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CANADA'S TRADE

An address by Mr. Gordon Churchill, Minister of Trade and Commerce, to the Canadian Exporters' Association, Seigniory Club, Montebello, Quebec, October 22, 1957.

Mr. Chairman and gentlemen, I welcome this opportunity of being asked to participate in your proceedings. I suppose that there is no group more closely associated with the Department of Trade and Commerce than your Association. Your outlook and your interests are world wide. So are those of the Department, and our Trade Commissioner Service with branches in 44 countries of the world indicates the extent of our activity.

I am informed that discussion of trade promotional problems between your Association and our Trade officials is not confined to annual conventions but is conducted on a continuing basis through periodic representations by a special liaison committee of your organization. I have learned also that, in cooperation with the Department, you have established a correspondence course, called the "Canadian" Institute of Export", which is already helping to fill a vital need in the trading community. Just recently I have been reading a series of articles, most of them supplied by members of your Association, dealing with the techniques of export trade. The longer I live the more homework I seem to have to do.

Since coming to the Department I have been impressed by the number of messages of appreciation which Canadian businessmen have sent to our Department with regard to our Trade Commissioners serving abroad. These messages would not come unless our Trade Commissioners were maintaining the high standard of services of the Department of Trade and Commerce. I presume that, in due course, the House of Commons will have a somewhat different and less complimentary type of comment for the Minister.

I am not sure whether you are expecting me tonight to give a review of Canada's general trading position or whether you are looking for a statement of Government policy. When our Department's estimates come up for review in Parliament I expect to deal with the first topic and, of course, the second will be announced from time to time in the House of Commons. I realize that there is an impatience -- perhaps a healthy impatience -- for a declaration of policy but now that the House is in session many of the questions will receive appropriate answers.

Under these circumstances I will confine my remarks to rather general topics and to comments on recent events. I doubt if any Canadian government has had so many important events occur within just three and a half months of taking office. You will recall that the Prime Ministers' Conference was held in London at the end of June. Then followed extensive preparations for the Commonwealth Finance Ministers' meeting first at Washington for the Monetary Fund meeting and then at Mont Tremblant. This was succeeded immediately by the meeting with the United Kingdom Ministers and twenty-four hours later we were on our way to Washington to confer with Messrs. Dulles, Benson, Weeks and Anderson of the United States Cabinet. That was hardly over before Her Majesty Queen Elizabeth arrived and Parliament was opened. Superimposed upon this round of activity has been the preparation of the legislative program for the Session and of course all the routine work of general administration.

If you are searching for a clue to Government policy perhaps it might be discerned in the various conferences. If policy is not disclosed at least an attitude of mind may be discovered.

At the Prime Ministers' Conference in London our Prime Minister made the suggestion that a Commonwealth Trade and Economic Conference might well be considered and that the Commonwealth Finance Ministers might be the body to canvass the idea. Accordingly arrangements were made for the Commonwealth Finance Ministers to meet at Mont Tremblant to discuss the possibilities of a conference. That was the purpose of the Mont Tremblant meeting and, despite some early doubts, fears and misgivings, a unanimous decision was reached to call a Commonwealth Trade and Economic Conference next year. The Mont Tremblant meeting did not go beyond that and was not called for any other purpose. To get agreement among the eleven participating countries was an achievement of some magnitude particularly when one recalls that many responsible people considered that we were attempting the impossible. Canada's leading role at Mont Tremblant and the persuasive powers of our Minister of Finance were recognized and acclaimed by the spokesmen for the various countries.

Not without great importance was the attitude of the newer members and their expression of faith and pride and confidence in the Commonwealth. India, Pakistan, Ceylon, Ghana and Malaya spoke with eloquence and sincerity of the importance to them of their membership in the Commonwealth and their desire

to strengthen the ties that bind so many millions of people together in the world's most unique organization.

The calm of the Mont Tremblant meeting was temporarily upset by a press conference that for vigor and exuberance has perhaps not been surpassed in Canada's history. Attention was diverted to a topic which had found its way into one of the newspapers, namely a proposal for free trade between the United Kingdom and Canada. It made a good news story but had no place in the Commonwealth meeting which was concerned with other matters.

The next conference took place in Ottawa after the Commonwealth Finance Ministers had departed. The Chancellor of the Exchequer, Mr. Thorneycroft, and the President of the Board of Trade, Mr. Eccles, stayed over for two days to confer with various members of our Government with regard to immediate practical steps to increase the trade between the United Kingdom and Canada. This was a natural follow-up to our Prime Minister's earlier suggestion that some of Canada's trade with the United States might be diverted to the United Kingdom. The free trade idea was officially advanced but we were not asked to make a decision one way or the other for, as the U.K. Ministers themselves said, a proposition such as this would require a great deal of time for consideration. The common market and the proposed free trade area in Europe, they pointed out, were subjects of discussion for eighteen months before the United Kingdom authorities took any stand whatsoever. Consequently we utilized the short time at our disposal to discuss the present trade situation between Canada and the United Kingdom. As an immediate practical step we decided to send to the United Kingdom a large and representative trade mission in November to explore the possibilities of increasing imports to Canada from that country. If the dollar earnings of the United Kingdom can be increased, Canadian exports can be enlarged.

As a result of Canada's publicly announced desire to increase her trade with the United Kingdom and with the Commonwealth it was not surprising that we should receive an invitation to go to Washington to talk over matters of mutual concern. Canada is the best customer of the United States and our neighbour is interested in knowing about Canada's attitude. It has not escaped the notice of Washington that there is growing disquiet in Canada over our imbalance of trade with the United States nor that there has been dissatisfaction over some aspects of their surplus disposal program.

We spent two days in Washington. Nobody "fixed" us. We had friendly but very frank discussions and our position was stated clearly. Binding agreements were not possible but assurances were given that Canada's interests would not be overlooked.

These conferences that I have mentioned have drawn public attention to some of the facts of life in respect of Canada's trade. Public awareness has been indicated in a recent Gallup Poll which records a trend heavily in favour of diverting some of our trade from the United States to the United Kingdom and the Commonwealth. Over the years much has been said about this but

little has been done except by enthusiastic individuals who have charted a course for others to follow. Now we appear to have reached the stage where public opinion can be reflected in Government policy.

Probably the most significant change in Canada's external position in the post-war period has been the increased concentration of trade with the United States at the expense of the United Kingdom and the rest of the Commonwealth. The physical volume of trade with the United Kingdom and with the Commonwealth as a whole has risen moderately since pre-war but has not kept pace with the rise in total trade or with Canada's expansion generally. On the other hand the volume of goods flowing to and from the United States has increased more than three-fold since pre-war -- more rapidly even than national output. Trade with the United States now comprises nearly 60 per cent of Canada's total exports and 73 per cent of total imports. The corresponding shares for the whole of the Commonwealth have declined to about 20 per cent for exports and 12 per cent for imports. The United Kingdom which two decades ago was Canada's largest customer now buys less than one-third the value of goods purchased by the United States.

This shift in the geographic pattern of Canada's trade reflects the peculiar circumstances of the post-war period. Both Canada and the United States emerged from World War II with productive capacities unimpaired and with production running well above pre-war levels. After a brief reconversion period overall output in both countries forged ahead rapidly. Rising industrial output in the United States brought a more than proportionate growth in requirements for industrial materials from Canada. Likewise the rapid expansion of the Canadian economy has been accompanied by increased dependence on imports, with the United States the principal source of supply.

On the other hand for the United Kingdom and other European countries, the post-war transition was more difficult and prolonged. The war-time loss of traditional earnings from overseas investments and from shipping, together with the severe dislocation in export industries, left the United Kingdom acutely short of foreign exchange with which to purchase necessary imports. Scarcity of materials in turn hindered the recovery of production and it was not until the latter part of 1947 that industrial production reached the pre-war level.

At this period, just when the United Kingdom's recovery was becoming significant, the shift in Canada's trade to the United States was beginning to gain momentum. Had steps been taken at that time to stimulate imports from the U.K. to Canada it is possible that the present imbalance of our trade with the U.S. would not be as great as it has become during the last ten years.

There are certain aspects of this increased concentration of trade with the United States which bear close attention. One such aspect is Canada's mounting trade deficit with her neighbour to the south. Since 1954 imports from the United States have

increased more than twice as much as exports to that country, leaving a merchandise deficit for 1956 of about 1.2 billion dollars. Adding to this amount net payments for interest, dividends and other invisible items gives an overall negative balance on current transactions of close to 1 1/3 billion dollars.

Much of this deficit has been incurred to purchase investment goods needed for expansion in industries destined to produce for the United States market or for new capacity which will replace imports from that country. Fulfilment of these expansion plans should therefore help to close the trade gap. Nevertheless, insofar as the Canadian economy is likely to go on expanding, import requirements will remain heavy and may continue to out-run exports for a long time to come.

The purchase of a larger share of these expanding import requirements from overseas sources would help to strengthen the external positions of overseas countries and, in so doing, would buttress Canada's overseas markets. Since the United States does not suffer from balance of payments difficulties a reduction in Canada's surplus with overseas countries at the expense of a deficit with the United States should have no adverse effects on markets in the United States. Moreover, such a course of action, by strengthening the weaker partners in the Western trading orbit, would lend firmness to the trading structure of the whole Western World to the advantage of all members of this partnership.

In earlier post-war years the purchase of more goods from overseas sources was sometimes hindered because of supply difficulties. The Brief of your Association, submitted prior to the Mont Tremblant meetings, drew attention to the shortcomings of some British suppliers with respect to both delivery and follow-up servicing. These, admittedly, are serious limitations but might reasonably be expected to diminish over time. In fact since 1952 the rise in overall output in the United Kingdom is roughly comparable to that in both the United States and Canada. This rise in U.K. production levels, which has been most pronounced in export industries, may well remove the major obstacle to greater participation in the North American import market.

The improved supply position of British export commodities has already been reflected in sales to Canada. Since the beginning of 1956 imports from the United Kingdom have been increasing at about the same rate as total imports. In other words Britain's share in Canada's import market is no longer declining. It is important that the maximum effort be made to achieve further progress in this direction.

It is with these general considerations in mind that arrangements have been made in recent talks between Canadian and United Kingdom Ministers to have a Canadian trade delegation visit the United Kingdom later this year. This mission will have as its fundamental and ultimate purpose the promotion of two-way trade between the two countries. However, since any significant increase in British purchases from Canada is dependent to such a degree upon the strengthening of Britain's external financial position,

particular emphasis will be placed upon searching out new sources of supply for Canadian imports. It is not the intention to interfere with competitive purchasing of imports -- from whatever source. The eventual result should in fact be to foster, rather than impede, more competitive purchasing. Many influences affecting Canadian purchasing in the United States -- the matter of proximity, the constant pull of advertising and styling, the subsidiary-parent influence, the tendency to adhere to established lines of business, these and many other factors no doubt result in extensive purchases being made in the United States of goods which might be obtained more economically elsewhere. With the tremendous strides now being made in industry the world-over it would be difficult to over-emphasize the advantages to be gained by constant watchfulness in the matter of economic sources of supply.

As a further means of assisting the United Kingdom sales and earnings in Canada the Government has undertaken to review all forms of Government purchasing in Canada, including Crown Companies, with a view to encouraging and facilitating sales by United Kingdom manufacturers of goods now imported from non-Commonwealth sources. It is the intention also to consider the possibility of enlarging the exemption from duty applicable to tourist purchases in overseas countries. This tourist exemption as presently applied allows the import of \$100.00 worth of purchases duty free every four months and is of considerably less benefit to tourists making longer but less frequent visits overseas.

Canada's expanding imports consist largely of manufactured goods and for this reason prospects of affecting any significant increase in the flow of supplies from the Commonwealth are most promising in the case of the United Kingdom. Imports from other parts of the Commonwealth consist largely of tropical foods and other agricultural products such as wool from Australia and New Zealand, tea from Ceylon and India, hemp and jute from India, sugar from the British West Indies and rubber from Malaya.

The development of commercial and economic ties with the British West Indies is of particular interest to Canada -- partly because of proximity and also because of the complementary nature of the two economies. Canada's trade ties with this area date back almost as far as those with England. It is also the part of the Commonwealth with which we enjoy the highest per capita trade. With a population of only four million persons the British West Indies absorbs 5 per cent of Canada's exports to, and supplies 9 per cent of the imports from, the whole of the Commonwealth. Imports from this area, consisting largely of sugar, petroleum and bauxite, exceed the value of all purchases from Australia, New Zealand and South Africa combined. At the same time the British West Indies is a highly diversified market for Canadian exports and given further relaxation of import restrictions offers great potentialities as a market for manufactured products. Having in mind these many matters of mutual concern, Canada is deeply interested in the future course of development in this area, which is destined soon to become a new self-governing member of the Commonwealth.

In conclusion, I would like to emphasize that the Government, in its trade program, does not intend to dislocate established and profitable channels of trade. In the meeting of the Joint Canada-U.S.A. Committee on Trade and Economic Affairs, there was broad agreement on the means of promoting an orderly expansion in world trade and both parties emphasized the need for continued support of the principles of the General Agreement on Tariffs and Trade. While a broadening of Canada's trade seems desirable in the interests of both Canada and the Free World, it is the intention that be achieved in a positive way. The growing needs of the United Kingdom and European countries could provide the basis for new industries in Canada and this new growth could simultaneously provide new markets for European goods. In an expanding world community increased trade in one sector does not necessarily involve declines elsewhere.

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