CANADA

STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 70/7

CANADA'S TRADE IN A CHANGING WORLD

A Speech by the Honourable Jean-Luc Pepin, Minister of Industry, Trade and Commerce, to the Brantford Regional Board of Trade, Brantford, Ontario, April 16, 1970.

Everything now changes at an ever-rapidly-increasing pace. Not too long ago, it used to be that stability was the rule and change the exception. Today, it is the opposite. That is true of trade in particular.

Looking back briefly over the last decade, it is reassuring, nonetheless, to see how much actually was accomplished, tradewise, during what have been called the "ten years of turmoil":

1) The value of world trade more than doubled, and is now approaching the $250 billion (U.S.) mark.

2) New trading blocks have been formed. We have witnessed the establishment of the EEC and its consolidation as a strong economic and commercial entity. The EFTA (European Free Trade Area) was created by the principal remaining European countries to counterbalance the EEC's power. Now the possible enlargement of the EEC to include Britain and other continental countries may bring about a common market embracing almost all of Western Europe, thus creating what would be by far the biggest import market in the world. Smaller trading blocks like the LAFTA (Latin American Free Trade Area) have also been set up. Tradewise, this "blockation" of the world is one of the major events of our time.

3) As the culmination of 20 years of world trade liberalization, the Kennedy Round of tariff negotiations led to a general and spectacular lowering of the tariffs affecting the greater part of world trade.

During this time span, Canada hasn't remained static - much to the contrary. Our own exports have in effect changed rather drastically, in value, in direction and in composition:

1) The value of our exports nearly tripled during that time, going from $5.4 billion to $14.9 billion - this represents an average annual increase in excess of 10 per cent, one of the best-sustained rates of growth in modern times. Few people, even in our own country, realize that, with our population of 20 million, we rank sixth among the world's trading nations.

2) The direction has changed also significantly, and continues to do so. Exports to the U.S.A., by far our most important customer, more than tripled during the last decade ($3.03 billion to $10.6 billion). In 1960, that represented 57 per cent of our total exports; last year's corresponding figure is equal to 71 per cent.

These results carry with them some attenuating side effects. Our economy has grown more dependent on the U.S. market and consequently more vulnerable to its fluctuations.

Automobiles and parts, as a result mainly of the Auto Pact, now account for close to one-third of our total shipments to the United States. Newsprint accounts for another 9 to 10 per cent. The levelling-off in growth of the U.S. economy, combined with the slump in auto sales earlier this year, leads us to greater caution in trying to predict a growth-rate for 1970. It is expected to be below the 8 to 9 percent increase of 1969. For the first three months of this year, it was, in fact, only 6.4 per cent.

Britain, our second most important export market, has dropped off considerably in its overall relative importance to us. In 1960, Britain took 17.2 per cent of our total exports, while last year its share fell to only 7.5 per cent. This can be explained partly by Britain's recent economic policies aimed mainly at strengthening its currency and redressing its economy but also, to some extent, by its progressive preparation for economic integration with continental Europe.

The EEC, with a total population of 321 million and a combined gross national product of $530 billion (compared to the U.S. GNP of $756 billion), represents a large and growing market for Canada. Our exports to the Community have nearly doubled during the last decade, going from $438 million to $851 million, but the general feeling is that we could and must do much better. At the moment, our share of the EEC import market remains not only relatively low but, as a percentage of total imports, it actually dropped between 1961 and 1967 (1.9 and 1.22, respectively).

Japan is another market that is growing very rapidly and becoming increasingly important to us. At $624.8 million in 1969, our exports to that country were 3.5 times greater than in 1960. But the proportion of manufactured goods is low. Our imports last year from Japan amounted to nearly half a billion dollars. Over 95 per cent of these imports were either partially or highly manufactured goods. This compares with roughly 35 per cent for our own exports. We should be able to do better here also.

The overall growth of our exports to Latin America has not quite kept pace with the growth of our exports generally, but at $443 million for 1969, compared with $185 million in 1960, Latin America represents, nonetheless, an important market for us. Here, however, we can expect some changes in the composition of our exports. Our traditional newsprint markets there, while growing continuously, will face increasing competition from the developing Chilian newsprint industry and our exports of aluminum may decrease because of the establishment of an aluminum smelter in Argentina. Many interesting opportunities do exist, though, for Canadian engineering and equipment in infrastructural projects such as airport development, thermal and hydro-electric power generating stations and telecommunications. STOL aircraft (short takeoff and landing) also appear to offer good prospects.

When compared to $47 million in 1960, our exports to state-trading nations (including China) are also doing proportionately well, at $161 million for 1969, and wheat sales were low then compared to what they will be in 1970. Our peak year for trade with these countries was in 1964, when our imports reached $619 million. In 1968, they amounted to $308 million. We see promising opportunities in Eastern European countries for the sale of raw materials, livestock, grains, industrial chemicals, synthetic fibres, electrical and electronic equipment, consulting services, etc.

3) Composition. If we now consider the extent of fabrication which our exports represent, again the picture has changed considerably during the last decade. For statistical purposes, the Dominion Bureau of Statistics classifies products in three broad categories according to their degree of manufacture -- crude materials, fabricated materials and end products. The relative importance of each category as a proportion of our total exports has changed remarkably:

	Thousand $		Percentage of Total	
	1960	1969	1960	1969
Crude Materials	1,771,795	3,330,453	33.7	23.0
Fabricated Materials	2,874,262	5,344,902	54.7	37.0
End Products	609,518	5,766,201	11.6	39.9
Total Value of Domestic Exports	5,255,575	14,441,556		

For our own purposes, these trade statistics are among the most important because they give us a good indication of the transformation of our economy.

The Government's Role in the Changing Trade Environment

I have attempted to illustrate briefly the major developments which occurred on the scene of world trade during the last decade: the remarkable increase in the volume of world trade; how well Canada has done in this respect;

how the direction of our trade shifted; and also how manufactured products are becoming increasingly important as a proportion of our total exports.

The Canadian Government has been quite active during this period. In fact, it sometimes likes to believe that it was instrumental in influencing some of these mutations, e.g., through its participation in the Kennedy Round; because of its having negotiated the Auto Pact; thanks also to its trade-promotion programs; its aid to export financing; its industrial-development schemes, etc.

I should like to outline for you now some of the main trade pre-occupations currently facing Canada and how the Government envisages them.

Multilateral Matters

Broadening of the EEC

Britain's latest bid to enter the EEC appears to have been more favourably received than were its previous ones. We are, of course, concerned about Britain's terms of entry and how they might affect our access to its market.

Some two-thirds of our exports to Britain would be subject to less favourable terms of access if Britain adopted the existing EEC import regime. Without knowing the actual terms of entry which the British may negotiate with the EEC it is difficult to be precise on what the effect would be on individual commodities. The impact would be mitigated, however, in the case of manufactured goods, by the implementation of the Kennedy Round concessions, which are resulting in a reduction of the EEC tariff. We have, nevertheless, been pressing the British for consultations before, during and after their negotiations with the Community.

Also of concern to us is the fact that Britain's entry into the EEC may open the door to a further enlargement of the Community. This could result in a major shift of world trade towards greater regionalization. In our view, therefore, the British EEC negotiations should be accompanied by parallel or consecutive multilateral negotiations to ensure that the enlarged EEC would result in trade creation rather than trade diversion.

Foreign Government-Assisted Export Financing

Canadian manufacturers of machinery and equipment are being adversely affected by imports financed abroad under foreign government-assisted export financing programs. Many representations have been made to us on that subject.

Government export-financing facilities have been made available by all major developed countries for many years. Until recently, however, the interest rates available under these facilities were generally equal to, if not higher than, the domestic lending rates. Its use was, therefore, confined almost entirely to support sales to the developing countries, which lack indigenous capital and the ability to attract it on the required scale from conventional sources.

With the increase in conventional rates of interest over the last two years, the situation has changed drastically. Conventional rates have increased considerably, while most governments held their export-financing rates at about their original levels, thus creating a rather wide discrepancy. The problem arose when some governments extended their export-financing facilities to developed countries. Canadian manufacturers have complained that they are sometimes denied the opportunity to bid on projects in Canada controlled or financed from abroad because financing arrangements require that all equipment be purchased in the financing country.

Britain has been the principal source of such export financing in Canada. Should the British practice be allowed to continue, other countries will be drawn into a credit race and this would have a serious adverse impact on Canadian interests.

Canada is the largest single importer of industrial machinery in the world. In 1968, our imports reached $24 billion, about 45 per cent of our domestic consumption. While our machinery-manufacturing industry has demonstrated some definite competitive strength in foreign markets, the domestic market is, nonetheless, very important to its future development.

Being a net importer of capital, Canada is hardly in a position to retaliate by itself embarking in a competitive credit race. On the other hand, we greatly depend on export markets of capital equipment to attain the scale of output necessary for an internationally-viable operation. It is also pointed out that a number of the projects which benefit from this low rate of financing, especially those in the slower growth areas of this country, would not be economically viable without such aid. That, then, is the predicament in which we find ourselves at the moment.

Textiles

...Textiles have been one of the most notable exceptions to the postwar pattern of trade liberalization on a multinational basis. For the past ten years, an International Textile Agreement provided a framework for the negotiation of export restraints on cotton products. While this approach has been adequate until now, it is no longer sufficient to deal with current Canadian problems.

The difficulty is mainly created by imports from low-cost countries. Most developed countries maintain strict restraints on textile imports from low-cost nations. Canada, however, has had a more liberal policy and the closing-off of major industrial markets resulted in significantly increased pressures on us. The system of negotiated restraints is becoming increasingly difficult to administer because many low-cost countries are reluctant to limit themselves. The delays needed to negotiate restraint agreements, the lack of suitable means in Canada to prevent overshipments and the problems associated with unilateral action further complicate the problem. Add also the important export interests we have in some of the textile-exporting countries -- e.g. Japan and Mexico -- and the favourable trade balances we have with them, include in your analysis the particular interests of our own textile workers and those of the domestic textile companies and you will begin to have a better idea of the tremendous complexities involved.

Bilateral Matters

The Automotive Products Agreement

A number of you no doubt are associated with companies which have an interest in the current negotiations with the United States on the Auto Products Agreement.

This Agreement, as you well know, is a limited free-trade arrangement with the United States. As provided in the terms of the Agreement, we started a joint review last autumn at the request of the United States. These consultations are continuing with the U.S. Government, as well as with Canadian industry, labour and other unilateral groups. Our discussions are concerned not only with the various problems which have arisen over the six years of the Pact but also with a number of changes and improvements which have been suggested by both countries. These talks are continuing and I look forward to a constructive outcome.

Petroleum

Petroleum plays an important role in Canada's foreign trade. Last year, petroleum (crude and products) worth $570 million was exported to the U.S. from the Western provinces. This trade makes a significant contribution to the health of Canada's balance of payments and is essential to the prosperity of the Western provinces.

In recent months, circumstances have been transformed by a number of major developments. These have presented serious short-term problems of adjustment but hold the promise of important benefits in the future. There was, for example, the major oil-strike in northern Alaska. As the press has extensively reported, this new discovery led to the trial voyages of the super-tanker *Manhattan* through the Northwest Passage to test this route as a new means of shipping northern resources to Eastern markets. Another possibility being considered is a pipeline across Canada along the Mackenzie River route. The Alaskan discovery also suggests excellent prospects for oil explorations now under way in the Canadian Arctic, and, as a matter of fact, indications to that effect already exist. The latter would also benefit from the establishment of these new transportation routes.

Meanwhile, the Canadian and the American Governments have been deeply engaged in comprehensive reviews of their respective oil policies, including our cross-border trade in petroleum. Although a report on proposed new U.S. policies has been published, it will be some time before any final decisions can be reached by either government, owing to the great uncertainties enshrouding the North American oil perspective. President Nixon has proposed discussion on the possibility of moving toward freer access for Canadian exports of petroleum and possibly other energy commodities to U.S. markets. Such arrangements could, in my view, be beneficial for both countries.

However, as an immediate measure, the President recently introduced a system of mandatory restrictions on imports of Canadian crude oil into the bulk of the U.S. market. This clashes with the unrestricted access Canadian oil has historically enjoyed and is viewed by Canada as a rather strange first step to freer trade. The Government has stressed its opposition to these measures and has requested the U.S. reconsider them. It is my hope that these restrictions will prove to be only temporary and that the U.S. will recognize the mutual benefits that could flow from freer trade in oil between our two countries. You may be assured that the Canadian Government will continue to work toward that end.

So much for some of the particular trade problems. Now, what about our trade services, the instruments by which we assist Canadian exporters in expanding their markets abroad?

Trade Commissioner Service

In addition to the very complex trade negotiations which are carried out by the Government to ensure even better access to foreign markets, the Department, as you know, is actively involved in promoting trade abroad. In this respect, the Trade Commissioner Service, the foreign arm of the Department, has recently been reorganized to better serve the Canadian businessman.

Today's Service follows a businesslike "management by objectives" approach; the goal is to maximize results for money spent. Results are hard to gauge, but one can usually determine when a successfully-completed business transaction probably would not have been achieved without the trade commissioner's involvement. Individual posts set their own targets in accordance with market conditions and the resources at their disposal, in the same manner as field sales offices do in some private companies.

Employing a management tool called Program Planning and Budgeting, posts are under instruction to broaden their view by analyzing sales opportunities and trends in their particular markets for five years in advance.

Post managers are now held responsible for using the funds and personnel placed at their disposal efficiently and effectively. The end result is a more structured approach to exploiting worthwhile business prospects for Canada in a given territory. Responsive work is, of course, not being neglected, because it constitutes the "service" aspect of his job, but it forms only part of the tasks which these officers are expected to perform.

The focus of the modern trade commissioner is on more than just marketing. The rest of the product cycle - research, development, pre-production, and production - are receiving increasing attention from him. Canadian industry must be alerted to innovations necessary to keep pace with trends abroad and to new developments in foreign technology. Marketing is only the end phase.

We are re-deploying our forces. Posts are under constant scrutiny to ensure that their trade-promotion results are commensurate with their cost. If not, they will be reduced in size or closed. Other posts may be opened or expanded. In the past year, Canadian trade officers have begun operations in six new locations (counting Buffalo and Minneapolis, which are to be opened within the week) and have closed out four where business conditions no longer warranted the costs involved.

Buffalo will be officially opened next Wednesday. It is the closest trade commissioner post to Brantford, and I hope that the business community of this area will take full advantage of it to expand their sales in this rich and expanding Upper New York State market.

To further broaden global coverage, an increasing number of respected local businessmen are being appointed honorary commercial agents for Canada in markets where there is no post. Outside specialists are brought in for short-term assignments as needed.

Furthermore, the cadre of 100 local commercial officers at posts abroad is being expanded. These are permanent local residents with considerable business experience in the post city and completely fluent in the local language. They provide continuity and have a wider knowledge of local contacts than the rotational trade commissioner finds possible. The plan is to have almost as many commercial officers as trade commissioners in the field within a few years.

Other Promotional Support Services

Aside from the Trade Commissioner Service, the Department has a broad range of programs designed to assist the Canadian exporters.

There are our trade fairs and trade-missions programs, for example. During 1970, the Department will sponsor Canadian participation in 28 international trade fairs and, in addition, will organize 17 trade missions, both incoming and outgoing.

We also have a program for ad hoc incoming business visitors. Last year, thanks to this program, 250 important foreign businessmen and government officials came to Canada to gain firsthand knowledge of our capabilities in fields as diverse as ladies' apparel, telecommunications, agricultural products, sporting goods and toys, airport systems, small appliances, educational and medical equipment, agricultural machinery and diesel locomotives.

The Department also uses other export-promotion tools, such as the "in-store" promotion of Canadian consumer goods, mainly in United States department stores. Another is the Export-Oriented Training Program, under which the Department will subsidize transportation expenses to bring foreign trainees to Canada for education in the after-sales maintenance of Canadian equipment.

As well, we have a Livestock Consultant Fund which pays part of the cost of sending Canadian cattle experts to foreign markets to counsel foreign agricultural officials in cattle breeding and productivity. Naturally, they also try to influence these officials to buy Canadian livestock.

Conclusion

I've attempted to highlight for you the considerable changes that have occurred on the world trade scene this past few years and how Canada fared during that time. The process of change is continuing. I've illustrated some of the problems facing us today, their complexities, and how the Department and the Government are trying to cope with them and to adjust to the evolving situation.

The Department's initiatives must be followed through by the drive and determination of the business community to capitalize on the new opportunities. Your performance in the past has been remarkable, but we must not grow complacent. International competition is increasing. It will be more difficult for us to maintain the same pace as in the past; yet, if we don't, we may not match the $25-million worth of exports which the Economic Council of Canada projected for 1975 in its last report.

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