



## STATEMENTS AND SPEECHES

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An address by the Minister of Trade and Commerce, Mr. C.D. Howe, to the Canadian Club, Montreal, March 21, 1955

As Minister of Trade and Commerce, I am always happy to speak here in Montreal. For this is Canada's greatest seaport, the nerve centre of our commercial relations with countries overseas.

You will not be surprised that I have chosen to speak to you today about world trade, and about Canadian trade policies. These are always important topics, and topics in which a Montreal audience has a lively and immediate interest. But I also have a special reason for speaking about world trade on this occasion. The reason is that the chief trading nations of the world have just concluded a meeting in Geneva to review and revise the General Agreement on Tariffs and Trade.

That is why I have chosen as the subject of my address "World Trade at the Crossroads". Within the next few weeks and months, Governments and Parliaments the world over will be considering the outcome of the Geneva Conference, and deciding whether to accept the amendments that have been proposed to the GATT.

I, myself, expect to be making full explanation of these changes in the House of Commons in Ottawa within the next few days.

In a sense, this speech is a preview of my statement in Parliament, although I can assure you that I do not intend to anticipate the sort of detailed analysis that Members of Parliament will expect me to put before them. On this occasion, I shall paint with a broad brush, in wide sweeping strokes.

I do not know how much you know about the General Agreement on Tariffs and Trade, or the GATT as it is popularly called, nor do I know how many of you are for the GATT, or how many of you are against. What I suspect is that quite a large number of you have only a very superficial knowledge of the Agreement and have no strong views one way or the other. If so, you are in good company.

Well, then, what is the GATT? It is simply a series of trade agreements among the 34 or 35 member countries, rolled into one big General Agreement. Instead of having individual bilateral treaties with each other, as was the situation before the war, the member governments decided in 1947 to have one General Agreement governing their mutual relations in the field of tariffs and trade.

This marked a great step forward. For the first time in history, there came into being a commonly accepted code of commercial behaviour, applicable to all except a minor fraction of world trade. For the first time in history, the major trading nations got together for the express purpose of reducing the level of tariff barriers.

That is why the Canadian Government has been such a strong supporter of the strongest possible GATT. We are a trading nation. In a literal sense we live by trade. It is in our interest to support international efforts to reduce barriers to trade, and to give leadership in that direction when opportunity arises. This is not impractical idealism. For a country like Canada, it is the most practical kind of realism and common sense.

Admittedly the GATT is not a perfect instrument from our point of view, or from any country's point of view. Any trade agreement, acceptable to a large number of countries, must involve compromises amongst different points of view. While none of the participating countries can be completely satisfied with it, it has undoubtedly performed a useful job for all concerned. I think there is a wide measure of agreement in all countries that the world is richer, and standards of living are higher than they would have been, had there been no GATT. Certainly Canadian trade has benefitted from the major tariff reductions that have been negotiated, particularly with the United States, as have we benefitted by the existence of a code of trading rules.

The most concrete accomplishments of the GATT have been in the field of tariffs. In negotiations under the General Agreement, tariffs applicable to more than 80 per cent of world trade have been reduced, and contractually bound at the reduced levels. Canada and the United States have carried on extensive tariff negotiations with one another, in 1947 at Geneva and in 1950 at Torquay. Everything considered, these agreements have worked out to Canada's advantage, and I know they have been of benefit to the United States as well. Out of the tremendous annual total of our exports to the United States, 97 per cent are admitted to the United States under tariff items that are contractually bound in the General Agreement on Tariffs and Trade. I use the United States as an example because it is by far our largest customer.

The actual procedures of tariff negotiations, which have taken place under the General Agreement on Tariffs and Trade, are similar to those which prevail in any market place. Individual tariff items are discussed on both sides and possible reductions are

considered and appraised. Negotiations are concluded on the basis that the United States, or the Dominican Republic, or Belgium offers a parcel of tariff concessions, in return for a parcel of tariff concessions offered by Canada. The negotiators concerned finally agree that the concessions are of equivalent value and satisfactory to both governments. The resulting tariff rates are then contractually bound under the Trade Agreement, with the approval of governments. The favourable results are extended at the same time to all the countries which participate in GATT, through the operation of the most-favoured-nation rule.

The GATT also contains rules to avoid discrimination, and to limit the use of quantitative restrictions, quotas, and other barriers to trade. These rules, you may say, appear to have been more honoured in the breach than in the observance. In spite of the GATT, discrimination has, in fact, been practised against dollar goods, and quantitative restrictions have been imposed against Canadian exports. The reason, of course, is the existence of balance of payments difficulties in most of the countries of the sterling area and of continental Europe.

These GATT rules have not been as effective as Canadians would like. This will be generally admitted. None of us are inclined to question the financial necessities of the postwar world which originally led to the widespread imposition of import restrictions. As an aftermath of the Second World War, many countries suffered from a shortage of production, and a consequent shortage of purchasing power. Under such conditions, such measures of emergency first aid became imperative, as a means of preserving national solvency. With the general improvement of world economic conditions, however, many, if not most, of these restrictive measures have out-grown both their usefulness and their original purpose.

Now it is one thing to assert that the GATT has not been as effective in eliminating trade restrictions as Canada would have wished. It is quite another to say that for that reason the GATT is a failure and is not in Canada's interest. What would have happened had there been no GATT? Would there have been less discrimination, and fewer restrictions, against Canadian exports during the post-war period? To me the answer to that question is obvious. Whatever its weaknesses, the GATT did require member countries to justify their deviations from the normal trading rules. As countries are getting out of exchange difficulties, the GATT is serving to put pressure on them to get rid of discrimination and quantitative restrictions. The liberalization of trade that has taken place in recent months is attributable in part at least to the fact that countries are trying to live up to their GATT obligations.

This brings me to the recent session of the Contracting Parties, which concluded in Geneva about two weeks ago. After seven years experience, a number of the member countries decided that the time had come

to review the provisions of the GATT to see if improvements could be made. I am free to say now that, although the Canadian Government was in favour of strengthening the trade rules, in order to hasten the elimination of the remaining restrictions to trade, we were rather doubtful about the timing of the exercise. We thought that conditions might be more propitious at a later date. In the belief, I think we were right.

At any rate, the General Agreement was subjected to a thorough and painstaking review by the 34 member countries, over a period of four months. It was a long and difficult session, which was unfortunately complicated by a request from the United States for a waiver of its obligations with respect to an important sector of its trade.

The United States Government is faced with a conflict between its commitments to other countries under the GATT and the requirements of its agricultural legislation as set forth in Section 22 of its Agricultural Adjustment Act. Section 22 provides for the imposition of import restrictions and for the levying of fees upon imported agricultural products which threaten to interfere with programmes of the United States Department of Agriculture. The United States Government requested the Contracting Parties to the General Agreement to grant it a waiver of its obligations to an extent that would remove this conflict.

I was in Geneva at the time, leading the Canadian Delegation, and I was greatly disturbed by this request, which related to such a large area of our trade with the United States. On my return to Ottawa, my colleagues Mr. Pearson and Mr. Harris and I arranged to visit Washington, our purpose being to urge the Administration to reconsider its request for a waiver. Unfortunately, the Administration felt unable to change its position. When the matter came to a vote at Geneva, Canada opposed the granting of the waiver, and so did most of the other countries which sell agricultural produce in substantial quantities to the United States. However, the waiver won the support of the number of countries required to make it effective.

This is a regrettable incident in the commercial relations between Canada and the United States, but its importance should not be exaggerated. The fact that the United States has been granted a waiver from its obligations with respect to import restrictions on agricultural products does not mean that the United States is about to impose new and severe restrictions on imports from Canada. Nor does it mean that Canada has been deprived of any of its rights under the GATT to take whatever action would be appropriate if the United States were to embark on such a course.

I do not believe that we are going to run into any insuperable difficulties in our agricultural trade with the United States. We have taken a

sympathetic attitude towards the problems which they face. On their part, the responsible members of the United States Administration are well known to us in the Canadian Government, and I believe they understand our problems. Reasonable solutions have been reached in several difficult cases which have arisen in recent years. In 1953, for example, the United States Government discussed with Canada imposition of import restrictions on oats, and in 1954, on barley and rye. On the Canadian side, we were, of course, unhappy at the idea of any restrictions being imposed. At the same time, we understood the necessities of the situation in which our United States friends found themselves. Quotas were finally established which safeguarded our normal trade with the United States. Furthermore, the quotas are temporary and subject to early reconsideration.

The important thing is not that the United States has been granted a waiver, although in my opinion it would have been better for all concerned, and for the GATT, if the request had never been made. The important thing is how the United States acts under the waiver. It is up to all of us, I suggest, to reserve judgment and to avoid jumping to hasty conclusions.

For obvious reasons, this United States request for a waiver dominated the recent session of the GATT from the Canadian point of view. In other respects, however, I believe that the essential integrity of the General Agreement was preserved. Earlier hopes that the trade rules would be very much strengthened in the direction of hastening the elimination of quantitative restrictions imposed for balance of payments reasons had to be abandoned, for the most part. On the other hand, there was no weakening, and I am inclined to think that in practise the amendments to the trade rules, while relatively minor, are in the right direction.

In Europe, as in the United States, one of the central problems is how to deal with agricultural import restrictions which have been in effect in many European countries for a quarter of a century. At the recent session of the GATT, this problem was studied at great length and a procedure worked out for the gradual elimination of what is termed the "hardcore" of import restrictions which are likely to remain when balance of payments difficulties have been eliminated.

The recent negotiations at Geneva were also confronted with another type of problem. Many of the countries which participate in the General Agreement on Tariffs and Trade are among the economically under-developed countries of Asia and Latin America. These countries confront real difficulties, which the rest of us recognize. They are not going to be able, at an early date, to participate fully in the reduction of trade barriers and the attainment of the convertibility of world currencies. Most of these countries are still in need of our sympathetic aid and assistance in the solution of their own problems. It is in the interest of more advanced

countries like Canada to meet them in this spirit. We did this, in effect, by writing a GATT within a GATT to deal with their special problems. Each of these underdeveloped countries, however, will find that its own situation will be improved, in the future, when convertibility of the major world currencies, and the dismantling of import restrictions currently being imposed by some of the major trading countries, have been achieved. The problems which today appear to them as difficult will then be much easier to solve.

As for tariff schedules, the Contracting Parties agreed to recommend that existing tariffs be firmly bound for two and a half years beyond next June 30, when firm bindings would have expired, and that thereafter the time limit be automatically extended every three years. At the same time, provision is made for withdrawal and renegotiation of particular items, in advance of the expiration of each period, and for special procedures in exceptional circumstances. In other words, the principle of tariff stability has been strongly re-affirmed, subject to more flexibility to deal with particular cases which may require adjustment.

The introduction of greater flexibility, by explicit provisions for periodic renegotiation of bound tariffs, could represent a threat to the stability of the existing structure of tariffs. Theoretically, a process of unravelling could get started. One should not be dogmatic in this field, but I am inclined to feel that this danger is more theoretical than real. I have come to the conclusion that all the principal trading countries are acutely aware of the dangers of starting the process of unravelling, and will proceed cautiously. No one in his senses wants to return to the kind of tariff wars that so bedevilled the world in the early 1930's and which so greatly added to the problems of unemployment and falling incomes during the Great Depression.

On the other hand, unless the United States were in a position to take the initiative by offering substantial concessions in its tariff, in exchange for concessions by other countries, there does not seem to be much likelihood of an exchange of important tariff reductions in the near future. At the moment, of course, negotiations of tariff concessions in connection with the adherence of Japan to the GATT, and in which Canada is participating, are underway, but these are necessarily of very limited scope.

In other words, barring a revision of the United States Reciprocal Trade Agreements Act to allow for further tariff reductions, which we in Canada would welcome, but which is by no means assured, the world seems to be facing a period of comparative stability of tariff schedules in the leading trading countries.

Finally, I should mention that at this review session it was decided to recommend that a new organization be created to administer the General Agreement. This organization, which would be known as the Organization for Trade Co-operation, would

replace the International Trade Organization of 1948 which never came into existence because it failed to obtain the approval of the Congress of the United States. Although we are in favour in principle, the Canadian Government, like the governments of most other countries, will, before making a final decision, watch to see what happens when this new organization goes to the Congress for approval.

These are some of the highlights of the recent session of the Contracting Parties to the GATT. You will understand perhaps why I said in Parliament that, while the amendments that have been proposed do not add up to as strong and effective a GATT as I had hoped for last October, when the review began, they do add up to a more satisfactory agreement than I had feared when I returned from Geneva last December. The result is not as good as it might have been, but it might have been much worse.

You will understand too why I said in Parliament that it will continue to be in Canada's interest to adhere to the GATT. It can be argued, I know, that one of the principal results of this recent session has been to relieve other countries of their obligations without corresponding relief for Canada. I am not much impressed by that kind of argument. Surely our essential interest lies not in weakening the GATT by asking for special exemptions or special treatment. Surely it lies in continuing to support the efforts of those in all countries who are striving to base international trade on a sound and sure foundation of sensible rules.

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