origins in the introduction by a number of developing countries of policies aimed at establishing and supporting their own national merchant fleets.

A wide range of measures, including unique national legislation and regulation, have been introduced with this objective in mind. Some shipping related measures have been described as restrictive barriers to trade, and have been vigorously opposed by both domestic and foreign trade interests.

Aware of the need to protect the competitiveness of Canadian international trade, and the importance of efficient transportation to Canada's ability to compete in world markets, the Minister agreed that the Department of External Affairs should co-sponsor a series of five regional seminars with exporters and importers across Canada to discuss these changes in the performance of shipping in certain trades. The private sector should discuss and develop an effective strategy which would reflect the concerns of Canada's trading community, which the Canadian government could consider for adoption and implementation when faced with restrictive trade practices associated with shipping.

A seminar series entitled "Canada's Trade with the Developing World-Trade solutions to transportation problems" was organized, and took place in Vancouver, Edmonton, Toronto, Montreal and Halifax during April and May 1987.

194 participated in 15 workshops and focussed their discussion on key questions, developed and presented by the Coalition, to ensure the results of the different workshops could be fairly assessed and collated.

The cross-Canada seminar series culminated in a conference held June 4, 1987 at the Government Conference Centre, Ottawa. Entitled "Canada's Trade Community Speaks Up — Our Solution to Transportation Problems with the

Developing World", it brought together over 140 senior executives from Canada's private sector and government to hear the conclusions of the seminar discussions, presented by workshop chairman from each of the regional meetings.

On this occasion, eminent panelists represented key shipper and carrier interests across Canada, the UN Conference on Trade and Development (UNCTAD), the Organization for Economic Cooperation and Development (OECD), and FELACUTI, the Latin American Shippers Organization, reviewed various aspects of the seminar discussion, and added their own perspective to the debate.

This document describes the purpose and organization of the five regional seminars, and presents the highlights of their proceedings, and the discussion and recommendations presented at the National Conference in Ottawa.

Executive Summary

The following conclusions and recommendations reflect the considered opinion of senior representatives of Canada's trade community who, in a series of meetings held in six major cities, discussed and debated the phenomena and effects of shipping related problems recently encountered in certain trades with developing world countries.

Dialogue was structured to focus attention on the sensitive policy issues which lie at the heart of the problems being encountered, and to allow consolidation of the results collated from different workshops, each addressing the key questions listed in Appendix C.

In this successful collaborative experiment in communication, a broad cross-section of the trade community has sketched for the urgent consideration of ministers the framework of a pro-active policy designed to cope with the realities of today's transportation and trading environment.

The Exporters Coalition on Canadian Maritime Policy, representing seventeen major trading associations across Canada, has **concluded**:

- that **the principle of "free circulation of shipping in international trade in free and fair competition" continues to be eroded**, and does not apply in a growing number of trades with the developing world.
- that as a consequence, **Canadian trade interests are being negatively affected. Sales are being lost, and profits reduced.**
- that Canadian exporters view transportation as one important component of trade policy, and as such believe **government should act accordingly and expeditiously to safeguard Canadian interests**, where these are jeopardized.
- that Canadian shippers advocate two-way trade in services, and respect the right of other states to adopt measures to support the development of national fleets. Foreign flag shipping is welcome to compete in all Canadian trades. **Canadian trade does not however accept the imposition of a foreign shipping monopoly, either as a consequence of government edict, or through the performance of a shipping cartel.**
- that aberrations in the performance of international shipping require the **adoption of new**

approaches by Canadian industry and government in order to better protect and expeditiously represent Canadian trade and port interests.

- that **"cargo sharing" has become a unfortunate fact of life in today's shipping environment.** Canada has not addressed the need to accommodate this reality, and until it does, will be unable to develop working relationships with countries which have adopted such legislative means to support national shipping.
- that in developing approaches appropriate to the performance of today's shipping market, **Canadian exporters support the objectives and tenets of the OECD Code of Liberalization of Current Invisible Operations, and the OECD Recommendations on Shipping.**
- that the process of **consultation between Canadian trade interests and government on trade and shipping matters should be formalized** to facilitate dialogue on issues as they arise, and allow expeditious and coordinated response through commercial or governmental channels as circumstances dictate.
- where government to government consultations are necessary to resolve difficulties encountered by Canadian interests in foreign trade, **negotiators should "have sufficient arrows in their quivers" and be armed with a mandate adequate to resolving the issue.**

The Exporters Coalition therefore urges the **Minister of International Trade**, in collaboration with the **Minister of Transport and Canadian commerce**, to consider for adoption the following **recommendations**:

- **the introduction of an issue related process of industry-government consultation on trade and shipping matters.**

In this respect all six meetings endorsed the earlier recommendation of the Task Force on Deep Sea Shipping which identified the need for an Advisory Council to government consisting of representatives from trade, shipping, labour and government, to monitor developments in international shipping on an ongoing basis. The Coalition also recommended that members to the Council be nominated by the private sector.

- **The increased use of bilateral trade agreements with shipping related articles** (as detailed on page 18) on an as and when required basis to resolve commercial difficulties.

In this respect, where competitive forces are absent, or where a foreign government has resisted all efforts of the Canadian government to introduce competition, and in so doing is threatening to damage Canadian trading interests, **as a matter of last resort, and to maintain Canadian access to markets, consideration be given to cargo sharing arrangements** which would maximize the opportunity for Canadian exporters and importers to gain access to competitive shipping services in such trades.

- In developing procedures to cope with today's shipping environment **Canada should adopt the successful model of the pro-active industry-government air negotiating process**, to ensure the interests of all parties are represented in bilateral negotiations, where these are necessary.
- **that efforts to exchange information and improve liaison between shippers organizations at both ends of the trade be supported**, as these are likely to bear dividends by improving market intelligence to the mutual benefit of both parties, and the competitive position of Canadian trade interests in negotiations with shipping conferences.
- **the introduction of defensive trade legislation to be used as a last resort** where access to export markets is jeopardized by restrictive practices.
- that Canada's Export Development Corporation and the Canadian International Development Agency initiate a comprehensive **study relating to the shipping of government funded cargo**, and examine the practicalities of including in overseas bilateral contracts a list of approved Canadian carriers, thus ensuring their opportunity to compete for this business.
- that the Department of External Affairs in collaboration with industry examine the feasibility of developing an **education program on the critical importance of transportation to success in export markets.**

- That additional resources be allocated to the Department of External Affairs to ensure that an **effective channel of communication** is maintained **with the trade community** regarding multilateral and bilateral developments affecting trade and transportation.

The Coalition at its final Conference in Ottawa after considerable debate adopted the following Resolution, which is also passed to Ministers for their consideration:

"Canadian shippers and ship owners are concerned that increasing degrees of protective legislation and their enforcement by developing nations will continue to reduce the availability of adequate and economic sea transport between Canada and those nations to the detriment of Canadian trade.

We request that Ministers actively support free access of all shipping companies to Canada's seaboard trade. Where trades are restricted through foreign legislation, to initiate negotiations, if necessary supported by the introduction of appropriate defensive legislation, to ensure free access for all shipping lines, including Canadian shipping lines, to compete for a portion of these trades."

Purpose and Organization

The purpose of the cross-Canada seminars was to provide a forum for the Canadian trade community to jointly assess the effects of anti-competitive shipping related policies being implemented by some of Canada's trading partners. Having identified the nature of the problems, participants were to give their views on the most appropriate course of action for Canadian industry and government to follow, when faced with such difficulties.

The coordinated views of Canada's trading community would be presented to the Canadian government for its consideration and guidance in developing a policy response appropriate to these difficult circumstances.

In order to elicit responses along these lines, the seminars were based on small intensive workshop discussion groups of 10-15 individuals. To help structure discussion in these workshops the Coalition, together with the Transportation Division of the Department of External Affairs, prepared questionnaires based on real-world trade and transportation problems which the trade community had faced in doing business with several less developed countries (LDC's). The questionnaire was designed to highlight the important consequences of the restrictive practices being encountered, in order to identify issues of significance to future policy makers. By following the same format in all five seminars it was possible to collate the conclusions of the different workshops.

The half-day of workshop discussions was followed by a seminar plenary session. At this session workshop moderators reported their group's recommendations for discussion and development of consensus recommendations by the seminar group as a whole.

The conference in Ottawa June 4th was designed as a national forum to focus consideration on the trade community's recommendations agreed to at the five regional seminars in Halifax, Montreal, Toronto, Edmonton and Vancouver. Distinguished speakers from the United Nations Conference on Trade and Development (UNCTAD), Geneva, the Organization for Economic Cooperation and Development (OECD), Paris and the Federation of Latin America Shippers (FELACUTI) ensured that a

broad overview of the history pertaining to the issues was presented to the audience for their consideration in discussing prospective solutions to current problems. In addition to trade or 'shipper' interests represented at the seminars, representatives of the shipping or 'carrier' community were invited to hear the conclusions of Canada's trade community regarding these issues, and participate in discussions at the Ottawa conference.

Opening of Proceedings

At the national conference, as at each seminar, three speakers participated in the opening of the proceedings, the chairman of the particular regional or national meeting, and representatives of the sponsoring bodies. Mr. C.H.J. Hibbeln (Vice President, Noranda Sales Corporation) in his capacity as Chairman of the Exporter's Coalition on Canadian Maritime Policy, attended all meetings, welcomed participants, and outlined the *raison d'être* and history of the Coalition. This had been formed in 1984, and now comprised Canada's 17 major trading associations. The need for such an organisation had been identified when the then Minister of Transport announced the creation of a national task force to evaluate the case for a Canadian merchant marine. Mr. Hibbeln noted the need to ensure that the views of Canadian trading interests were understood on this important issue. While the Task force on Deep Sea Shipping had concluded that the establishment of a Canadian merchant marine was not in the immediate interests of Canadian trade, the Coalition had continued to monitor shipping related matters as they affected trade. Mr. Hibbeln outlined the concern of the Coalition at the increased incidence of restrictive trade and transport related practises in certain international trades with less developed countries (LDC's). He acknowledged that in these instances it was important to ensure an effective Canadian response. The Coalition had turned to the Minister of International Trade and the Department of External Affairs for assistance to organize the seminar series, and was confident that these meetings would assist in ensuring that the voice of Canadian exporters would be heard and better understood when work was undertaken by government to formulate trade and transportation policy appropriate to today's unusual operating conditions.

Mr. I.G. Lochhead (Director, Transportation Division, Department of External Affairs), representing the co-sponsor of the meeting series, summarized at each opening plenary the background events leading to the department's agreement to co-sponsor this cross-Canada discussion. Noting his department's concern for the competitiveness of Canadians in international trade, Mr. Lochhead outlined the dramatic changes which

have occurred in the structure and performance of international shipping, the role of UNCTAD in assisting the less developed countries in their quest to develop national fleets, the inception of cargo sharing policies, the circumstances now prevailing in a number of trades, and recent examples of discrimination against Canadian interests.

Mr. Lochhead concluded that as in the past, the Department of External Affairs in its advocate role would continue to work closely with Transport Canada to ensure that the views of Canada's trade community, as enunciated at this series of meetings, are reflected in future policy discussions relating to the delivery of Canadian goods and products to overseas markets.

Discussion at the Seminar Series

Pre-registrants attending the Cross-Canada seminar series were issued with a copy of the Discussion paper "Trade versus Transportation Barriers". This paper provided a background to the discussion in the 15 seminar workshops, and key excerpts are included in Appendix B for easy reference.

The questionnaire in Appendix C was used as the basis for discussion in the seminar workshops. Where applicable, particular views are ascribed to the specific seminars where they were registered.

Is there cause for concern?

A resounding affirmative. Participants in workshops across the country identified many additional examples of restrictive practices to those outlined in the background paper and questionnaire. Many cited instances of lost sales or curtailed profits arising from their loss of control of transportation costs. This corroborated the results of a recent study "**Canada's Export Trade and Transportation to the Less-developed Countries**" prepared for the Department of External Affairs by E.M. Ludwick & Associates Inc. to the effect that 43% of the Canadian exporters surveyed reported shipping related problems in Canada-LDC trades. Several participants whose sales are directed to multinational enterprises noted that their customers' buying decisions are usually based on landed price, of which transportation costs are the dominant component after original production costs. The fact that governments at the other end of the trade, through their **control of shipping**, were effectively determining the competitiveness of Canadian products, was cited as a primary problem by seminar participants concerned with the viability of Canadian export trade. (Vancouver)

Seminar participants (Halifax) advocated a more pro-active Canadian policy, and cited as an example Japanese government policy which ensures Japanese control of the shipping component in Japan's trade, though not necessarily through the flag of the ship. In the opinion of seminar participants, Canada should seek similar policy mechanisms to provide ensured access to

reliable and competitively priced shipping services. Like the Japanese, Canadian exporters and importers are not concerned with the flag flying from the stern of the ship carrying their product, but rather the quality and price of the service.

In discussions Montreal seminar participants pointed out that **tariffs** in the Canada-South American trades are in many instances de facto controlled by South American authorities. It was suggested that Canada's traditional aversion to intervention in maritime shipping places Canadian shippers at a competitive disadvantage vis-a-vis competitors, whose governments actively intervene to ensure their exporters are able to obtain shipping at favourable rates. While Europe, for example, is a major competitor to Canada in trade with South America, seminar participants noted the irony that in many cases the cheapest and most efficient option for Canadian exporters is to ship to Latin America via Europe. Direct Canada-Latin America service frequently costs double the tariff to ship via Europe, despite the need to transship cargo. Thus, Canadian exporters are at an obvious disadvantage in competing with European suppliers with access to competitively priced direct service from Europe to South American destinations. Montreal seminar participants emphasized that, on the basis of these comparative tariff advantages, it was clear that European governments were obviously capable of negotiating better shipping arrangements than Canada with Latin American national shipping lines. This suggested that **pro-active intervention** by the Canadian government was required in support of Canadian exporters in these trades.

The fact that consignees abroad are stipulating the **port of exit** to be used by Canadian exporters was cited as a particular problem by representatives of port authorities from Toronto, Oshawa, Montreal and Quebec City. 75% of Canadian exports to India, for instance, are exported via New Orleans, and some Canadian cargoes destined to Colombia must be exported through the Port of New York. Port of Toronto authorities quoted an example of cargo to Venezuela which they were not allowed to

load on an FRG flagged vessel available at Toronto harbour. Montreal authorities cited the loss of a 10,000 ton shipment to another South American destination, which was lost to the Port of Montreal as a result of intervention by the foreign national line.

Timely delivery was identified as an area of general dissatisfaction for Canadian shippers in Canada-LDC trades, where LDC governments enforce cargo reservation laws and regulations stipulating the use of national shipping lines. In this regard, Indian national flag requirements were cited as particularly onerous, and the service was described as poor, while delivery of grain cargoes to Africa have been unsatisfactory as a result of similar national cargo reservation requirements (Edmonton).

Vancouver seminar participants noted the current dedication of most LDC governments to policies favouring national fleet development, and their frequent adoption of **cargo sharing policies**. While it was encouraging to note for example the recent modification of Brazilian shipping policy to accommodate the interests of Brazilian trade, the general consensus of participants was that it is unlikely that the Brazilian example augured a reversal to the general trend. Recent experience with Korean imports, and the inflexibility of the Korean authorities, seemed to confirm this. (Montreal)

At all of the seminar workshops the terms of the **United Nations Code of Conduct for Liner Conferences** were described and discussed, and participants reluctantly acknowledged that the principle of cargo sharing was now legitimised in international legislation. This and the reality that national shipping legislation and regulations for many LDC's mirrored this new international standard, reinforced the views of seminar participants that modification to Canadian process is now required to cope with these new conditions, and the growing number of restrictions being encountered in international shipping. *"While we might decry the erosion of competition, Canadians should address any measure which would affect Canadian trade interests "head-on", and arm those responsible for upholding these interests with a mandate sufficient to the task."* (Halifax)

Need for new flexible Canadian policy

There was a general view that government's present policy of non-intervention is not in Canada's trade interest, and leaves the way open to increased difficulties in many trades, and subsequently the loss of export markets. Seminar participants cited **the need for a strong government-industry policy response** mechanism capable of effectively defending and promoting Canadian trade interests. Some participants advocated adoption of Canadian policy which would allow officials to respond effectively and quickly to "facilitate" shipping with LDC "partners", rather than adopt "restrictive" Canadian countermeasures.

All agreed that Canada should adopt policy measures which would be sufficiently "flexible" to deal with a wide variety of circumstances, thus it would be important to arm Canadian representatives in bilateral discussions with a **negotiating mandate adequate to the task of safeguarding Canada's trade interests**.

Does "free competition" still exist?

Seminar participants across the country were universally cynical regarding the possibility of free competition in today's ocean trades. However, participants did agree that in certain trades there still exists some latitude for shippers to choose among lines, levels of service and rates. The consensus among participants was that "free competition" in "a pure sense" was seldom attainable, recognizing that all trades are subject to some control either by governments or conferences. (Vancouver)

The attitude of seminar participants to the current competitive environment in shipping services was summed up best by one shipper in Montreal whose cryptic assessment was that free competition was possible, "If, and only if, you accept the existence of conferences as free competition". Similarly, the consensus in other seminars was that any definition of "free competition" had to be clearly qualified to acknowledge the rate and service setting powers of the conferences, and the control that national governments exert over ocean trades. The

Halifax seminar emphasized this point when seminar participants concluded that, "free competition is not possible with the LDC's as long as they maintain their present policies toward fleet development and dedication to cargo reservation practices."

Foreign Shipping Monopolies

Participants were not willing to accept the concept that foreign legislation could dictate the terms of trade by creating shipping monopolies in Canadian trades. Vancouver participants stressed that, "In every possible instance Canada should fight a shipping monopoly created by foreign law." This situation was found to be not only unacceptable in principle, but also in its practical affects, namely the likely erosion of Canadian competitiveness in markets abroad. The vital importance of trade to Canada's economy dictated that the Canadian government should, in consultation with industry, take whatever steps are necessary to ensure that Canadian shippers are assured access to adequate and competitive maritime transport services. The choice of possible policies to achieve this, and how these might best be implemented was the subject of extensive debate, where participants considered a range of possible approaches, each seeking a solution which would maintain competition or at least partial competition in shipping.

Comparative Policy Approaches

All of the following circumstances are encountered in today's maritime operations, and are not mutually exclusive, however workshop discussions resulted in these being listed in a progressive order of acceptability to exporters and importers interests:

- unrestricted competition
- reservation of certain cargoes to national fleets
- conference monopoly
- reservation of a fixed percentage of cargo to national fleets (i.e. U.N. Liner Code formula — 40-40-20)
- equitable participation in trade (i.e. 50-50 division)
- 100 % cargo reservation

From "unrestricted competition" to "cargo reservation" — bridging the gap!

Seminar participants unanimously agreed that the "ideal" preferred by all shippers was "unrestricted competition" in maritime transport. However, they conceded that while "unrestricted competition" was the unanimous shippers' choice, this is too frequently not a realistic alternative in today's international shipping environment. (Edmonton) With the reality that unrestricted competition is seldom attainable, shippers addressed the sensitive issue of cargo reservation, where many countries, encouraged by UNCTAD, have adopted such policies as a means to ensure the participation of their national shipping lines in national trades. This philosophy is presently reflected in the terms of the UN Code of Conduct for Liner Conferences which introduced, inter alia, the concept of cargo sharing, preserving certain rights to exporting, importing and "third flag" States.

Participants generally accepted the inherent right of states to exercise their independent sovereignty, and to adopt national policies reflecting their own sense of priorities. It was noted however that the practice in certain countries went beyond generally accepted norms and extended to 100% cargo reservation practices. This was unanimously opposed by all present at the seminars who stressed that in such instances "the Canadian government must use all possible legislative, economic and political leverage and resources to respond and to protect Canada's trade interests."

Discussion focussed on finding a middle ground which, in cases where a state had adopted cargo sharing practices, would bridge the practical and philosophical gap which must exist in its bilateral trade relationship with a state such as Canada which remains dedicated to the principle of competition. There was considerable concern voiced by a number of Montreal shippers at the prospect of "stepping onto the slippery slope" of cargo sharing in any form, however extensive review of today's circumstances convinced all but one workshop that to ensure Canadian access to certain markets it may, as a last resort, be necessary to "take tea with

the devil", (Toronto), and accept the reality that certain states insist that their national merchant marine participate in their national trades.

Having registered their unanimous opposition to the concept of 100% cargo reservation, subsequent discussion centered on how to achieve maximum competition in circumstances where the other state insists on its equitable share of cargoes.

One workshop (Edmonton) accepted the concept of an equitable (i.e. 50-50%) division of cargo between the vessels of an LDC and those of Canadian registry, however **the majority favoured and took cognizance of the 'Brussels' interpretation of the UN Code of Conduct for Liner Conferences** which achieves competitive conditions for 60% of all cargoes covered in a bilateral trade between an OECD signatory and an LDC. Participants stressed that their qualified support for these approaches recognized the fact that in LDC trades even partial competition was better than none at all, and that they supported such approaches only, *"where absolutely necessary to maintain or enhance Canadian Trade and after full consultation with the industries concerned."* (Montreal)

Those who accepted **the need to consider the proposition of cargo sharing** emphasized that this should be regarded as acceptable only in situations where it was absolutely necessary to maintain Canada's access to trade. This "less than ideal" solution to exceptional cases was not regarded by some as sufficient reason for Canada to ratify the UN Code of Conduct for Liner Conferences, but for the moment was seen rather as a defensive solution to be selectively utilised and applied to resolve bilateral impasse. (Toronto)

The proposition that Canada adopt the UN Liner Code was given careful and thorough consideration in each of the five cross-Canada seminars, and generated a wide range of thoughtful comment by participants. The cautious endorsement of the Code was best summed up by one of the workshop chairman as *"the Code if necessary, but not necessarily the Code"*. (Vancouver)

The Halifax seminar enlarged upon this theme and gave another variant in its

conclusions: *"acceptance of the UN Liner Code may be justified from the Canadian shippers' point of view, if acceptance increases open competition in trades, and with the proviso that Canada would only apply the cargo sharing provisions of the Code with respect to those countries which impose the same on Canada"*. The seminar in Edmonton concluded in the following terms:

"So long as the Canadian portion of the trade can be negotiated as open and available to free competition, including national designated lines, the adoption of the cargo sharing provisions of the UN Liner Code would be justified, with the Brussels Package provisions protecting intra-OECD trade".

A number of governments reserve certain cargoes to their national fleets on grounds relating to national security or support to their merchant marine. Discussion of this subject was from the perspective of a Canadian exporter or importer forced to use the designated shipping line of the trading partner. Most participants concluded that this practice was legitimate in cases where government was directly involved in the disposition of the cargoes, for example with respect to aid shipments, or military cargoes. In the workshops there was reluctant acceptance of this form of cargo reservation only in instances where it was "the only possible option and absolutely required in order to do business". (Halifax) Nevertheless participants had less difficulty accepting this practice than the implementation of more general untied cargo reservation schemes.

Discussion of situations where conference monopoly was encountered generated strong negative comment in all workshops. There was nevertheless widespread acceptance of the reality of shipping conferences. In discussing the subject of trades where a conference monopoly exists, it became clear that Canadian exporters and importers regard such situations as no more acceptable than instances where the imposition of a national fleet also creates a monopoly. (Vancouver) Most acknowledged however that conference service is usually more reliable, and the lesser of two evils, when compared to the reliability and service of many "national fleets".

Most also accepted that conferences remained a fact of today's environment, and that this situation could improve only gradually with the evolution of international shipping services.

Improving industry-government liaison and response

All seminars identified an urgent requirement to establish a formal channel for Canadian trade interests to use when restrictive shipping related practices are encountered. Many shippers expressed a feeling of helplessness in their inability to dialogue in a meaningful way with government run shipping lines, or indeed the officials of other governments responsible for the administration of shipping policy. Some noted a similar feeling of frustration in attempts to communicate with foreign based shipping conferences. (Toronto) Most exporters accepted the reality of increased government intervention in international shipping today, thus acknowledging the need for government-government contract to facilitate trade and resolve problems when necessary. Some noted that it was difficult to identify who to communicate with in the government of Canada when disputes involving international distribution are encountered, and stressed the need for timely access to senior decision-making levels in government when problems arise (Montreal). This matter was given further review and a consensus recorded to the effect that **day-to-day complaints arising from the trade community should be registered by forwarding these to the International Trade Branch of the Department of External Affairs.** In seeking a solution, that department would be expected to liaise, for example, on shipping related matters, through existing inter-departmental channels with **Transport Canada** and the new **National Transportation Agency.**

Several workshops noted that the need for mechanisms to react in the event of foreign intervention in shipping markets had been a recommendation of the **Task Force on Deep-Sea Shipping** tabled in April 1985.

Seminar participants universally supported this recommendation and its corollary to the effect that, given changes in the structure and

behaviour of international shipping, modifications to current Canadian policy would be required. Such changes as appropriate should be the subject of review by industry and government, and all workshops concluded that **paramount importance should be attached to establishing an industry-government advisory board** for this purpose. The Montreal seminar concluded that the Board should comprise only trade interests. The chairman of that seminar, however, in his concluding statement at the National Conference, noted that in the light of these latter discussions he was prepared to concede the need for carrier participation.

It was thought that the multifaceted nature of trade and shipping would require diverse representation from affected industries on the Advisory Board. One workshop (Vancouver) specifically recommended that nominations to the Board should be from the industry concerned, and that appointments should be based on individual knowledge and performance, rather than political persuasion. The Vancouver chairman endorsed Recommendation IV of the Task Force Report in his summary, and in describing the purpose of the proposed Board, quoted from page 57 of that report:

"Canada should strengthen its capacity to respond quickly and efficiently to any threats and impediments to trade, manifest in protectionist shipping policies and practices. Such responses by Canada often need to be on a case-by-case basis where time is of the essence. The various Ministers having a direct interest in these questions need to develop an ability to respond with a concerted approach in a very short time period which in some cases could be a matter of days or in extreme situations, hours."

The case for pragmatic flexibility — the art of the possible

Seminar participants examined in detail several alternative policy approaches Canada might utilize when restrictive shipping practices are imposed by another country and are detrimental to Canadian trade. These alternative approaches included:

- a) Continuation of current Canadian practices
- b) Commercial solutions that may or may not require governmental support
- c) Government-to-Government consultations to find solutions
- d) Formal negotiations designed to produce a treaty or agreement
- e) Defensive trade and shipping policies supported by defensive legislation
- f) **Some combination of the above**

In recognition of important differences in trading terms and conditions, and the wide array of restrictive practises encountered in some trades, participants concluded that alternative (f)- a combination of all policy approaches enumerated, was the most practical Canadian choice.

All noted their preference for commercial solutions if effective, i.e. (b), however those who had previously experienced problems involving LDC shipping regulations were of the view that commercial solutions in these instances were simply not adequate to resolve the problems encountered.

The Toronto seminar emphasized that while commercial solutions should be the first recourse, government should have an array of comparable countermeasures available to effectively defend Canada's trade interests.

There was general support for a policy response which would emphasize "flexibility" and "pragmatism", and which could be "tailored to suit individual situations". Although initially opinions were sharply divided, seminar participants, after extensive discussion reluctantly agreed that defensive **trade** legislation (not defensive **shipping** legislation) is fundamental to putting muscle into Canada's negotiating position, should this be required.

The utility of defensive legislation was seen to be for its "implied threat of retaliation" and "to provide clout in negotiation", and not for its actual use in initiating retaliatory measures. (Halifax)

All present agreed that active retaliation should be reserved for situations where all other feasible alternatives had been used to no avail, and then only in instances where Canada's national economic interest is clearly at stake.

Participants noted that it would be necessary to have such legislation in place as a foundation for an effective policy response. Related process should include a formal mechanism or channel for industry-government consultation and complaint hearings. (Vancouver)

Two participants thought that the "downside" of defensive legislation is that it may tie government and industry's hands, and bind government to a predetermined course of action if faced with a particular situation. This was viewed as not necessarily being in the broad public interest. The general feeling was that the subject requires careful study by government and the private sector, particularly with respect to developing a clearer definition of what constitutes cause for triggering countermeasures. The importance of prior government-industry consultation was emphasized in several workshops.

An improved role for Trade Associations

In the course of the seminar series it was suggested on several occasions that Canadian trade interests might benefit from improved liaison between industry associations, particularly to discuss the impact on Canadian trade of foreign shipping regulations, and possible means to resolve such situations. Some believed that a group such as the **Exporters Coalition on Canadian Maritime Policy** might be required to ensure an effective lobby in related discussions in Ottawa. A majority favoured activating committee discussion of these matters within existing industry associations such as the **Canadian Exporters Association**, or **Canadian Shippers Council**.

Criteria for future policy

A lot of time was spent in the workshops identifying and discussing the factors which, in the view of those present, should be considered when deciding an appropriate response to situations where Canada's trade interests are being threatened by the implementation of foreign shipping policy. At the same session participants sought the most appropriate means to ensure

adequate private sector consultation including Canadian carrier interests, in the process of developing a policy response.

There was general agreement that to be effective, Canadian reaction should be:

- a) **timely;**
- b) **achievable in terms of objectives;**
- c) **flexible;**

i.e. each situation should be assessed and verified to ensure that a Canadian position is based on the specific circumstances of the case.

Canada's response in these circumstances should be developed only after consideration of:

- d) **Canada's multilateral treaty obligations;**
- e) **Canada's overall bilateral relationship with the country in question;**
- f) **Canada's trade interests;**
- g) **Canada's carrier interests**

As trade has such preponderant importance for the Canadian economy, participants emphasized that trade concerns should be weighed more heavily in deciding upon a particular course of action. Many believed in this regard that bilateral or multilateral commitments should be considered secondary to the central theme of support to Canada's trade concerns, however the fundamental role of treaties in international relations was discussed, and subsequently acknowledged as obtaining universal precedence.

A process for government action

When restrictive national shipping policies are encountered it was generally agreed that an assessment of the relative seriousness of the issue should be initiated by both commercial parties involved and government. The manner and timing of any Canadian government intervention should be decided on the basis of these assessments. The general conclusion was that the permanent industry-government Advisory Council should be used to assist and coordinate the assessment process, and where feasible, to advise on an appropriate course of action.

In such cases a **progressive and**, in terms of seriousness, **escalating series of government actions** would be initiated. There was widespread approval of this concept of gradualism, with intervention commencing through embassy representations in support of Canada's interest. Should early interventions prove unsuccessful, normal diplomatic process would take effect, with the documentation of the complaint and an exchange of diplomatic notes. This correspondence could be used, for example, to formally request bilateral trade consultations.

Ambassadorial or Ministerial interventions would be used as warranted by the seriousness of the situation.

Seminar participants noted that these diplomatic processes are already at the disposal of government, and recommended that they be more actively applied in support of Canadian interests, and coordinated closely with attempts at commercial conciliation. (Edmonton). The representative of External Affairs in his response registered that these mechanisms are indeed in regular use, and had been largely effective in resolving a growing number of problems in recent years.

It was thought by some that additional means should be developed by government and industry to give early warning of problems encountered, or likely to be in the making, and that embassies in countries where difficulties were being encountered, should be alerted to monitor these developments closely and channel information to Ottawa and industry. The External representative noted that this was indeed present practice, however communication is for the most part currently restricted to the company or companies directly concerned.

Enhancing communication

Participants then considered additional fora which might be used for bilateral discussion aimed at resolving shipping related problems encountered by exporters, importers or Canadian carriers.

This discussion provoked lively debate as the workshops considered which option might generate a solution which would be in Canada's

trade interest. The options discussed are listed below in the final order of priority of exporters and importers:

1. **Bilateral meetings or enhanced communication between shippers at both ends of the trade**
2. **Government-to-government trade discussions**
3. **Government-to-government shipping discussions**
4. **Bilateral meetings of commercial shipping interests**

Seminar participants unanimously favoured "Bilateral meetings of shippers" as a preferred first choice to resolve disputes. In cases where commercial discussions proved to be unsuccessful in resolving a dispute, and when in the judgment of the industry concerned, government intervention is warranted, "Government-to-Government trade discussions" was the participants' preferred mechanism for Canadian government intervention in support of a satisfactory commercial solution.

The following statement at the Montreal seminar reflected a surprisingly bitter appraisal by shippers of the motives and aspirations of most carriers or shipping conferences:

"Government-to-Government trade discussions are preferred (when commercial solutions fail) and offer the best possibility of achieving a workable solution. Bilateral meetings of commercial shipping interests and government-to-government shipping discussions are unlikely to be directly responsive to exporter — importer interests".

Despite the foregoing, a majority attending the conference acknowledged that, when faced with restrictive trade policies, it was unquestionably in Canada's best interest to improve dialogue and coordinate action between **all interested parties in Canada — including shippers, carriers and government.**

Trade and Shipping Agreements

From the outset there was considerable controversy among seminar participants as to the value of bilateral trade agreements with appropriate shipping related clauses as an effective means to ensure Canadian exporter's and importer's access to competitive shipping services in Canada-LDC trades. There was also extensive discussion of what should be addressed in the contents of such agreements. It was noted that Canada's OECD partners presently have over 90 'shipping' or 'trade' agreements with shipping clauses in place, with both developed and LDC countries.

After discussion of the question, participants in all five seminars expressed qualified support for the "selective" use of bilateral trade/shipping agreements to ensure access to competitive shipping services in LDC markets where restrictive shipping policies are enforced. They agreed that **bilateral agreements could provide a solid foundation of agreed principles which would increase commercial confidence and stimulate bilateral trade development.** Such agreements would also provide the Canadian government with "*legal clout and leverage*" in negotiations when specific commercial problems arise.

Participants stressed however that the Canadian government should be "*selective*" in the use of bilateral agreements, resorting to such arrangements only "*where necessary to facilitate Canadian trade*", and after full consultation with Canadian exporters and importers. Some participants suggested that, rather than "*actively pursuing*" umbrella trade agreements with shipping clauses, the Government should only "*react in instances when the other country proposes such agreements*". A general view emerged from workshop discussions that two criteria should be used to determine if a bilateral trade/shipping agreement is appropriate, namely, where the prospective partner is receptive to an arrangement of this nature, and secondly whether Canadian industry and government believe that "*Canada's bilateral trade with the country concerned would be enhanced*" as a consequence.

Discussions on the contents of such agreements gave general support for all but the last element or article in the following list of prospective articles. Here it was emphasized that **an article on cargo reservation should be regarded as a measure of last resort by Canadian negotiators, working in close concert with industry in the pattern of the air agreement negotiating process:**

- provisions for most favoured nation (MFN) treatment;
- clauses ensuring non-discriminatory treatment;
- reciprocal terms of treatment for commercial interests under national law;
- agreed terms for the accreditation or designation of national carriers, if necessary;
- provisions for regular consultations between national shipper groups;
- provisions to govern bilateral shipper — carrier relations;
- agreed terms on the process for the resolution of freight rate issues;
- **provisions on cargo access/cargo reservation — only where absolutely necessary to ensure to the maximum extent feasible, competition in shipping services essential to Canadian trade interests.**

Discussion at the National Conference

Mr. D.J. Wallace, Director of Transportation, Consolidated Bathurst Incorporated, chaired the national conference in Ottawa. He extended a particular welcome to overseas participants who were to address the gathering, and commented that the impressive turnout confirmed the views of the Exporters Coalition that trade with the developing world was a subject of major interest and concern to Canadian industry.

Outlining the agenda for the day's proceedings (Appendix D) Mr. Wallace highlighted the opportunity to learn the important conclusions of the five seminars held in major cities across Canada. He reiterated that the purpose of the seminar series had been to provide a forum for the many facets of Canada's trade community to get together to discuss and develop their own recommendations on new policy initiatives which were seen to be necessary to better respond to circumstances prevailing in certain trades. He expressed the hope that the positions adopted would be presented to the Minister for International Trade and the Minister of Transport for their consideration, and positive policy action.

Mr. Wallace characterized the challenge of the conference as being to construct a policy bridge which would allow the continued development of Canadian trade by guaranteeing access to competitive shipping, while acknowledging that many of our trading partners have adopted national priorities and policies in shipping which may run counter to Canada's dedication to competitive principles.

The need for Canadians to better understand the objectives and motivations of others was seen by Mr. Wallace as a necessary first step in seeking a mutually acceptable solution to current trade and shipping problems. This would allow the consequent expansion of commerce, which would be of benefit to all parties.

A primary objective of the June 4, 1987 Conference "Canada's Trade Community Speaks up — our solutions to transportation problems with the developing world" was to present the conclusions of the five regional seminars to a broad cross-section of senior Canadian officials representing trade, shipping and government interests. A spokesman had been nominated by

exporters and importers to represent the views expressed at the seminars in Halifax, Montreal, Toronto, Edmonton and Vancouver, and to present the conclusions arrived at in the workshop discussions.

To facilitate the presentation, and to avoid duplication, the seminar summaries were structured to address five broad thematic questions of fundamental importance to the community of Canadian exporters and importers when faced with restrictive trade practices associated with shipping.

These questions were:

1. Have you (the exporter-importer) been affected by any shipping or cargo restrictions or have sales been lost or profits curtailed?
2. Is the present situation manageable or is it damaging Canadian trade and international relations? Should we be more active in protecting our trade?
3. In addressing these questions can we improve the interface between Canadian industry — and government and the present process of Canadian response?
4. To what degree should we emulate other countries in our response to this situation?
5. How far is industry prepared to go to ensure two-way trade is not impeded?

Presentation of Seminar Conclusions and Recommendations

After opening remarks by Mr. C.H.J. Hibbeln and Mr. I.G. Lochhead, the conference chairman introduced Mr. G.E. Bennett, Vice-President, Transportation, Council of Forest Industries of British Columbia (COFI) who presented the consensus response to the first basic question of the seminar series: **Have you (the exporter-importer) been affected by any shipping of cargo restrictions or have sales been affected by any shipping or cargo restrictions or have sales been lost or profits curtailed?**

Conclusions

- Seminar participants across Canada were in unanimous agreement that **shipping and/or cargo restrictions have very definitely adversely affected the ability of the Canadian trade community to compete in less-developed country (LDC) markets** where such restrictive anti-competitive national shipping policies — are encountered. It was noted however that though industry is able to define the nature of problems, and cite examples of situations in which sales and profits had been lost as a result of restrictive trade practices related to shipping, it was very difficult to quantify the total value of lost sales. Likewise, in cases where bids for contracts had been unsuccessful, it was difficult to attribute the loss with absolute certainty to the shipping problem.

Discussing the buying practices of multi-nationals, all participants agreed that after labour and material production costs, the most important component of landed price is transportation and distribution cost. As multinational procurement is usually based on landed price, the critical significance of transportation to the competitive position of Canadian exporters overseas was stressed by all present. **Transportation costs are particularly crucial to the successful export of many of Canada's high volume/weight resource products where transport makes up a major proportion of landed costs** (up to 50% of landed price in some cases).

- In discussing the many instances cited of lost sales or curtailed profits arising from loss of control of transport costs, **"diminished competition"** was identified as a key problem. It was generally agreed that this problem arose from two sources a) the national fleet aspirations of the developing world, as expressed in restrictive shipping and cargo reservation practices and b) the growth and dominance of super-conferences in rate setting and levels of service.
- In the case of our trade with many LDC countries which pursue restrictive shipping and cargo reservation policies, many participants emphasized that it is the **government at the other end of the trade which, through its control of shipping, now decided whether or not Canadian products will be competitive.**
- It was agreed that as result of restrictive national shipping policies adopted by South American countries, Canadian based shipping has been forced to accept South American tariffs controlled by South American governments, and consequently **Canadian shipping companies have little flexibility to negotiate rates** to suit the competitive needs of Canadian shippers.
- Seminar participants pointed out that **Canadian exporters face a clear disadvantage in doing business in Latin and South America in comparison to their European competitors.** Several speakers noted the irony that, in many cases, the cheapest and most efficient option for Canadian exporters shipping to South America is via Europe. Tariffs for direct service from Canada to South America is often double the tariff to ship from Canada to Europe, then to tranship from Europe to South America! Seminar participants concluded that for those products where Canada competes with European exporters, these additional transportation costs (which result in large part from restrictive South American national shipping policies) constitute effective barriers to trade, and deny Canadian exporters an opportunity to compete on an equal footing with European suppliers in these markets.

Mr. C.S. Dickson, General Manager, Atlantic Provinces Transportation Commission (APTC) addressed the question:

How far are Canadian exporters and importers prepared to go to ensure two-way trade is not impeded?

Conclusions

- Participants in all the seminars across the country were most concerned to ensure that Canada's competitiveness not be dulled or blunted by the unilateral actions of governments of our trading partners in the realm of shipping.
- As Canadian exporters and importers, seminar participants concluded that such **unilateral intervention is unacceptable**, and should not be ignored by the Canadian government.
- **Exporters expect active intervention by the Canadian government** to ensure that Canadian trade competitiveness is enhanced and improved.
- Seminar participants emphasized that the critical importance of exports to the Canadian economy dictates that the **government's priority will be to protect and enhance the ability of exporters to compete**. Participants believed it essential therefore, that there be **full consultation with industry** preceding any such intervention, following which, government would be in a stronger position to approach our trading partners with a broad range of commercially sound options and the flexibility to deal effectively with particular situations.
- Participants in the seminar series acknowledged that traditionally Canada has followed a non-interventionist policy in relation to international shipping, but agreed that this **policy should be re-examined** in light of the increasing number of foreign governments which are implementing national flag fleet policies, restricting or inhibiting competition.
- All agreed that under no circumstances should Canada accept the unilateral action of such governments which create a monopolistic situation in our trades.

Mr. David Gillilan, Corporate Traffic Manager, Erco Canada, summarised seminar views on the question:

To what degree should we emulate other countries in our response to this situation?

Conclusions

- Opinions among seminar participants varied widely concerning to what extent and under precisely what circumstances the Canadian Government could usefully adopt policies similar to those some other nations have chosen in the face of shipping restrictions detrimental to trade.
- Policies discussed at the seminars included the U.S. Federal Maritime Commission (FMC), which has extensive powers to impose punitive or corrective measures in response to harmful actions by foreign shipping lines, and the U.K. Merchant Marine Act, which empowers government to intervene if British shipping or trade interests suffer from the implementation of discriminatory shipping practices. While these were regarded as possible models for "*a made in Canada policy*", there was a strong view that Canada should not implement such punitive measures unless all other possible options had been totally exhausted, and the issue was judged to be of national importance.
- While seminar participants were reluctant to endorse full implementation of punitive measures along the U.S. and U.K. lines, except in the most extreme circumstances, they agreed that **together with joint action with OECD partners, having trade and shipping countermeasures available in legislation** would be a valuable defence, and useful in advancing Canadian interests — particularly in negotiations with countries which impose restrictive shipping policies through national legislation.
- Accordingly, seminar participants expressed qualified support for the enactment of **defensive trade and shipping legislation** to provide "teeth" in support of Canadian trade interests. This was agreed with the proviso that actual implementation be restricted to extreme situations **where vital Canadian economic interests are threatened**, and only **after full prior consultation with industry**.

- After extensive discussion, seminar participants expressed qualified support for the **negotiation of bilateral agreements to facilitate trade, including shipping and cargo reservation clauses**, where these are absolutely necessary. Support was qualified insofar as a majority felt that bilateral agreements, while they appeared to be successful in aviation matters, should be used to facilitate shipping only where it was clear that it would take a documented agreement to achieve stability in trade and shipping relations.

Mr. John Anderson, Traffic Manager — Newsprint Division, James MacLaren Industries presented the conclusions of the seminar series in response to the question:

Can we improve the interface between Canadian industry and government and the present process of Canadian response in addressing trade problems related to shipping?

Conclusions

- There was unanimous agreement that **industry-government consultation** on matters relating to the interface of trade and maritime transport could and **should be improved**. This was regarded as being an essential prerequisite to maintaining Canada's competitive position in international trade.
- As an urgent priority, seminar participants expressed unanimous support for the early implementation of Recommendation 4 of the Task Force on Deep-Sea Shipping which suggests government create an **advisory board** or council consisting of representatives from industry, labour and government to monitor the international shipping environment on an ongoing basis.
- As an immediate measure, seminar participants agreed that **existing mechanisms for consultation** through industry associations and, in particular, the Canadian Exporters' Association (CEA) and Canadian Shippers' Council **should be enhanced**.
- Seminar participants noted that some industry

associations have not given sufficient attention to the **importance of access to efficient, price competitive transportation services** as a factor in maintaining Canadian exporters' competitiveness in international trade—particularly with the LDC's.

- The need for less ad-hocery and more formal industry-government consultation was emphasized as a priority by seminar participants. They also urged government to identify a **formal channel for reporting instances of restrictive shipping practices affecting Canadian trade**. It was the consensus recommendation of seminar participants that this formal channel be established through the Department of External Affairs, International Trade Branch.

Mr. Joe Howard, President, Alberta Inter-model Services Limited, summarized the response of the seminar series to the question:

Is the present situation manageable or is it damaging Canadian trade and international relations? Should we be more active in protecting our trade?

Conclusions

- Seminar participants unanimously favoured **commercial solutions as "the first choice of industry"** as a means to manage and resolve maritime transportation problems which inhibit Canadian trade.
- In the opinion of seminar participants the question of whether a given transportation problem adversely affecting trade is manageable must be decided on a **case by case basis**. The first judge of whether the situation is manageable on solely commercial terms, or requires government intervention, must be the Canadian industry which is directly affected.
- However, seminar participants recognized that when satisfactory solutions are not attainable by purely commercial means, particularly when the problem results from the intervention of governments of our trading partners, there is a clear requirement for a **more active role for the Canadian government in support of Canada's vital trade interests**.

- To enable the Canadian government to effectively respond in those instances in which Canadian trade is threatened by anti-competitive, restrictive national shipping policies, seminar participants advocated a **flexible approach**. It would be important to ensure that government had at its disposal a full range of policy instruments and options in order to effectively manage such situations.
- Seminar participants noted that no policy can precisely fit all possible situations and therefore, in practical terms government in consultation with industry has to be guided by certain general principles and be prepared to **custom tailor policy solutions to fit specific problems**.
- Where it is in Canada's interest to maintain access to particular foreign markets, seminar participants expressed qualified support for **the use of defensive trade legislation and formal negotiations** as the two policy options most likely to successfully defend Canada's trade interests when commercial solutions prove untenable.

Recommendations

- That urgent action be taken by the Government to implement Recommendation 4 of the Taskforce on Deep Sea Shipping to create an **advisory board** or council consisting of representatives from industry, labour and government to monitor, on an ongoing basis, the international shipping environment. Seminar participants recommend that the majority of members nominated to this advisory board or council be from the private sector and that the private sector rather than the Government should appoint the industry representatives.
- That increased emphasis be placed on **government-to-government consultations**, including the **negotiation of bilateral trade agreements** with related shipping clauses, as and when necessary to supplement and/or support commercial solutions.
- That the Government, in consultation with industry, initiate on a priority basis the drafting and enactment of **defence trade and shipping legislation** to be deployed only as a last

resort, in order to maintain and enhance Canadian access to vital export markets.

- That the Canadian government address the issue of cargo reservation "head on" when this is encountered in bilateral relations, and be prepared to negotiate if necessary, and as a matter of last resort, **cargo sharing arrangements** which maximize the opportunity of Canadian exporters and importers to obtain competitive shipping services in particular trades.

Presentation by Mr. A. Bouayad, Director, Shipping Division, United Nations Conference on Trade and Development

The Chairman introduced Mr. Abderrahmane Bouayad, the Director of the Shipping Division of UNCTAD (United Nations Conference on Trade and Development).

Mr. Bouayad commenced with a statement of UNCTAD's role in promoting world trade, particularly the trade of developing countries. He noted that UNCTAD provided a forum for multinational negotiations "*aimed at finding globally acceptable solutions to common problems*".

Congratulating the organizers of the Conference for their initiative in inviting discussion on the operations, constraints and problems of developing countries in shipping and trade, he noted that "*such better understanding would be a basic prerequisite for fruitful cooperation with developing countries to the benefit of all parties*".

He noted that inadequacies in shipping services are undeniably disruptive to trade and the development process. National investment in shipping however was often for the purpose of ensuring the availability of adequate services, and to enhance the viability of national economies as a whole. The presence of national shipping lines had supported the creation of new trade flows as traditional patterns of shipping services had changed. There was now closer economic cooperation between developing countries.

Developing countries have adopted a dual approach to shipping policy, namely the protection of shippers' interests on the one hand, and

the creation and expansion of merchant marines on the other. Mr. Bouayad dismissed the common allegation that developing countries pursue a fleet development policy for the sake of owning a fleet. *"Irrational behaviour does not tend to be characteristic of developing countries"* he said. In fact from the outset, developing countries' shipping policy has been *"primarily directed towards trade-related aspects of shipping, particularly the protection of shippers' interests"*.

Since 1964, the UNCTAD Committee on Shipping has paid particular attention to the protection of shippers' interests, and has passed a number of resolutions on the issue. In parallel the UNCTAD Secretariat has produced studies on shippers' councils, freight rate negotiations and related issues.

Hence both shippers' interests and fleet development have received intensive consideration. The two form the core of the Convention on a Code of Conduct for Liner Conferences which entered into force in October 1983. While fleet development and national participation are undoubtedly major elements of the Code, *"equally important are those parts dealing with external conference relations, basically with shippers"*. Thus the Code establishes equitable principles for the relationship between shippers and conferences, such as consultative processes and rules for freight rate increases, surcharges and currency adjustment factors.

However nearly ten years passed between the Code's adoption in 1974 and its entry into force. There have been important political, technological and economic development. Mr. Bouayad suggested that there is a widening technology gap, as developing countries own only 13 percent of the world's containerships, as compared to one-quarter of conventional general cargo tonnage. Overtonnaging has been a current problem. The long delay in introducing the Code also caused a number of countries to promote national fleet employment through unilateral cargo reservation or bilateral cargo-sharing agreements which do not necessarily reflect the provisions of the Code. *"It can be rather safely assumed that such proliferation of cargo reservation measures was a result of the frustrations*

prevailing among a number of countries resulting from the delays in implementing the Code principles, and could have been avoided had the Convention entered into force earlier.

Mr. Bouayad noted that many nations were aware of the incompatibilities between such measures and the Code. Differences in perception of the nature of the instrument are more apparent now than at the time of its negotiation and adoption. A Review Conference scheduled for November 1988 will be a forum to address such fundamental questions.

Meanwhile progress by developing countries in the bulk cargo sector has been minimal. Developing countries sought international recognition of their right *"to equitable participation"* in such trade, and a division of opinion had emerged on whether barriers existed to the entry of developing countries into bulk operations. A parallel discussion had simultaneously addressed the issue of flags of convenience. The negotiating process culminated in the adoption in February 1986 of the United Nations Convention on Conditions for Registration of ships. *"In effect over time the original theme of phasing out flags of convenience had been gradually converted into an instrument providing international standards for ship registration, accompanied by concrete mechanisms to ensure the genuine link between ship and the flag"*.

In his closing remarks Mr. Bouayad returned to his main theme, **the need to find internationally acceptable solutions in shipping**. He eloquently presented the case for UNCTAD as the most appropriate international forum to address and resolve these matters, and made a strong plea for **international cooperation**. He concluded that unilateral action *"will invariably impinge on the shipping interests of other countries"*. In summary *"a proliferation of uncoordinated unilateral, bilateral or subregional action would not only represent a cumbersome and inefficient approach to problems, but would rather aggravate than remedy them. Thus, there is no justification to sacrifice the global approach for a fragmented one"*.

The Panel Discussions

Panel 1: "Exporters and Importers — Those Who Pay the Piper, Call the Tune"

In his opening remarks as moderator of the panel discussion, Mr. Al Kilpatrick, Assistant Deputy Minister, International Trade Development, Department of External Affairs, enunciated the department's considerable interest in the proceedings, noting its' responsibility to ensure that Canada's trade and commerce competes effectively in all international markets. Thus the need for Canadians to have access to efficient and economic transportation. He thanked the Coalition for alerting the department to recent problems encountered in certain trades, and noted that every one of the earlier speakers reporting on the seminars had emphasized the need for improved consultation between government and the private sector. It was clear from the positive results achieved in the seminars, that the present series had indeed responded to that objective.

Addressing the title theme of the panel "Exporters and Importers — those who pay the piper, call the tune", Mr. Kilpatrick remarked that this suggested the ideal, rather than actual practice, cargo shippers being often at the mercy of transportation companies, labour and regulations. The thrust of the panel discussions would be to focus on what Canadian business would like to see done in order to ensure the further development of trade. **The challenge would be to achieve a better working relationship with foreign business**, and gain an improved understanding which might allow the development of a "middle ground" satisfactory to both sides, thus opening the way to an expansion of international commerce.

Mr. Micheal Robson, Vice President, Wood Products, Council of Forest Industries of British Columbia in his opening remarks emphasized the fact that **few countries in the world are more dependent on trade than Canada**, which is also the leading exporter of forest products in the world. Over 72 % of our production is exported, and this has made the Canadian forestry industry the premier exporting industry in the economy, and an important factor in the maintenance of our national balance of trade.

The annual cost of shipping its products to market is \$3 billion.

In Japan, Canada's forestry competition is from the US Pacific Northwest, Alaska, South-East Asia and New Zealand, all of which are closer to the Japanese market. In the UK and continental Europe markets, Canada competes with Scandinavia and the USSR. In our largest market, the United States, more than a thousand individual lumber manufacturers compete among themselves and with US companies for a share of major US regional markets. It is not hard to understand why transportation costs are an important determinant of our ability to compete. In construction grades of lumber, transport costs frequently exceed 30% of the total landed cost in the marketplace.

"It has long been a concern of industry in this country that there is a tendency to put the cart before the horse on transportation issues". Mr. Robson said: "Often the needs of carriers are considered before those of shippers and exporters. Rest assured that we will never tire of reminding politicians and policy analysts in Ottawa and elsewhere that trade is the motor that drives the transport services sector, and not visa versa." he emphatically stated.

Concluding his remarks, Mr. Robson proposed that in the face of the political whims and interventions of other governments, Canada must develop **policies which first recognize the primacy of trade, and secondly provide the flexibility** to enable it to respond appropriately to protectionist actions by foreign government. In this regard he believed **more could be done in liaison with the importers of Canadian products** to develop appropriate strategies to deal with the range of situations encountered in developing countries. **"We also need a process that will assist exporters and importers to jointly identify problems and develop innovative and effective responses; as long as we communicate with economic good sense, we will progress!"** he concluded.

Dr. Jose Antonio Martinez addressed the meeting in his capacity as Chairman of the Federation of Latin American Shippers Councils, (FELACUTI) which includes 12 Latin countries and 3 English-speaking councils in the Caribbean.

In his opening remarks he outlined the organization and objectives of FELACUTI, which is to maintain a continuing dialogue with liner shipping conferences and airline associations, in order to obtain reasonable treatment in the structure of freight rates on cargoes in their trades. *"The development of commercial relations among nations depends to a large part upon transportation,"* he stated, adding that *"more than 90% of our commercial exchange is by water."*

The Federation of Shippers Councils had been formed largely upon the recommendation of UNCTAD, but due to the power of the shipping cartels had not to date achieved a successful balance in their discussions. He cited problems with the U.S. shipping conference and commented on the non-responsiveness of the Japanese conference. He made the case for **improved liaison with Canadian shippers**, noting this was only the second opportunity in nine years for direct dialogue between shippers' representatives. This was unfortunate given the importance of the region's trade which in 1984 imported US\$ 41 billion from overseas.

Dr. Martinez noted Mr. Bennett's earlier remarks to the effect that some Canadian goods were being transshipped via Europe in order to obtain a reasonable freight tariff. This suggested to him that Canadian exporters had not negotiated well in their dealings with the shipping conference. Dr. Martinez concluded on an optimistic note, commenting on the recent introduction of **direct air services between the Dominican Republic and Canada**, which he hoped **would result in increased trade**, and improved Canadian consular services in Santo Domingo, and extended an invitation for Canadian trade interests to attend the forthcoming International Congress on Cargo Transportation to be held in the Dominican Republic.

Wayne Morrison, Manager, Cape Breton Development Corporation orientated his remarks from the perspective of shipper of bulk products, in particular coal. As a federally owned Crown Corporation, his company had recently received a long term contract for 2 million tons coal from the Nova Scotia Power Commission, and expected to put a new colliery into production

shortly, which would produce 1.5 million tons of clean coal, thus releasing approximately 1.5 million tons for sale in export markets. On an F.O.B. basis this would be valued at around 75-80 million Canadian dollars, and would require the commitment of between 50 and 60 "handy sized" vessels. Addressing the matter of shipping restrictions Mr. Morrison confirmed there have been problems. The Corporation would attempt to ship on C and F terms in order to 1) control the choice and quality of the vessel to be used, 2) to control inventory and the timing of vessel arrival and departure, and 3) most important, to control costs. Circumstances where the buyer wishes to introduce flag restrictions could best be dealt with by keeping open communication lines with the buyer. This entailed extra effort by the Corporation's marketing staff, but results justified these efforts.

Mr. Morrison talked of difficulties experienced as a result of being unable to off load large Panamax vessels in a number of foreign ports. *"Free competition is an ideal that seldom exists"* he reluctantly concluded, noting that on occasions where no flag restriction existed, the requirements for hard currency would in itself convolute the market. The current situation where one country had driven charter prices up by entering the market and chartering a large number of vessels was not unusual, and certainly government intervention would be unable to achieve any useful result in such circumstances. In discussing how to respond to restrictive practices Mr. Morrison stated that his main concern would be to avoid the necessity of using a higher-cost vessel. He believed that **in the realm of aid cargoes or products financed by government, that these should be granted to less developed countries on a CIF basis**. This would allow consolidation of such cargoes by Canadian forwarders and shipping agents with obvious economic benefits to Canada.

He suggested also that to offset some of the difficulties being encountered in foreign trades, and the economic disadvantage of Canadian wages, that **shipping companies operating Canadian flag vessels should be granted**

exemption of offshore earnings for income tax purposes.

Concluding his presentation Mr. Morrison admitted that **many exporters could improve their competitive position by taking the time and effort necessary to negotiate CIF sales whenever possible.**

Panel 2

Canadian Shippers and Carriers — Is There a Commonality of Interest?

Dr. William Winegard, Chairman of the House of Commons Standing Committee on External Affairs and Trade opened the panel proceedings with the introduction of the first speaker. Mr. Conrad Robitaille, Executive Vice-President for South America and the Middle East, Gillespie-Munro Freight Forwarders.

Opening his presentation Mr. Robitaille provided a simple generic example of the type of problems Gillespie-Munro and their clients have often encountered in doing business in trades where flag and cargo restrictions are imposed. A client manufactures a product and his FOB Canadian post price is \$350.00/tonne. The national line servicing the country of destination, which has cargo restrictions in place with Canada, is quoting freight at \$140.00 for a C&F price of \$490.00/tonne. The client's competition in country Y offers the buyer comparable product at the same FOB price. However, the trade lane between country Y and the destination customer is not subject to cargo reservation laws, and as a result the open and competitive shipping market renders a freight rate of \$110.00 yielding a delivered C&F price to the customer of \$460.00/tonne. The Canadian client pursues his desire for a sale only to find out from the purchaser that he is at a \$30.00/tonne disadvantage. The client points out to the purchaser that he has no shipping alternative, and through the importer, approaches the national carrier for tariff relief. All to no avail. The client is unable to reduce his FOB price further or he will lose money on the sale, and the contract is lost to his competition in country Y. In discussing this example, Mr. Robitaille questioned whether the

“fault” lay with the Canadian exporter, the Canadian government for complacency in the face of this situation, or whether it was arrogance on the part of the national line, perhaps coupled with anti-Canadian discrimination by the foreign government in the imposition of its cargo reservation laws. In his opinion, it is a combination of all of the foregoing, creating a situation which we cannot allow to continue, or Canada will face greater erosion of our trade with countries which promote their national lines through cargo reservation practices.

Reviewing the history of the development of cargo reservation legislation, Mr. Robitaille acknowledged that some countries, such as in South America, had been exploited by the shipping conference when they did not have their own national fleets. He recognized that our trading partners have a legal right under their legislation to import their own goods on their own ships. However, these countries must also recognize that Canada deserves nothing less than equal treatment. While protection from conference exploitation may have been the original intent of cargo reservation, exploitation of the shipper by national lines has become a prominent feature of the new regime.

Noting that our trading partners often insist they would not object to Canada shipping cargo **if shipped on our own Canadian flag ships**, Mr. Robitaille dismissed this as a “purist point of view” and pointed out that these same countries (that espouse cargo reservation on behalf of their national lines) charter tonnage under flags-of-convenience whenever it suits them to do so. Consequently, it has to be made clear to these trading partners that **Canada**, as the source country of these imports, **is entitled to no less than equivalent rights.**

Addressing the role that government can play in dispute settlement involving cargo reservation and national flag regulations, Mr. Robitaille cited **the effectiveness of the Government's recent intervention** in the case of **Peru** where Canadian carriers were now able to obtain rights to an equitable share of the trade. While the policy today in Canadian domestic transportation favours deregulation, in the case of maritime transportation, faced with foreign flag restrictions,

Canada must in fact "regulate" to provide the same opportunities for enhanced competition and more efficient service.

Mr. Robitaille concluded that from his perspective, techniques of moral suasion and gentlemanly recognition of mutual rights had not generally achieved effective results in dealings with the cargo reservation countries. This had been to the detriment of the Canadian shipper and shipping community alike.

*"Recognizing that we must improve on the current status quo and not overlooking the legitimate rights of our trading partners, I feel we should pursue **at least fifty-fifty access to our bilateral shipping trade through legislation**," he proposed. "This approach will provide the opportunity for Canadian enterprises to compete, by right, for a portion of these trades and if they can successfully compete in the open market, will benefit the Canadian economy as a whole. You, the Government of Canada have supported this enquiry. Do not, as so often in the past, shelve these enquiry reports one more time, but show determination in recommending to Cabinet that it is the desire of the Canadian export community, shippers, freight forwarders and shipping companies, to legislate the right of Canadians to have open access competition in at least 50% of our ocean trades."*

Mr. Robert Toporowski, Manager, Transportation Planning, MacMillan Bloedel in his opening remarks emphasized that **for many years Canada's policy of free and open competition in shipping has been extremely successful**. In this view, however, today we are facing some very basic problems as a result of long-term trends in the global shipping environment. The problems are not amenable to ad hoc short-term solutions but require a long-term Canadian policy based on a solid commonality of interest between both Canadian shippers and carriers.

In dealing with bilateral trading partners or in multilateral fora, whether in the OECD or UNCTAD, Mr. Toporowski advocated **keeping the Canadian principles of free and open competition clearly in the forefront**. In the context of the upcoming 1988 UNCTAD Liner

Code Review Conference Canadian support for free and open competition should be emphasized, and **the principle of shippers' rights** strongly advocated. "Shippers rights" in his opinion had been sacrificed to the "rights of countries" and the "rights of carriers" since the Code came into force in 1983 and it is time this imbalance was rectified.

Referring to the recommendations of the cross-Canada seminars as presented during the morning session, Mr. Toporowski emphasized that the first step needed to develop a commonality of interest between shippers and carriers, would be the same instrument required to enable effective industry-government policy coordination, namely the creation of a very senior **Advisory Board on Maritime Shipping** as recommended in the Sletmo Task Force Report.

He then addressed the question of what measures Canadian exporters could independently undertake to solve trade problems related to restrictive maritime transport policies. Mr. Toporowski cited Dr. Martinez's presentation on the Latin American Federation of Shippers' Councils (FELACUTTI). In his opinion this type of organization offered an ideal opportunity for Latin American shippers and importers and their Canadian exporter and importer counterparts to get together to discuss their common problems with regard to freight rates, cargo reservation, flag restrictions and shipping service problems in general. **Meetings between exporters and importers at both ends of the trade could quickly identify common interests and help to develop both short-term and long-term solutions which would benefit both the Latin American and Caribbean countries, as well as Canada**. It was Mr. Toporowski's opinion that in the final analysis Canadian exporters by themselves could accomplish only so much when faced with intransigent national shipping lines, and foreign governments committed to restrictive, anti-competitive shipping policies underpinned by domestic law. In his concluding remarks Mr. Toporowski addressed these limitations and stated:

*"What I would like to see in this country is what you would call **defensive trade legislation, that covers shipping solely as one***

important aspect of trade. It can also cover maritime cargo insurance if necessary. It can cover many important areas that directly or indirectly affect trade. What we need is defensive trade legislation that gives us the means to retaliate when countries are being unfair in trading with us. I'm not suggesting that these powers be used lightly in any way. As a shipper I have very great qualms about using defensive retaliatory measures just because someone says: 'Hey so and so is having a little problem operating his ships down in one country. Let's do something, let's retaliate!' What happens to me, the exporter who is trying to ship to that country at the same time? We have to be very careful about how we frame such legislation and how we use the defensive countermeasures it would provide as retaliation — but I definitely think defensive trade legislation must be in place and available in those serious situations when we really need it."

In his opening remarks Mr. Matt Stinnes, President, Great Lakes Trans-Caribbean Line (LTL) commented that, in view of traditional Canadian shipper-carrier antagonisms and, as a panelist on a panel representing so many shipper interests, he felt "...like a mouse at a cat convention ... trying to get out with a whole skin". However, he noted the objectives of this panel and today's conference was not to resurrect the old debate on a Canadian flag fleet, but to establish the basis for a "common" approach to problems presented by cargo reservation and other restrictive maritime shipping practices, imposed by some of our trading partners. These are regarded as detrimental to the interests of both Canadian shippers and shipping companies alike.

Mr. Stinnes stated that he disliked flag protection, not because of any question related to whether or not Canada should have a national flag fleet, but because any kind of restriction on free and open competition in maritime shipping services inevitably results in very poor service, and generates a national line monopoly which is not in the interests of either Canadian shipping lines or shippers. GLTL believes itself to be a most efficient carrier and therefore is not interested in government flag protection, but simply wishes an "**opportunity to compete**".

"As of now Canadian shipping companies do not compete on an equal basis. Canadian

companies have in fact competed against South American lines for 20 or more years in the face of a host of hidden subsidies. For example, the South Americans get fuel subsidies, South Americans get cheaper ships, the South Americans get assistance with their crews. South Americans are able to discharge their vessels more quickly and cheaply than we are, South Americans are allowed to have access to ports more readily than the Canadian lines. And, in the face of all these disadvantages, the Canadian line service and prices have still been better than these national lines. What stops Canadians from competing isn't the slanted commercial playing field, what stops us is when a law is passed that says you are not allowed to compete in certain trades. Equal competition has gone out the window long, long ago and it's a sign that Canadian lines are more competent than the developing countries subsidized national lines, because we are able to compensate and compete despite all of these disadvantages. ...Faced with such laws, private initiatives by shipping companies, shippers, or freight forwarders are doomed to failure and frustration. Somebody else has to get involved, and that's the Government of Canada!"

Concluding his presentation Mr. Stinnes stated:

"My objective today is to solicit this conference to request the Ministers of Transport, of International Trade and the Secretary of State of External Affairs, for their support to Canadian shippers and ship owners who are concerned with the increasing degrees of restrictive shipping legislation and its enforcement by the developing nations. The enforcement of such restrictive legislation by developing countries, if not counteracted by effective Canadian countervailing policies and appropriate legislation, will continue to reduce the availability of adequate and economic sea transport between Canada and these nations. We request that the Ministers actively support the free access of all shipping companies to Canada's seaborne trade. Where trades are restricted through foreign legislation we request that the Canadian Government initiative negotiations, if necessary, supported by the introduction of defensive legislation, to ensure free access for Canadian shipping lines to compete for at least half of the trade."

LUNCHEON ADDRESS

A summary follows of the excellent overview given by Mr. W.G. Deeks, President, Noranda Sales Corporation.

Mr. Deeks, in his introductory remarks spoke of the vital importance of the linked business activities of transportation and trade, and their importance to the economic health of Canada. He spoke of the American Management Association and its tenet that **the single most important function of marketing is distribution**, which can be defined as the ability to present to the customer the right product at the right time!

In describing Noranda's \$6.5 billion of business in 65 countries around the world, Mr. Deeks identified his company as the largest business purchaser of transportation services in the country.

Unfortunately there is an increasing difficulty in obtaining transportation services at an affordable cost in cases where regulated transport is not responsive to the market. Mr. Deeks complimented the Exporters Coalition for flagging this issue for attention.

"As Canadians, producers of goods and services must find a competitive niche in international markets, and in this respect we share with our United States colleagues a concern regarding unfair trade practises, and the means of dealing with them", he said. Mr. Deeks spoke of the benefits of the proposed Free Trade Agreement, particularly its ability to define a dispute settlement mechanism which would separate US-Canada problems from others that are the product of unfair trade practises.

"To compete in the global village Canadian industry will have to shift from being a reactive production driven business, to being creative and responsive to customers, introducing new and advanced products and leading in market niches where we have fair competitive advantage. To achieve this Canadians need the discipline of competition."

Mr. Deeks suggested that these disciplines will ensure us the opportunity to compete effectively. Several additional steps are required — knowledge of world markets and what other people do, and a common understanding between all the Canadian players, business, shareholders, employees, unions, communities, suppliers and government.

For Canadians, an important result of the trade talks will be the combined ability of the two countries to jointly address in the multilateral trade negotiations the unfair trade practices of some trading nations. This would have profound implications for the Canadian transportation industry, and, in Mr. Deeks' opinion, would help to guarantee market responsive rates providing access for exporters to third world countries.

Citing the requirement in many Third World countries for inbound product to be carried in vessels of their flag, charging rates that are not market related, and often higher than rates charged on outbound cargo, Mr. Deeks noted that this penalizes the delivered cost of Canadian products, while at the same time subsidizing the outbound cost of delivering the other country's products to our market!

In closing, Mr. Deeks supported the concept that major users of transportation should improve communication with government officials to ensure the development of Canadian policy supportive of our trading goals. Improved communication would also keep business informed on the latest direction of government thinking. In this respect he supported the idea of an advisory committee on trade and transportation related issues.

"Transportation will be a virtual bargaining point in the upcoming multilateral trade negotiations" he concluded, suggesting that several agencies represented at the Conference could "grandfather" such an Advisory Group.

Panel 3

Approaches to Policy: Factors and What Industry Advocates

In his opening remarks as panel moderator, Dr. Charles Barrett, Vice President, Research, of the Conference Board of Canada explained that, as Canada's largest independent research organization, the Conference Board focussed its considerable resources on the study of factors affecting the competitiveness of Canadian industry at home and abroad.

The Conference Board's latest study in the transportation sector dealt with Canadian exporters' adjustment to the deregulation of surface transport in the United States. In the context of Canada's relationship with developing countries, Dr. Barrett noted that the Conference Board were making particular efforts in this area, and had just completed a large research program sponsored by the Industrial Cooperation Branch of CIDA, to examine ways and means to strengthen Canada's business relationship with the LDC's.

Dr. Barrett recalled that in the 1960's with the beginning of UNCTAD, efforts were focussed on means to foster LDC development and how to achieve acceptance of this principle by the international community. However, as noted by Mr. Deeks during his luncheon address, the success of the developing countries over the last 20 years in the area of services has also created among the industrial countries a perceived need to rebalance the playing field. Rebalancing the service sector was very much on the agenda of the United States, and was important in determining the agenda for the Uruguay Round of the MTN, with its' emphasis on services. In concluding his opening remarks Dr. Barrett pointed out "*...that in maritime transportation services it is very important to distinguish between the interests of the countries we are dealing with. The challenge in terms of finding an appropriate policy is all that much greater... it is therefore worthwhile that we explore a wide range of policy options, including those very different than what we have pursued to date. It's only by doing so that we can really, fully appreciate the range of choices that are before us.*"

Mr. Don Wiersma, Transportation Manager for the Canadian Manufacturers' Association (CMA) noted in his opening remarks that the association has been actively consulting with the government on maritime policy for a number of years. However, in contrast to previous consultations, the international competitive situation for Canada is becoming increasingly more difficult while at the same time the Canadian economy is ever more dependent on exports for its continued growth and vitality. Approximately 3 million people or roughly one in four Canadians is dependent on export trade for employment, and transportation costs to deliver our exports to market can be as much as 30-40% of the CIF delivered price.

In response to questions raised privately by several delegates earlier in the day, Mr. Wiersma reiterated that, though not an active member of the Exporters' Coalition on Canadian Maritime Policy, the CMA fully supported the Coalition's position on the importance of access to efficient and economic maritime transport, and its importance to Canada's export success. "*As users of transportation, Canadian manufacturers must have available an efficient marine transportation system capable of both delivering their products to offshore markets, and to move to Canada raw materials essential to manufacturing processes. These functions must be performed at the lowest possible price. Secondly, as manufacturers, the CMA also supports the further development of a Canadian shipbuilding industry, provided it can be competitive in domestic and world markets. The association also subscribes to the "bottom line" concern of the Exporters' Coalition that a Canadian merchant deep sea fleet is unlikely to be viable and that it would not appear to be in keeping with governments philosophy as captured in current 'Freedom to Move' legislation, where transportation services and prices are to be driven by market forces.*"

On the matter of maritime policy Mr. Wiersma stated that as a first premise the CMA believed policy review should be driven by legitimate market needs, and be consistent with our domestic policy. Regarding the process of consultation the CMA supported more effective

use of existing infrastructures (e.g., industry associations-government consultation). The association could support the formation of the Shipping Advisory Council referred to by several other panelists. The consultative process which government undertook with industry on Freedom to Move was an example of good cooperation and advance preparation. However industry associations are often not given sufficient time by government to solicit inputs from their membership, thus weak policy can result which does not respond to industry's real needs.

On the question of government involvement, the CMA believes that the initial approach to solving maritime transportation problems adversely affecting trade should be through consultation between the buyer, seller and carrier. He noted that small shippers are often less capable than larger companies in "going it alone" and in such instances should use assistance of a good freight forwarder, the Trade Commissioner in the country of export, and if possible, their industry association. These channels should be used before there is formal government involvement. The Canadian manufacturing industry should learn to more aggressively seek its own remedies wherever possible.

In conclusion, Mr. Wiersma proposed that the GATT mechanism should be given greater emphasis when seeking solutions to maritime transportation and other service related trade problems. "More and more, services are part of trade negotiations and it is somewhat surprising that people very frequently talk about 'free trade', while the transportation aspect of that freer trade is not discussed. **Services** tend to get a lower order of priority, and this is an area where progress may be possible in terms of the current negotiations in Uruguay."

The moderator called upon Mr. Roy Humphrey, Head of the Maritime Transport and Tourism Division, Organisation for Economic Cooperation and Development (OECD) to provide his personal perspective on cargo reservation, the UNCTAD Liner Code, the "Brussels Package" and the OECD Shipping Policy.

Mr. Humphrey observed that the cornerstone of OECD Shipping Policy — the principle of "free circulation in free and fair competition" —

has been under pressure since the 1960's. Both the developing world and state trading countries have restricted the operation of this principle through national flag measures and bilateral agreements that primarily affected the general cargo liner trades. Measures are often justified for transitory reasons, such as balance of payments problems, but once introduced, "they have rarely been dismantled." These practices have "the effect of increasing the cost to the shipper, reducing the efficiency of the services and imposing a heavy layer of bureaucratic procedures upon commercial parties".

Particular pressure was directed at closed conferences which to a considerable extent "brought it upon themselves, because of their lack of sensitivity to the growing demands from the developing countries and their frequently autocratic approach to shippers, who were usually much less well organized." Remedial opportunities were missed, and in the early 1970's the UN Liner Code was formulated. Although "a flawed instrument", the Code today "is a fact of life and the operation of the closed conference system is now inextricably tied to its provisions, even in trades where it is not formally in force".

The Code's entry into force was long delayed because it is far more than a "code of conduct" creating a more balanced relationship between shippers and conferences. The Code is a compromise containing a cargo allocation element, the so-called 40/40/20 formula. The prescribed right to a large part of the transport "regardless of their ability to compete for it on a commercial basis" clashed with the OECD shipping philosophy.

The European Community countries contemplated the issue of reconciling the Code and non-discrimination on the basis of national flag. The "Brussels Package" emerged, which recognizes the cargo rights of developing countries while opening the rights accruing to the developed country to all the lines of any OECD country on a commercial basis subject to reciprocity within the OECD. Furthermore, the Package disregards cargo sharing within the OECD, but allows the provisions controlling the relationship between conferences and shippers. European contracting

parties to the Code also agree to the "Outsider Declaration", which states that the Code applies solely to conferences, and that shippers must have the right to choose non-conference lines. **The "Brussels Package" and the "Outsider Declaration have been endorsed by all of those OECD countries which have become parties to the Liner Code.**

Against this background, and during a disastrous rate of decline for the OECD fleets, the OECD Council adopted a **Recommendation and Resolution on Shipping Policy** in February 1987. The Recommendation is particularly notable in such unsettled times because it *"formally rejects the route of protectionism, asserts the principle of standstill of any measures restricting competitive access to international trade and cargoes, and charts a route towards the removal of existing restrictions place by Member countries"*. The Recommendation also addresses the application of competition policy to liner shipping, intervention and consultation by OECD governments and the continuation of free and fair competition in the bulk trades.

The OECD Recommendation is not *"a mere slogan"* but directs common policies *"to safeguarding and promoting open trades, both between themselves and in their relations with non-Member countries"*. Mr. Humphrey declared that the recommendation recognizes both national sovereignty and the rights of others. He stated that *"all international trades have two ends, and the interests of shippers and shipowners at both ends of the trade must be given equal weight."*

Mr. Humphrey noted the growing *"will among developed countries to oppose unilateral attempts to restrict competitive access"*. Joint discussion between countries, and the powers to bring pressure to bear on their own commercial parties, or, as a last resort to introduce counter-measures, has helped in introducing flexibility and comprehension to this dialogue. Some agreements in 1987 have provided increased access and the replacement of pre-shipment cargo control. In his concluding remarks Mr. Humphrey endorsed this flexible approach noting that *"there is a long way to go, but the willingness to*

work together in joint negotiations, with the recognition that there are possibilities of going beyond just words in defence of the liberal system of international shipping, should have a salutary effect in ensuring that shippers at both ends of the trade can have their goods moved more efficiently and at a price whose lever is determined by free competitive means."

Mr. John Turpin, Vice President of the Canadian Transport Company Limited, addressed the meeting from the interesting perspective as the representative of a company which at one and the same time is a carrier that must be efficient and offer good service to customers, and is also the shipping arm of a major exporter, MacMillan Bloedel. Mr. Turpin in his opening remarks referred to Dr. Martinez's presentation and in particular, his statement that the Latin American Shippers' Council did not expect carriers to quote rates below cost. In Mr. Turpin's experience, Canadians have in fact discussed a means through 'free and open competition' to have freight rates which are often below the carrier's costs. This has given Canada extremely effective shipping to most, though not all, of its markets around the world. There are, however, costs to 'free and open competition'. Costs to the Canadian flag operator who does not receive support and subsidies equivalent to some of Canada's trading partners; there are also costs to Canadian shipyards, which do not have a Canadian flag merchant fleet to fill their order books. *"In Canada we've made the decision that trade is paramount. We do more good for the country and create more jobs by making sure that we've got the cheapest and most effective maritime transportation services."* There is however also a potential cost to exporters, as in a free market situation rates go up as well as down, and there may come a time when Canada may not have enough shipping services. From a historical perspective however, that risk is perfectly acceptable, as over the last 20 years Canada has generally benefitted from its 'open competition' policy. Addressing the question of defensive legislation as a means to maintain Canada's "open competition policy". Mr. Turpin opined that **it was naive for Canada's exporters to think that they can have it both ways, and have**

their access to competitive shipping protected by "...defensive legislation when necessary, but not necessarily defensive legislation..."

Mr. Turpin outlined some experiences of his company with restrictive shipping policies. In Japan, Europe, the U.K. and Mediterranean virtually no restrictions had been encountered. In South America flag restrictions have been a problem. In Ecuador, Canadian Transport were squeezed out of business by a Hong Kong company which set up an Ecuadorian flag corporation. With the help of the Canadian government, Canadian Transport became the Canadian carrier to Ecuador with rights to 50% of the business. Canadian Transport has also had problems in Venezuela and very nearly dropped out of this market. A solution was found through using a chartered ship, but resolution of problems encountered on one voyage had cost his company a significant amount of revenue, and the ship very nearly re-delivered to its owner. Mr. Turpin emphasized that the Venezuelan experience illustrated that there is often very little time to make the necessary decisions, or for industry-government consultations, and that if Canada wants to maintain free and open competition and competitive freight rates, ..." *we must make our policies earlier so that we can react in a timely fashion.*"

In concluding his remarks Mr. Turpin outlined his perception of the priorities in the policy development process: "*In the first instance of course, industry, whether shipping companies or shippers, want to do whatever we can on our own. Government is our last resort. Sometimes, however, we do have to swallow our principles somewhat, and accept some restrictions on the way we do business. Our trading partners do have their own rights, and if we have to respect their laws, what we must then do is to persuade them and negotiate with them to give equal respect to our laws and policies. I think therefore, that from time-to-time we may end up having to accept something like cargo sharing of 40-40-20 on at worst 50-50. To obtain any recognition by our trading partners of our rights however, we do need bargaining power. I support defensive legislation. We need defensive legislation to put some teeth in the*

Canadian negotiating position — not bluff, which will be found out all too quickly. Canadian defensive legislation should also provide for staged countermeasures, so our response can be gradually escalated to meet the severity of the threat.

*"It is essential that the only solution to the problems we have been discussing today not only be the formation of an Advisory Committee. It sounds like a fine idea but we have been discussing a Committee for years, and we need a lot more than that, and what we need is action, and need it now. **We need effective policies now which enable us to react quickly when problems emerge.** Industry cannot wait for Government forever. We will be out of business long before the Government's long and elegant studies ever see any effective action. Sometimes government must make the decision and act and in the case of this situation the time for government to act is now."*

Addressing possible approaches to policy, Mr. Gordon Phippen, President, Institutional Consultants (International) Limited of Saint John, New Brunswick, elaborated on the views expressed by industry during the seminar series in Halifax, Nova Scotia. In his opening remarks Mr. Phippen noted the essential place exports occupy in the Canadian economy, and emphasized that to be successful in the international marketplace we must ensure equitable Canadian access to efficient, competitively priced maritime transport services. The challenge in the five cross-Canada seminars Mr. Phippen stated, had been to seek an approach which would assure such equitable access through a trade and transportation strategy which would be flexible, effective and fair in respect to both the goals of Canadian exporters and our trading partners. To meet this challenge the Halifax seminar had considered a series of possible policy approaches which, depending upon the particular situation facing Canadian trade, might be selectively adopted to maintain access to effective and competitively priced maritime transport in the face of restrictive national policies imposed by our trading partners. Mr. Phippen outlined these approaches in terms of their effectiveness as perceived by the seminar participants to Halifax.

- (a) **Continuation of the status quo** was judged **not to be an acceptable alternative** as present difficulties were being faced by Canadian exporters in obtaining access to efficient, price competitive maritime transportation amply demonstrated.
- (b) **Government support for commercial solutions** was viewed as potentially useful in resolving some issues because they ultimately were the result of Government policies at the other end of the trade in the first place and could not be resolved solely on commercial terms.
- (c) **Government-to-Government consultation** similarly was judged to be essential to resolve some issues which were the result of our trading partners', laws regulations or economic policy.
- (d) The creation of a **Maritime Transportation Advisory Council** was strongly endorsed as essential in order to effectively coordinate industry and government initiatives and policy development.
- (e) **Formal bilateral government-to-government negotiations including the negotiation of bilateral trade agreements with appropriate shipping related clauses** were favoured by the Halifax seminar as means to provide a framework guaranteeing Canadian access to competitive maritime transportation services.
- (f) **Multilateral solutions** through the GATT and possible **leverage through Canadian aid** contributions to the LDC's should be carefully considered by government policymakers.

Panel 4

Carrying Industry's Message in Ottawa

Dr. Pierre Camu, Vice President, Lavalin Ltée, who acted as moderator, in his introduction noted his concern that the recommendations of the Task Force on Deep Sea Shipping had to date been largely ignored by government. He was pleased to see that the current series of discussions by exporters had confirmed the proposal to form an Advisory Council. He congratulated the Department of External Affairs on its present

action to represent in government circles the "commercial aspects — not the vessels, but what is carried inside."

Mr. Dennis Pratt, Director General, Transport Canada reviewed the 1979 shipping policy and the recent adoption by the OECD of common principles of shipping policy for member countries. Relevant to earlier discussion he noted that member countries were committed to rejecting protectionism in the shipping policies of non member countries, "even to the extent of implementing counter measures". He believed that the views of Transport Canada had not changed since their review of the U.N. Code in 1982. Reviewing current developments he outlined follow up actions relating to the Task Force on Deep Sea Shipping, the review of the Shipping Conferences Exemption Act and the fact finding initiative of the CTC which examined conditions in the Canada-South American trades.

Anne Burnett, Fed Nav Ltd., responding to the previous speaker in her opening remarks, suggested that the imposition of duty on ships engaged in intercoastal trade appeared to be incompatible with Transport's mandate to support shipping! Ms. Barnett reviewed the work of the Task Force on Deep Sea Shipping, emphasizing the recommendation relating to the formation of an Advisory Council, and pleaded for action by government in this regard.

Mr. Hibbeln reiterated his opening remarks on the watchdog role of the Exporters' Coalition, remarking that the opinions at the Conference and in the seminar series had confirmed not only the need to carry industry's views to government, but somehow to ensure that these concerns are heeded and acted upon. **Canadian exporters and importers had confirmed that strict and anti-competitive forces are in play in many Canada trades and that governments at the other end of the trade are deciding the competitiveness of Canada products.** While the clear preference identified had been for commercial solutions rather than government involvement, Mr. Hibbeln noted that political objectives prevail in a number of countries. There was however no doubt it was in the Canadian interest to ensure commercial interests prevail when problems in shipping are encountered.

Thanking External Affairs officials for their considerable contribution to the seminar series and conference Carl Hibbeln elaborated on earlier remarks in his preliminary conclusions, namely

- that commercial channels should be used as a first defence against the institution of restrictive measures;
- that an advisory board nominated by industry be established to advise Ministers on developments in international shipping and their ramifications for Canadian trade;
- that a focal point be identified to catalogue restrictive trade practices when these occur, and that these should be first addressed by the advisory board;
- that steps should be taken to initiate stronger links with foreign shippers associations, particularly in regions where difficulties have been experienced;
- that shippers should examine ways and means to improve their participation in the work of UNCTAD.

Mr. Rand Matheson, Consultant, Montreal, opening questions from the floor, suggested that those present should recommend action to **revise Canadian legislation to integrate various aspects of the US and UK Merchant Marine Acts, the OECD Recommendations and the Code of Liberalisation on Invisible Transactions.** Mr. Pratt responded that a proposal of this nature should be delivered to the Minister of Transport.

Sue Hill, Consultant, supporting the formation of an advisory board, queried whether thought had been given to its funding. Mr. Hibbeln responding, believed funding would largely be from the private sector, in similar fashion as the Canadian Shippers Council. Dr. Camu wondered whether the Minister of Finance might address this in more general terms as part of tax reform.

Mr. Norman Hall, President, Canadian Shipping Association, questioning the existence of marine policy in Canada, commented on recent developments in Canada, including modifications

to the Canada Shipping Act, arctic resupply and difficulties in bidding for this work, and cost recovery measures, suggested "we should look at home first" rather than at overseas restrictive trade practices.

Dr. Camu observed that marine policy should be developed at collegial meetings such as these, that otherwise government would take the initiative. He noted that while our present fleet and related legislation focussed on the Great Lakes and both coasts, nevertheless our presence internationally was not as a great maritime power, except as shippers of cargo, where we ranked sixth in the world. He wryly commented that this would be a very nice platform for the September 15, 1988 election!

Mr. Matt Stinnes, President, Great Lakes Trans-Caribbean Line, suggested that there is nothing to hinder Canada's becoming a greater force in world-wide maritime affairs, and responding to Dr. Camu's suggestion, proposed that a resolution from these discussions should ask Ministers to defend the right of Canadians to access trades of their choice, either as shippers or as shipping companies, and if necessary to construct legislation to support this objective. Mr. Stinnes made the following proposal.

"My objective today is to solicit the support of this conference to request of the Ministers of Transport, of International Trade and the Secretary of State for External Affairs their support for Canadian shippers and ship owners who are concerned with the increasing degrees of restrictive shipping legislation and its enforcement by the developing nations, particularly in South America. The enforcement of such restrictive legislation by developing countries, if not counteracted by effective Canadian Defence policies and legislation, will continue to reduce the availability of adequate and economic sea transport between Canada and these nations. We request that the Ministers actively support free access of all shipping companies to Canada's seaborne trade. Where trades are restricted through foreign legislation, we request that the Canadian Government initiate negotiation if necessary supported by the introduction of defensive legislation to ensure free access for Canadian shipping lines to compete for at least half of these trades."

Miss Sue Hill proposed deleting the reference to South America as the problem was universal. Agreed.

Mr. Wallace (Vice President, Consolidated Bathurst) sought clarification as to whether a percentage of cargo was identified, to which Mr. Stinnes responded that his wording was loose to allow maximum competition, as this had been the tenor of the meetings. Mr. Wallace stated his concern was the specific mention of Canadian ships or Canadian ownership, because from his company's standpoint he needed to move product, and did not wish any restriction whatever. He wondered if an opportunity should be given to allow more thorough review of this proposal however, supporting the motion, Mr. John Turpin, Canadian Transport, advocated action on the motion, rather than to delay matters to "a new meeting".

Mr. Toporowski endorsed Mr. Wallace's concern relating to identifying Canadian shipping lines and commented that the events of the afternoon had shown the need for shippers, carriers and government officials to get together more often to have this kind of useful interchange.

Dr. Camu, noting some hesitation, suggested the motion was about ninety per cent perfect, but like the Constitution, could be changed subsequently. "Better to record the reaction of the group here, for or against!"

Mr. Lochhead supported the addition of this resolution to the five recommendations presented earlier to the meeting by seminar spokesmen, and proposed an amendment to accommodate Mr. Wallace's concerns, namely "to ensure free access for Canadian shipping lines" should be amended to "for all shipping lines, including Canadian shipping lines". Carried.

Mr. McAngus' CTC, made reference to his study on South America, and offered to discuss this with participants. Closing the panel, Dr. Camu thanked all participants for their contribution to a very interesting session.

Summation

Mr. Wallace in his role as Conference Chairman thanked Dr. Pierre Camu and his panelists for a lively and memorable final session. He likened the task of summarizing the day's proceedings as one where St. Peter himself would have had difficulty, as the matter was complex, and the individual inputs by knowledgeable people in this all-day session had been supplemented in individual contacts and discussions.

The key elements of the day's proceedings had been

- the Recommendations of the five seminars
- the Resolution from the floor
- the confirmation that transportation problems did exist for many companies trading with developing countries
- the need for users to obtain access to "efficient service at the lowest possible cost"
- the rejection of protectionism, and the need to eliminate this by adopting appropriate and effective approaches
- that this solution need not involve a Canadian deepsea fleet

Mr. Hall took exception to this statement, and Mr. Stinnes elaborated from the floor in the following words:

"While it may not be in the interest of Canadians to support a Canadian flag fleet, this does not mean that it is not in the interest of Canada to have access to a Canadian flag fleet".

- that stronger bilateral commercial linkages should be created between exporters and importers,
- that an Advisory Board be created to advise government on such matters as they affect international trade. *(In this regard, following the day's discussions with carrier interests Mr. Wallace conceded that he had modified his view expressed at the Montreal seminar, and now supported the inclusion of both shipper and carrier interests in the proposed advisory board.)*

Mr. Wallace thanked all participants in the seminar series and in the day's proceedings, particularly those who had travelled from overseas who had added so much to our understanding of the complex background to international trade and transportation today. In closing, Mr. Wallace thanked the organizers, and expressed the wish that this be only the first of a series of meetings of this nature.

Appendix A

Exchange of correspondence between Coalition and Minister for International Trade

Ottawa, Ontario
K1A 0G2

December 18, 1986

The Honourable Pat Carney, PC MP
Minister of International Trade
House of Commons
Ottawa, Ontario
K1A 0G6

Dear Minister:

The Exporters' Coalition on Canadian Maritime Policy, comprising 17 organizations from coast to coast representing over 80 percent of Canada's export trade, was organized in early 1984 out of a concern that Canada's international trade interest was not being adequately addressed in the consideration of maritime shipping policies.

The Coalition prepared and submitted the exporter's position to the Task Force on Deep Sea Shipping chaired by Professor Gunnar K. Sletmo. The Task Force's mandate was to evaluate changing conditions in the international shipping market and the possible need for measures to encourage the expansion of Canada's deep-sea fleet.

The Task Force concluded that Canada's economic health depends upon the vitality of its export sectors and, as such, shipping policies cannot be separated and dealt with in isolation from our overall trade policies. The Coalition firmly supports this conclusion.

The Task Force, furthermore, correctly recognized that international shipping is subject to continuous change because of diverse and often conflicting forces. There is increasing evidence of disruptions in a number of Canadian trades, particularly with certain developing countries.

In order to respond to this situation on a current basis, the Coalition sees the urgent need to again develop a trade position on a number of issues relating to shipping policy.

The Coalition proposes to organize a series of seminars amongst importers and exporters across Canada to develop and recommend policies that properly consider the importance of our international trade in response to those changes. Meetings would be held in each region in a workshop format to identify all transportation related trade problems and regional characteristics in order to formulate recommendations. A final conference would be held in Ottawa to develop a Canadian trade position through coordination of regional input thereby ensuring that the perspective of each region has been considered. Your involvement in the final conference would be desirable and provide a valued contribution to the deliberations.

The officials in your Transportation Division have always been very helpful to exporters and importers in matters involving international shipping. It is for this reason that the Coalition seeks the active assistance and endorsement from you and your department in our planned program to formulate recommendations that will effectively represent the vital interest of Canada's International Trade during the review of Canadian policy on international shipping.

We look forward to obtaining your support for this endeavour, possibly through co-sponsorship of the seminar series, and the active participation of your department in this process.

Sincerely,

C.H.J. Hibbeln
Chairman
Exporters' Coalition on
Canadian Maritime Policy

Ottawa, Ontario
K1A 0G2

Mr. C.H.J. Hibbeln
Chairman
Exporters' Coalition on
Canadian Maritime Policy
99 Bank Street, Suite 250
Ottawa, Ontario
K1P 5B9

Dear Mr. Hibbeln:

Thank you for your letter of December 18, 1986, which brings to my notice the impressive credentials of the Exporters' Coalition on Canadian Maritime Policy, and the concerns of the Coalition with respect to a number of shipping related problems recently encountered in a number of Canadian trades, particularly with certain developing countries.

As Minister for International Trade, I am very aware of the critical importance of efficient transportation and distribution to the competitive position of Canadian exporters abroad. I understand that your particular concern relates to restrictive cargo sharing legislation recently enacted by a number of South American countries, and that in seeking my Department's co-sponsorship of a series of seminars to discuss possible solutions, you are anxious to ensure that both exporters and importers are given the opportunity to thoroughly discuss this complex matter.

I am pleased that the Coalition has taken this timely initiative and, as announced at the recent annual meeting of the Canadian Export Association in Vancouver, can confirm that my Department will be pleased to co-sponsor the workshop seminar series with the objective of developing recommendations on the most appropriate measures which the Department and the Canadian Government might consider and adopt in the light of these changing circumstances.

I appreciate the Exporters' Coalition bringing this matter to my attention. With respect to your kind invitation to participate in the final conference in Ottawa, I would ask that you contact my scheduling assistant, Ms. Marie Ménard, at (613) 992-7332 with further details on the date and time of this event.

I have asked Mr. I.G. Lochhead, Director of the Transportation Division, Department of External Affairs, to participate as required and to coordinate the Department's input to the seminar series. I would suggest you contact him at the earliest opportunity to initiate the necessary planning and organization, and to finalize the detailed terms of the Department's co-sponsorship of this worthwhile proposal.

Sincerely,

Pat Carney

Appendix B

"Trade vs Transportation Barriers"

This excerpt from the Discussion Paper issued to pre-registrants outlines the nature of problems encountered by Canadians in international trade. These background notes form the basis for discussions in the workshops, where chairmen encouraged participants to identify and discuss the key issues which emerge from review of these discriminatory measures.

Trade and Transportation

Most Canadians understand the national importance of trade. Statistics show that international trade accounts for over 30 percent of our national income. More than 3 million Canadian jobs depend upon exports. All sectors of our economy and all regions are affected by this nation's trade performance.

International trade is a highly competitive game. In 1985, Canada's exports totalled 27.8 percent of our Gross Domestic Product; comparable figures for some other industrialized countries were France at 22.2 percent, Italy at 23.7 percent, the United Kingdom at 26.5 percent and the Federal Republic of Germany at 32.2 percent. Economies of scale and saturation of domestic markets force countries to look abroad for sales. In this environment, Canada needs to exploit its strengths and to both guard and enhance its international competitiveness.

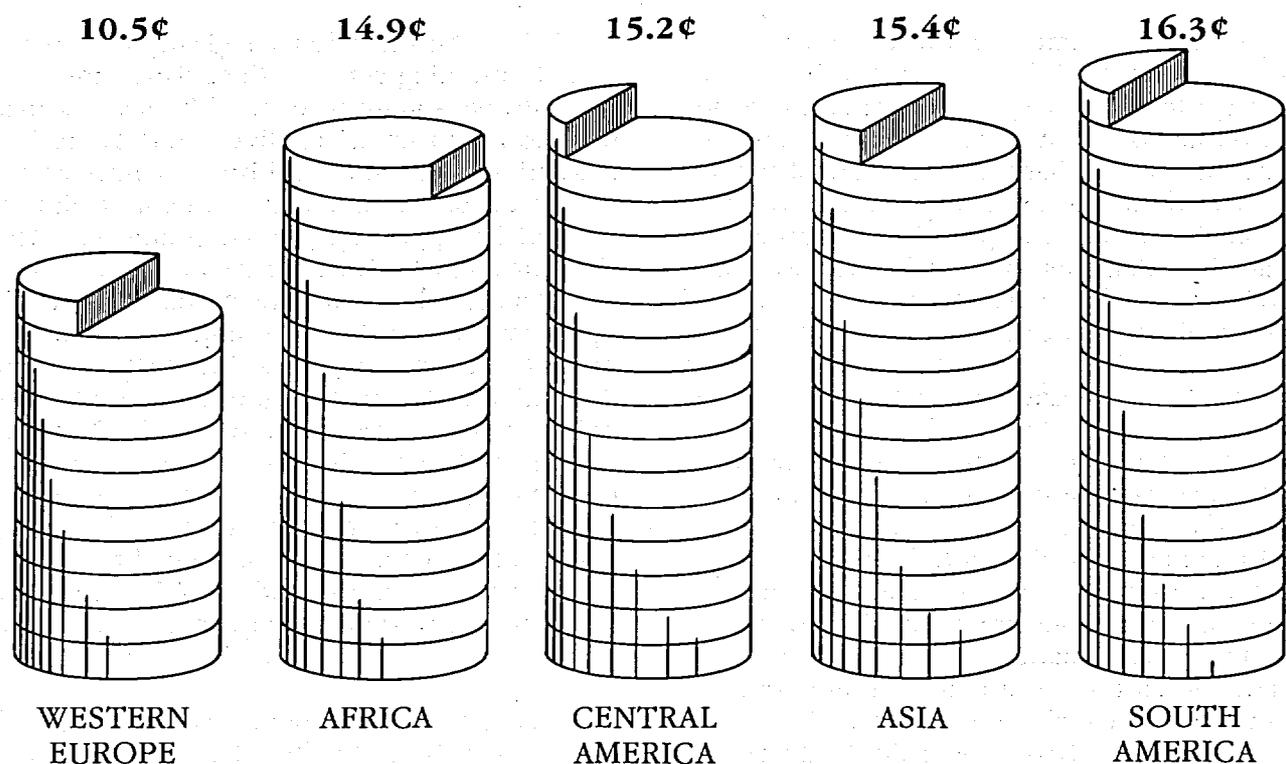
Competitiveness requires close attention to markets and to costs. After the cost of production, transportation is usually the second most important cost factor in the landed price in foreign markets. Transportation costs usually are a more important element than customs duties or sales taxes. To illustrate, a 1985 sample of 30 exporters (including forestry, automotive parts, processed foods, metals) revealed that two-thirds reported that transportation represented 10 percent or more of the landed price of their exports to all foreign destinations. In fact, close to half of these exporters stated that transportation made up over 20 percent of the foreign landed price of their products.

While the United States clearly dominates in Canada's trading activity, Canadian companies have always sought to expand by serving markets beyond North America. Diversification in marketing is prudent, and broader horizons permit Canadian companies to expand and to take fullest opportunity of economies of scale and our comparative advantage.

Hence, it is not surprising that the less developed countries (LDC's) are important markets for many Canadian companies. The LDC's purchased \$8.0 billion of Canadian goods in 1985 and \$8.5 billion in 1986. Last year, those sales constituted one-third of Canada's offshore (i.e., non-USA) exports.

The following chart was drawn from the results of a recent survey produced for the Department of External Affairs. The analysis for the survey included the important observations that:

"Overall, transportation costs in exporting to the LDC's tend to be higher in comparison to the cost of shipments to Western Europe. ...LDC transportation costs as a percentage of total delivered cost can be one and a half times the comparative cost of shipments to Western Europe. In addition, freight costs often can be a significant hindrance to smaller Canadian exporters who lack the volumes needed to negotiate satisfactory rates comparable to those enjoyed by their larger counterparts. Exporters of lower value, high volume commodities are also sensitive to transportation costs in shipping to LDC's".



The Changing Environment for Shipping

Politics, economics and technology have dramatically changed ocean shipping since World War II.

Technology has left its mark in increased ship size, greater automation, computerization, new handling (containers, ro-ro, lighter carriers (Lash), heavy-lift capacity etc.) aboard ships and in ports. Vessels become obsolete faster....already we have witnessed several generations of container ships. Ship management has modernized, and shipboard skills have changed significantly.

Economics have had a tremendous impact as recession forced many shipowners into bankruptcy or merger. Consortium-forming and vertical integration (e.g. subsidiary offices displacing independent shipping agents) are found in all trades. Huge capital requirements for new-buildings have limited the number of companies (and banks) willing to consider shipping investments. Fuel costs have resulted in redesigned propulsion, hulls, engines and oper-

ating speeds. Labour costs have promoted the flight from traditional maritime flags to the flags of convenience, and to some extent, have led to the development of national fleets in the developing world.

Politics have recast the face of shipping, and the political impetus can have either a multilateral/bloc or a national character.

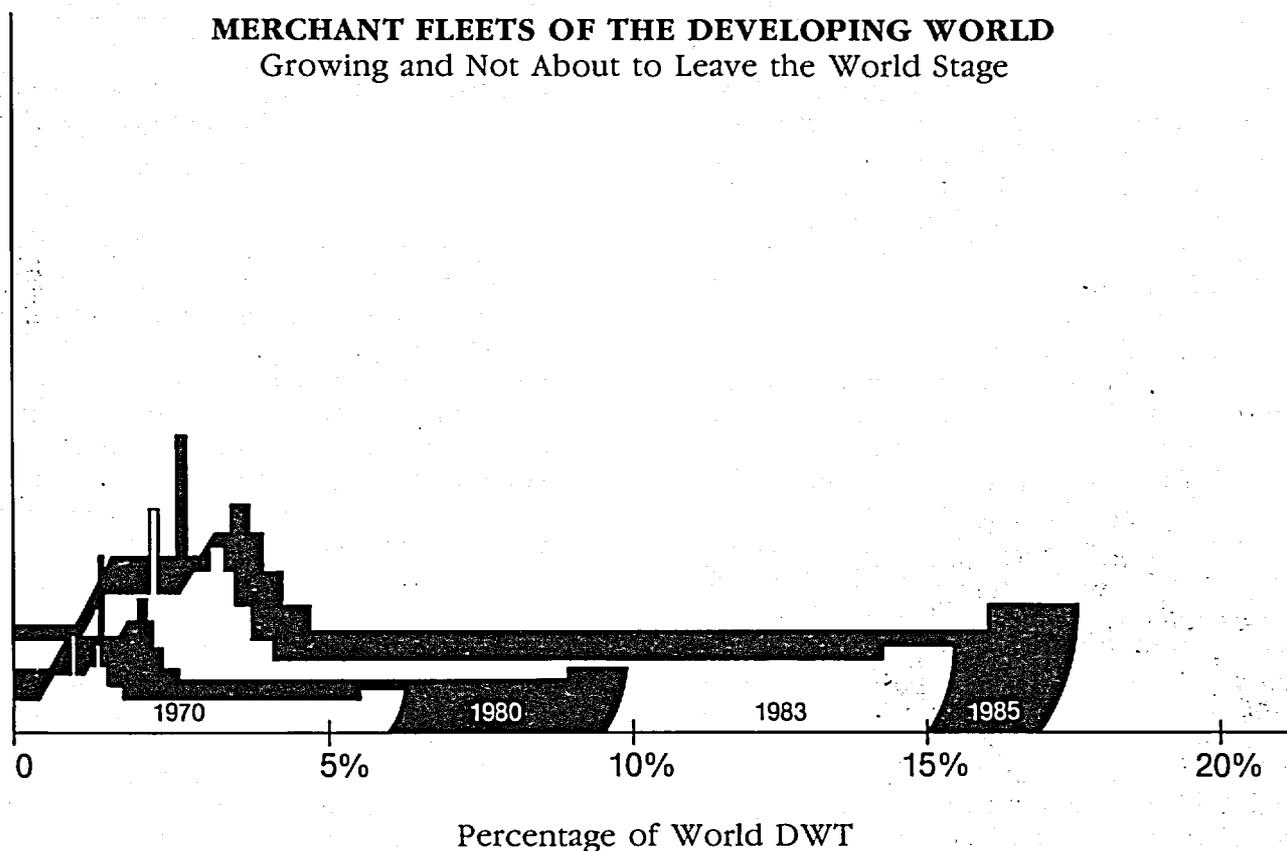
Looking first at national politics, many countries have responded to the allure of a national fleet for reasons of employment, balance of payments of economic development. Others have been mindful of the economic and strategic vulnerability proven during wartime conditions. Others have had distasteful experience in negotiating with foreign dominated conferences. The panacea to many is the national fleet. World shipping has been further complicated by the emergence of over 75 new states and new global and regional blocs since World War II, many with aspirations in shipping.

On a multinational level, politics have produced many bilateral agreements and regional cooperative endeavours in the interest of promoting local political and economic aims. On a broader front, particularly within the UNCTAD (United Nations Conference on Trade and Development) the establishment and expansion of national merchant fleets of the developing world have been set as a priority. The United Nation's Convention for a Code of conduct for Liner Conferences was the product of an international review of the conferences, including difficulties of negotiating with conferences and ensuring participation of national lines. The Code became the first internationally recognized instrument to endorse a role for national lines, which may entail cargo sharing arrangements.

Within the UNCTAD there have been several other initiatives designed to promote the growth of merchant marines in the developing world. Recent efforts sponsored by the developing world focussed on the control of shipping by multi-national corporations, the movement of hydro-carbons, and the phasing out of flags-of-convenience. Such initiatives to transfer control and ownership of merchant fleets to the developing world are in line with the premise that countries that generate trade have a right to transport it.

In this volatile environment, ownership of the world fleet has been redistributed with the developing countries making substantial gains. From slightly over 6 percent in 1985, the developing world's fleet rose to 17.1 percent in 1985. Those countries are well on their way towards their target of 20 percent by 1990.

MERCHANT FLEETS OF THE DEVELOPING WORLD Growing and Not About to Leave the World Stage

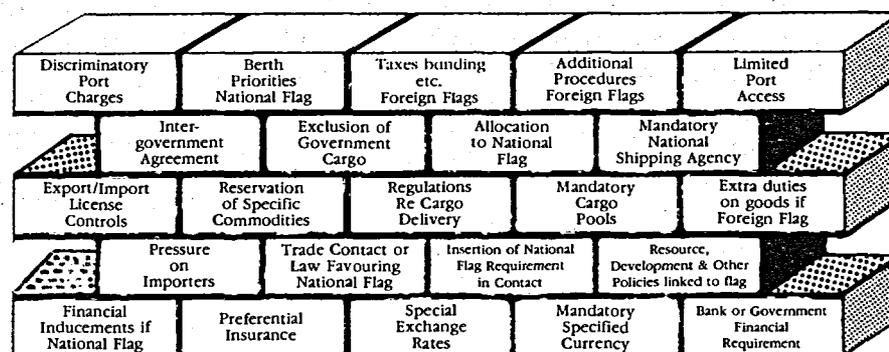


Restrictions and Discrimination

Many developing countries have adopted policies to expand their national shipping fleet. Unfortunately in many instances the implementation of these policies, and their application to international shipping services, has often been without prior consultation with industry or other governments. Such unilaterally imposed measures are not appreciated by business interests who regard

them as restrictive, discriminatory and anti-competitive. Business suffers inconvenience, higher costs and ultimately reduced profits and lost markets due to measures dictated by foreign governments. Such governments have shown considerable ingenuity and dedication in designing and imposing a diverse range of restrictive barriers to trade, some of which are obvious while others are hidden. These measures can conveniently be grouped under five general headings as follows:

- ACCESS TO PORTS
- CARGO SHARES
- ACCESS TO CARGO
- INDIRECT METHODS
- TRADE FINANCING



The last government report on shipping policy provided a synopsis of the economic costs of flag discrimination and stated in part that

“Additional costs attributable to flag discrimination arise from such diseconomies as lower standards of service, over-tonnage, and reduced competition. Balanced trade flows (where ships move between two ports with full loads in both directions) seldom occur at the best of times in world shipping. In the liner trades, ships often load and unload at several ports en route to maximize vessel use. Under conditions of flag discrimination, more runs in ballast are encountered because of limitations on third-country movements. Vessels are often under-utilized for want of sufficient cargo; the costs of voyages with little or no remunerative cargo must be recovered from rates imposed on the cargo that is carried. When competing carriers are excluded, monopoly situations develop, which can lead to less efficient service and higher rates. Where bilateral trade is apportioned on a 50/50 basis, there is little incen-

tive for carriers to cut costs or to extend their market shares through better service”.

and

“Flag discrimination has no doubt added to the costs of international seaborne trade. Estimates of the cumulative impact in terms of extra freight paid on cargo affected have ranged as high as \$500 million. These estimates must be treated with some caution, however, as it is difficult to identify the volumes and types of cargo affected by flag discrimination and even more difficult to quantify the premium attached to the freight bill because of it”.

Effects of Discrimination of Canadian Trade

Although it is extremely difficult to quantify the toll in added costs, and reduced efficiency and competitiveness which LDC shipping restrictions and discrimination have on Canadian exporters, the impacts are real and tangible. A few brief examples drawn from the 1985 survey for the Department of External Affairs will serve to graphically illustrate the barriers to trade that discriminatory shipping policies have imposed:

An eastern Canada company shipping to South America had arrangements under which shipments were first to be offered to the national line, and if no ship was available they were then free to go to an independent carrier. In this case no national flag ship was available, and they therefore went to an independent line for shipping. While in the process of loading the independent line vessel, a call was received from the south American customer ordering one-half the shipment to be reserved to await the arrival of a national line vessel. (A further condition of the "normal arrangements" also called for the reservation of a minimum one-half of cargo to the South American national line on demand.) As more than half the cargo had already been loaded on the independent line vessel, part of it had to be disembarked, and one-half of the shipment held and warehoused at the dock for a week before the South American national line vessel arrived.

In another case a Canadian engineering firm manages projects in the LDC's including the shipping of all project equipment and materials. In a project they cited, in a South Asian country, the contract terms specified the use of the national flag carrier — unless none were available. However, in order to use another carrier, a waiver is required, which in practical terms is virtually impossible to obtain. To make connection with a national flag vessel for a particular shipment, the Canadian project managers were ordered to ship the cargo to the US west coast for pickup. They did so after considerable delay, they found the shipment had never been picked up, and subsequently they were ordered to ship the cargo overland back across the US for eventual pickup at New York — all the project manager's expense.

An eastern Canadian company producing woven yarn products for industrial and commercial applications reported such extensive difficulties in doing business with LDC countries in South America and the Caribbean that they decided to forego the market entirely. Although the problems were not exclusively with transportation, this was a major factor and they cited lack of service to Canadian ports, national line requirements, excessive documentation, lack of alternative shipping competition, and high freight rates as the difficulties in exporting to LDC markets.

A western Canadian company producing linerboard and sack kraft exports to a wide range of LDC countries. The company reported that as a direct result of lack of adequate and economical service due to national flag restrictions and other anti-competitive policies of a LDC trading partner, they have lost sales to that market. Operation on tight margins made it economically impossible to ship via alternative US ports. Furthermore, faced with a monopoly by the national flag carrier in the bilateral trade from Canada, poor service and high rates, the company has lost sales to more advantageously situated suppliers with more competitive shipping alternatives.

Cargo reservation/national line requirements have also forced some companies to become involved directly in the maritime transportation industry solely to overcome difficulties in getting their product to market, efficiently and at a competitive price. In order to secure adequate ocean transport services one company interviewed went so far as to purchase a shipping line which in its fleet has a single national flag vessel of one of its principal LDC customers. Through the purchase of this shipping line the Canadian exporter was able to gain access for this fleet to the bilateral shipping trade with its LDC partner, and thus maintain competitive rates in this particular shipping market. This extreme response was determined to be necessary only after all previous attempts to obtain waivers to use competitively priced alternatives to the LDC national lines had proved futile.

In the face of these problems arising from restrictive measures and the absence of an effective and determined Canadian government reaction, Canadian companies have essentially two choices. They may either entirely abandon a particular market or conversely they may resign themselves to accommodate foreign laws and regulations.

These examples illustrate the types of problems encountered and the lengths some exporters are forced to go to maintain access to efficient, competitively priced shipping. Some of these remedies are available only to a few very large companies with a high volume of traffic and financial reserves to match. They are not viable alternative for the vast majority of companies, and serve to highlight the impotence of small and medium sized shippers when faced with LDC governments committed to discriminatory and restrictive shipping policies.

Appendix C

Seminar Workshop Questionnaire

- Intros, Format of Workshop
- Our purpose today is to identify and discuss the various transport related problems encountered by exporters and importers, to **identify** their **views** on **how** industry should **respond** to these changed circumstances, and if necessary to **identify** areas where **change in Canadian government policy** may be necessary.
- It will be useful to find out at these seminars whether exporters and importers have noticed any increase in the frequency of difficulties encountered, and if they have; can identify the trade in which problems are occurring;
- As we proceed, it will be important to continually ask ourselves three questions:
 - can we, as industry, resolve the problems?
 - can we improve on the present approach used to deal with these situations?
 - can the problem be effectively handled within the admit of existing CANADIAN policy?
- Our introductory speakers have refreshed our memory of the reading material provided in the Background Paper. They have described the genesis of many of the difficulties which many of us face today — the changing face of international shipping, and the introduction of measures by many developing countries in order to build up their national merchant fleets.

We will be looking at questions such as whether exporters and importers accept the sovereign right of states to adopt policies appropriate to their own domestic economic circumstances?

A complementary question is whether we as Canadians should be considering ways and means to formalize a closer relationship with our trading partners at the other end of the trade, with a view to jointly examining the effects of discriminatory practise, and developing joint action to facilitate our bilateral trade?

We shall in fact examine several aspects of this question in more detail later in the program, so we shall return to the question of **how** this might best be done.

While Canadians may wonder why a developing country would choose shipping as a development priority, nevertheless it appears we acknowledge their right to develop their national fleets.

If however appears that it is **the means to this end** that is causing us, together with other western nations, certain difficulties. We, as exporters and importers, never forget that shipping is a service industry. Shipping services trade by carrying its cargo. In logic therefore it is not unnatural that those dedicated to developing shipping expertise have quickly discovered that captive cargo, or guaranteed access to cargo, goes a long way towards resolving a national carrier's most basic need.

Cargo sharing as a principle is now legitimised in international law in provisions of the UNCTAD Code of Conduct for Liner Conferences, which also advocates the designation of national lines. National shipping legislation and regulations in many developing countries further authenticate and reflect various aspects of cargo sharing, including the issuance of special waivers to allow foreign carriers access to "national" cargoes, and the establishment of central freight bureaux. In addition to these legal devices of support, **discriminatory measures** have been introduced in certain trades with the same objective in mind. Carriers have encountered, for example, port access problems, tariff differentials and berthing priorities favouring national flag fleets. A distinction might be made, in developing Canada's responses, to those actions which are not condoned in international standards.

Examples of these restrictions are given in the outline of the seminar agenda. Issue 1, (a), (b), (c) and (d)

ARE EXPORTERS SATISFIED WITH EXISTING OCEAN TRANSPORTATION SERVICES, OR, IS THERE A BETTER WAY?

Issue 1:

Restrictions: Around the world, Canadians have been affected by a variety of shipping restrictions. Some examples are:

- (a) a Canadian exporter is not permitted to use ships operated by its subsidiary, but is forced by foreign law to use national flag vessels, notwithstanding greater cost and inconvenience;
- (b) a condition of obtaining foreign exchange for Canadian goods or a preferential rate of duty is to use national flag vessels of the trading partner even though service is infrequent;
- (c) after competitive bids are received from several carriers, a Canadian exporter is forced to use the higher cost national line that had sought and received its government's protection in implementing cargo reservation;
- (d) a Canadian exporter's production schedule is threatened because warehousing space is clogged due to the failure of a national line to honour arrival dates; waivers to use foreign Ships are virtually impossible to obtain expeditiously.

1. • Do you feel that these situations are manageable, or should Canada be more active in addressing such restrictions? (It is interesting to note that the President of Saguenay Shipping in 1982 forecast the increase of regulation on major general cargo routes by bilateral trading agreements. He observed at that time that "the fact the Government of Canada failed to recognize this inevitability was of no consequence, given the reality of the results in the rest of the world that protective attitudes and national aspirations were generating.")

2. • Could our export competitiveness be enhanced by more active intervention?

3. • Have you been affected by any similar shipping or cargo restrictions, or have sales been lost or profits curtailed?

4. • Do you believe it likely that developing countries over time may change their policy priorities dedicated to the development of national fleets? (Bear in mind the latest OECD efforts within UNCTAD which are aimed at promoting acceptance within the developing world of efficiency orientated economic policies)

IF CHANGE IS NEEDED, WHAT SHOULD BE THE BASIS?

Issue 1:

World Practices: When other nations face shipping restrictions, several different responses have emerged. Some examples are:

- (a) the Federal Maritime Commission in the United States has the authority to investigate actions harmful to the commerce of the United States, and to impose punitive or corrective measures.
- (b) the United Kingdom's Merchant Shipping Act 1974 provides broad powers for the government to intervene if British shipping or trade interests suffer from discrimination.
- (c) Norway concluded an agreement with Korea whereby the parties shall grant the same treatment to the other's vessels as it affords to its own vessels engaged in international trade.
- (d) Many nations have concluded maritime agreements that include cargo sharing, for example the Federal Republic of Germany's agreement with Cote d'Ivoire and Italy's agreement with Morocco call for 40-40-20 percent cargo shares (i.e. exporting country-importing country-third party shares).

5. • Should certain practises adopted by other western countries be contemplated for adoption by Canada?

Canada's policy does **not** appear to offer solutions in international situations where there is a basic conflict between two national policies, one dedicated to competition, the other to cargo reservation.

6. • In such circumstances do you believe changes may be necessary to Canadian trade policy to ensure Canada trade interests are not jeopardized by these developments?

7. • Is free competition possible in some trades?

8. • Should Canada accept a situation where foreign law creates a shipping monopoly for the national merchant fleet

- of another nation?
- of Canada?

9. • Could Canadian exporters and importers accept, in the light of today's circumstances, the need to consider the following range of approaches in order to maintain competition or at least partial competition in shipping?

Which do you find acceptable?

10. (i) unrestricted competition?
11. (ii) reservation of certain cargoes to national fleets?
12. (iii) conference monopoly?
13. (iv) reservation of fixed percentage of cargo to national fleets (Liner Code formula, i.e. 40-40-20)?
14. (v) equitable participation in trade (ie 50%)?
15. (vi) 100% cargo reservation?
16. • What alternatives do Canadian exporters/government have to satisfactorily handle this or similar situations?
17. • Would the adoption of the cargo sharing provisions of the UN Liner Code be justified?
18. — In Toto?
19. — With the Brussels Code provisions protecting intra — OECD trade?
 - How does Canada presently respond when restrictive shipping practises are encountered?

(This question may be addressed to the External Affairs representative present)

20. • Should there be a formal channel for reporting instances of restrictive shipping practises affecting trade interests?

21. • Where should it be?

External Affairs
Transport Canada
Canadian Transport
Commission

What Approach or Process should be Recommended? When Competition in Shipping is Restricted?

Issue 1: Upon encountering restrictive shipping practices in another country, it would appear that several alternative approaches are available to Canada. these would include:

- (a) continuation of current Canadian practices
- (b) commercial solutions that may or may not require governmental support
- (c) government-to-government consultations to find solutions
- (d) formal negotiations designed to produce a treaty or agreement
- (e) defensive shipping policies
- (f) some combination of the above

22. Which of the aforementioned is most effective from the viewpoint of Canada's trade interest?

Issue 2:

Elaboration: Once a general approach is selected, many detailed elements must be considered, such as what guidelines should be set, what consultative mechanism should be established to obtain inputs from Canadian parties, who should be involved, etc.

23. How should the system be instituted to best reflect the interests of Canada's trade community?

24. • Do you believe a Canadian Government response should be developed
- as and when required on a case by case basis?
 - only after a formal process of consultation
 - with trade interests?
 - with shipping interest?

and

An assessment of relevance of issue

- on trade issues
- on Canada's bilateral relationship with country in question
- on Canada's multilateral commitments
- on shipping interests.

25. • Do you accept that the relative seriousness of the issue will dictate the manner and timing of the Canadian intervention?

- eg. — as an agenda item for regular trade discussions
- embassy intervention
 - diplomatic note
 - Ministerial intervention

When discussing which approach or process should be recommended when competition in shipping is restricted, it may be useful to separate our thinking and responses between commercial and governmental approaches to solutions

For example,

26. • Which do you consider the most appropriate forum, in order of merit, for bilateral discussion and resolution of shipping related problems of Canadian trade?

- (1) bilateral meetings of commercial shipping interests?
- (2) bilateral meetings of shippers?
- (3) government — government shipping discussions?
- (4) government — government trade discussions?

Current shipping policy acknowledges the possibility of shipping agreements with developing countries to ensure that Canadian are able to participate in these trades.

OECD countries indeed have many such agreements in place.

27. • Do exporters favour the concept of bilateral trade agreements with appropriate shipping related clauses?

Some governments favour an umbrella agreement drawn up to stipulate the important terms which should govern trade and shipping between countries.

28. • Would such agreement be acceptable to exporters/importers — if other country proposes? — if such arrangement is deemed to resolve impasse?

29. What in the view of exporters/importers should be addressed in the model contents of such agreement?

- MFN treatment
- non-discriminatory treatment
- reciprocity
- accreditation or designation of national carriers
- shipper — shipper consultation
- shipper — carrier relations
- resolution of freight rate issues
- access to ports
- cargo access/reservation

How should trade interests make themselves understood

We talked briefly at the beginning of our discussion about the possibility of enhancing dialogue between Canadian and overseas exporters and importers as a means of enlisting one another's support in lobbying government, to ensure priority is given to the facilitation of trade.

- 30 • How might this best be done?

31. • Could more research in this area be encouraged in Canada? Should universities consider some of the issues, or should trade and industry associations sponsor surveys?

32. • Should early action be encouraged regarding the recommendation of the "Task Force on Deep-Sea Shipping." to create a government/industry Advisory Board to monitor on an ongoing basis the international shipping environment?

33. • Should there be more discussion of trade and maritime issues, for example at meetings convened by Canadian associations, or at periodic workshops?

**Issue 2:
Publicizing**

Positions: Trade concerns must be made known forcefully so that everything possible is done to preserve and improve Canada's international competitiveness.

34. • What should the trade community do with carriers?

35. • With government?

36. • With the media? In what manner should our views be publicized?

- invite any other perspectives on this issue, prior to summing up.

Sum up proceedings
Invitation to National Conference
Adjourn

Appendix D

CANADA'S TRADE COMMUNITY SPEAKS UP

Conference

08:00 REGISTRATION

09:00 WELCOME

- C.H.J. Hibbeln, Vice-Président, Transportation Services, Noranda Sales Corporation Ltd.

09:05 OPENING REMARKS — CONFERENCE CHAIRMAN

- D.J. Wallace, Director of Transportation, Consolidated — Bathurst Inc.

09:10 CROSS-CANADA VIEWS

Summary of a series of Seminars held in April and May

- I.G. Lochhead, Director, Transportation Division, Department of External Affairs
- G.E. Bennett, Vice-President, Transportation, Council of Forest Industries of British Columbia
- J.F. Howard, President, Alberta International Services Ltd.
- D.R. Gillelan, Traffic Manager, ERCO, Division of Tenneco Canada Inc.
- J. Anderson, Traffic Manager, James Maclaren Inc.
- C.S. Dickson, General Manager, Atlantic Provinces Transportation Commission

09:40 ADDRESS

Presentation on the international setting

- A. Bouayad, Director, Shipping Division, United Nations Conference on Trade and Development.

10:00 PANEL 1 — EXPORTERS AND IMPORTERS: THE ONES WHO PAY THE PIPER, THE ONES WHO CALL THE TUNE

Presentations and question period

- R.A. Kilpatrick, Assistant Deputy Minister, International Trade Development Branch, Department of External Affairs (MODERATOR)
- T.M. Apsey, President, Council of Forest Industries of British Columbia
- A. Bouayad, Director, Shipping Division, United Nations Conference on Trade and Development
- J.A. Martinez Rojas, President, Latin American Federation of Shippers' Councils
- A.W. Morrison, Manager, Marketing North America, Cape Breton Development Corporation

11:00 BREAK

11:15 PANEL 2 — CANADIAN SHIPPERS AND CARRIERS — IS THERE A COMMONALITY OF INTEREST?

Presentation and question period

- W.C. Winegard, M.P., Chairman, House of Commons Standing Committee on External Affairs and International Trade (MODERATOR)
- C.P. Robitaille, Executive Vice-Président, Gillespie-Munro Inc.
- M. Stinnes, Chief Executive Officer, Stinnes Investments Inc.
- R.J. Toporowski, Manager, Transportation Planning, MacMillan-Bloedel Ltd.

12:15 LUNCHEON

Delegates Lounge, First Floor, Conference Centre

- ADDRESS — W.G. Deeks, President, Noranda Sales Corporation Ltd.

14:00 PANEL 3 — APPROACHES TO POLICY —
FACTORS AND WHAT INDUSTRY
ADVOCATES

Presentations and question period

- C.A. Barrett, Vice-Président, Research,
The Conference Board of Canada
(MODERATOR)
- R. Humphrey, Head, Maritime Trans-
port and Tourism Division, Organiza-
tion for Economic Co-operation and
Development
- G.L. Phippen, President, Institutional
Consultants (International) Ltd.
- J. Turpin, Vice-President, Canadian
Transport Company Ltd.
- D.S. Wiersma, Manager, Transporta-
tion, The Canadian Manufacturers'
Association

15:30 BREAK

15:45 PANEL 4 — CARRYING INDUSTRY'S
MESSAGE IN OTTAWA

Presentation and question period

- P. Camu, Vice-President, Lavalin Inc.
(MODERATOR)
- A.G. Burnett, Manager, Offshore
Project, Fednav Ltd.
- C.H. Hibbeln, Vice-President, Trans-
portation Services, Noranda Sales
Corporation Ltd.
- D.M. Pratt, Director-General, Marine
Policy and Programs, Transport
Canada

Appendix E

Reference Bibliography

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Appendix F

CANADA'S TRADE COMMUNITY SPEAKS UP LE MILIEU CANADIEN DU COMMERCE EXTÉRIEUR SE PRONONCE

Co-sponsored by:

The Exporters's Coalition on Canadian Maritime Policy
The International Trade Branch Department of External Affairs

Conférence coparrainée par:

La Coalition des exporteurs sur politique de transport maritime du Canada
Le Secteur de l'Expansion du commerce extérieur, ministère des Affaires extérieures

JUNE 4, 1987 — LE 4 JUIN 1987

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