STATEMENTS AND SPEECHES

CANADA

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 61/2

BORDERS AND BRIDGES

Speech by Mr. Donald Fleming, Minister of Finance, to the Economic Club of Chicago, February 14, 1961.

"...This occasion affords me a welcome and perhaps timely opportunity to discuss several matters of recent origin affecting Canadian-American relations. To state the fact in the simplest terms, Canada and the United States are the best neighbours in the world. We think the same thoughts about many matters, including the little things as well as the larger issues of international significance. We have no serious differences, and when difficulties arise we find it easy to discuss them together, and to resolve them amicably. It is in that spirit that I have come to discuss with you today certain economic questions affecting Canadian-American relations. In thus confining my remarks I take for granted the larger objectives of national and international policy on which we usually see alike.

Co-operation on Boundary Projects

Our two countries are linked by many ties of history, geography and economics. While we share a very long common boundary, we have no border disputes or fears of the old-fashioned type. These ended over 100 years ago. Today, our two countries are much more concerned, and properly so, with making plans to develop jointly some of the resources which lie along or run across our mutual border, particularly our boundary waters. It is not very long since our two countries joined in a co-operative plan to turn the St. Lawrence River and the Great Lakes into a vastly more modern transportation artery, and to harness the international section of the St. Lawrence River to produce electric power for the people of Ontario and New York State. These projects are an illustration of the kind of economic bridges we are throwing across our common border.

To mention an even more recent example, it just a few weeks since Prime Minister Diefenbaker and President Eisenhower met in Washington to pen their signatures to a treaty for the co-operative development of the resources of the Columbia River basin. This is a project that has been under examination by our two countries for a number of years. It followed a study made by the International Joint Commission, under whose auspices our two countries have worked together in a neighbourly way for many decades to settle boundary water questions.

When the treaty is ratified, the appropriate entities in both countries will build certain reservoirs and dams to harness the waters of the Columbia River basin for the benefit of both countries. The three major reservoirs to be constructed in British Columbia will store the water needed for regulating the flow so as to increase the production of hydro-electric power downstream in the United States and, when the generating plants are built, at certain sites in Canada as well, and to give greater flood protection to the United States.

The treaty embodies the principle that Canada will share in the benefits derived from this storage by the United States and that Canada will regulate the flow of water in a manner which best suits the interests of both countries. In addition, the treaty makes provision for the United States, if it so decides within a five-year period, to build a storage dam and power facilities on the Koontenai River at Libby in Montana. The significant feature of this project is that it will involve the creation of a new lake on the river that will flood a sizeable piece of Canadian territory. The Libby project would not be economic without this storage, and Canada's agreement to its construction involves surrendering the ability to develop power of our own at sites within Canada on this same river, or on rivers adjacent to it, in the interest of a larger overall plan.

The point I emphasize is that arrangements of the kind envisaged by the treaty involve many complex economic matters and many sensitive questions of national sovereignty on both sides. Notwithstanding this, our two countries have been able to reach an agreement which rises above these difficulties in order to yield the greatest measure of joint benefit. We have found that, by working together, by being prepared to give as well as to take, both our countries can fare better than is possible if each of us chose "to go it alone". To work matters out co-operatively and to pay due regard to the way in which the plans of both countries can be harmonized to serve the interests of the other makes good common sense. The Columbia River Treaty should create a new bridge between our countries.

Trans-Border Trade in Goods and Services

Opportunities for making co-operative arrangements of this kind do not arise very frequently. In the ordinary course, the process of bridge-building arises from the daily business of buying goods and services from each other. Such business is really big business. In 1959 Canadians purchased $3.7 billion of goods from the United States, while the United States purchased $3.2 billion of goods from Canada. If we take account of payments made for travel, interest and dividends, freight, shipping and other such services, we find that Canadians paid roughly $5.6 billion to the people of the United States, while the United States paid abour $4.4 billion to the people of Canada. The difference of about $1.2 billion, by coincidence, is very nearly the amount which Americans invested in Canada in that year.

As a matter of fact, the total earnings from Canada by the United States in 1959 constituted approximately one-quarter ($5.6 billion versus $22.9 billion) of your total receipts from the entire world. In other words, more dollars move across our border in both directions for the buying and selling of goods, services, properties and investments than between any other two countries in the world. Canada is the largest export market for the United States and the most continuously large and rewarding outlet for American investment abroad. Looked at from the Canadian point of view, the United States is our largest export market by far, and provides the lion's share of our requirements for imports of commodities, services and capital. And I suspect that about a quarter to a third of this two-way trade is conducted between Canada and the area served by the Chicago region.

Effects of U.S. Investment and Competition

Our two countries both seek to expand trade with each other and with the rest of the world. As an exporting country of only 18 million people living alongside a nation of ten times our population, Canada obviously enjoys the great advantages of propinquity in trading with you. Your massive industrial economy has an enormous appetite for raw materials of all kinds, many of which you find it convenient to buy in large quantities in Canada. Many of your large corporations have made investments in our natural resource industries to ensure a steady and reliable supply of these resources. On the other hand you are able to sell an enormous quantity of fabricated industrial and consumer goods to Canada which, because of the large scale of production which is possible in a country of your size, can often be produced more cheaply than in Canada, and in greater variety. This competition sometimes makes things very difficult for our secondary manufacturing industries. Canadians would naturally like to see some of the tariff obstacles which stand in the way of an increase in our exports to the United States reduced, including some tariffs on manufactured items.

Since the United States is Canada's largest export market by far, we Canadians are the most devoted group of students of the United States economy to be found outside the United States itself. We watch the behaviour of your key economic indices; we are reassured when economic expansion is under way and we share your concern whenever production falters. Often we wish Americans were as interested in Canada as Canadians are in the United States. As I have already mentioned, the flow of dollars across our common boundary for goods and services is by no means equal. Last year 18 million Canadians bought $660 million more worth of goods from the United States than your 180 million people bought from us. On a per capita basis, this difference is even more striking. Per capita, we Canadians imported about $205 of your commodities; you imported from us only about $17 in Canadian goods per capita. Likewise, Canadian tourists travel in greater numbers in the United States than do American tourists in Canada, with our excess expenditures now amounting to about $100 million per annum. And, of course, the net outward flow of funds from Canada to the United States to meet interest and dividend payments on United States investment is drawing close to $500 million a year, and is still growing.

Annual Deficit

Canada's total annual deficit with the United States for all these current account items taken together in each of the last four years has run between $1 billion and $1.5 billion. Since our total trade in goods and services with all other countries combined is roughly in balance, this is about the same as Canada's total net deficit. If we translate such figures into terms appropriate to the United States, with a population ten times ours, and a volume of production 14 times as great, it is as if the United States had a deficit in its international accounts for goods and services of somewhere between $10 billion and $20 billion. I suspect that if you had a deficit of this magnitude, instead of the present $3 billion figure, it would be treated as a matter of really serious concern, even if the deficit were matched, as is the case in Canada, by a corresponding inflow of external capital. But I shall return to this subject of the balance of payments and foreign investments later.

Anyone who studies the present economic situation in our two countries would be impressed by the similarities that are revealed. In both countries we have seen a slowing-down in the rate of economic growth during 1960 and an unusually high volume of unemployment. On the other hand, in both countries the economy is operating at a very high rate of activity. In both countries business inventories in 1960 appeared to be excessive and had to be reduced. In both countries the volume of new capital investment, while it was maintained at a very high level, nevertheless fell below expectations. The heavy investment programmes of the last decade have led to the appearance of a certain amount of surplus industrial capacity. It would seem that both economies have been influenced by similar casual factors.

Of course both economies have been operating for the last 15 years in an international environment which originally called for a great increase in productive facilities, but which has since undergone a real transformation. It should not surprise us therefore that the vast programme of capital investment undertaken in North America since 1945, much of which was required to satisfy the needs of a war-impoverished world, should have created some surplus capacity now that the economies of Western Europe and Japan have been rebuilt. The growth of new industrial facilities overseas on the scale we have seen was bound to create situations calling for adjustment in North America. However, while these adjustments may take time before they are complete, we can both speed up the process by proper policies.

Another new element in the world economy to which we must adapt ourselves is the success which has been finally achieved in the key industrial countries of Europe in containing the inflationary forces which were at work throughout the last decade or more. While all of us welcome the restoration of stable monetary conditions, producers in North America generally must recognize that they can no longer expect that the competition which they encounter in markets at home and abroad will be eased by virtue of the inflation of prices and costs in foreign markets. I have been acutely conscious of the implications of the growth of overseas competition for our Canadian producers and have repeatedly pointed to the need to keep costs down and to improve the efficiency of production.

Balance of Payments

Both our countries today face a balance-of-payments problem, but, so far as the United States is concerned, the experience is an unfamilar one. Your problem, as I understand it, is that you are experiencing an overall balance-of-payments deficit which for several years now has been running at a rate of $2 or $3 billion a year, and in consequences are suffering steady losses of gold and foreign exchange. The situation seems to be that, while your total trade in goods and services is reasonably in balance, the outflow of funds resulting from foreign investment and from your foreign-aid programme is in excess of the inward movement. It would hardly be proper for me to comment on the implications of this problem for United States policies. What I can say is that we in Canada have a sympathetic appreciation of the difficulties in which you find yourselves, and that we welcome the implicit desire of the Administration and the Congress to avoid measures for solving them which would only create balance-of-payments difficulties for other countries, or slow down the progress of the world towards a freer system of international trade.

Our balance-of-payments situation, of course, is quite different in character. For one thing the total flow of international payments and receipts is in substantial balance.

The value of our dollar on the foreign exchange markets is very strong, and we have not had to cope with an outflow of gold or foreign exchange.

There is nothing extraordinary about the stability of our gold and foreign-exchange reserves, because, as you know, Canada has a floating rate of exchange. Our total international payments and receipts are partly kept in balance by reason of fluctuations in the value of the Canadian dollar and, as you all know, over the last decade our dollar has often been at a substantial premium, despite the existence of a regular and large deficit in cur international trading.

The explanation of this apparent paradox - the co-existence of a balance of payments deficit and a premium price for our currency on the exchange markets - lies in the substantial and continuous inflow of capital into Canada from other countries, with the greater proportion coming, of course, from the United States. It is no new thing for Canada to be affected by substantial inward movements of foreign capital. The difficulty in recent years is that our exchange rate, and the structure of the balance of payments, have been subject to the influence of a capital inflow that may have been greater than the economy really required in terms of some forms of imported capital. When this happens, it raises the exchange value of the dollar unduly, which serves to cheapen the cost of commodity imports in comparison with the prices of domestic goods. When this happens imports tend to increase unnecessarily and Canadian exports, having become more expensive to buyers abroad, tend to decline, or do not rise as much as they should. Too much foreign investment in Canada in certain forms, or too much borrowing abroad by various Canadian entities, can have unfavourable consequences to the economy. That is one reason why many Canadians have been giving searching thought to the whole subject of external investment in Canada.

Need for Foreign Investment

It appears that the discussion of this question in Canada has given rise to some misunderstanding in some quarters in the United States concerning the attitude of Canada towards foreign investment. In times like these when investors in the United States have been exposed to the confiscation of their holdings in Cuba, in a spirit of ill-will, and without attempts to negotiate such matters, or to pay proper compensation, it is natural that feelings in the United States should become sensitive to any questions that may be raised concerning the role of foreign investment, even in a country as friendly to United States business and United States investment as Canada. I think that this sensitiveness may be the reason for the concern that has been expressed in a few places in response to a measure I proposed a few weeks ago on behalf of the Canadian Government.

I refer to the increase in the withholding tax applied in Canada to the interest and dividends sent abroad by foreign companies doing business in Canada, or paid by Canadians to their foreign creditors.

This measure is intended merely to remove the special inducements in Canadian tax law which have grown up when circumstances were different from those of today, and which had the effect, for example, of encouraging Canadian borrowers such as provincial and municipal governments, as well as business corporations, to prefer borrowing abroad rather than in the Canadian capital market. We, like you, have always had a tax on external remittances of investment income, somewhat comparable with the ordinary income tax on the earnings of Canadian citizens. However, in the course of time we had exempted many such remittances to non-residents from the tax, or portions of the tax. We are now proposing that in future the foreign investor concerned should make the same normal and equitable contribution to the cost of carrying on government in Canada as has always been paid by the non-exempt investors. But I emphasize as strongly as I can that this increase in the withholding tax on certain types of investment hitherto exempt is not an indication of any desire on Canada's part to inferfere with the creative investment of American or other outside capital in Canadian industry and commerce. Nor do I believe it will have this effect. We have every reason for and every intention of continuing to make foreign investment in Canadian industry thoroughly welcome in Canada.

Foreign investment has always played a vital role in enlarging the productive facilities of our country and in speeding up our economic development, as was the case for that matter in the United States itself up to the beginning of this century. If we go back to the history of the decade before World War I, we find that there were certain years when the flow of foreign investment into Canada was even greater than it is today, after allowing for the higher purchasing power that the dollar enjoyed in those days. The statistics of the period 1900 to 1914 in terms of foreign investment in Canada have been well documented by a former Canadian well known to most of you as a distinguished economist who for many years was a member of the Economics Faculty of the University of Chicago. I refer to Jacob Viner and to his study of "Canada's Balance of International Indebtedness 1900-1913", published in the early 'twenties. In those days the principal medium of foreign investment in Canada was the bonds or shares of our federal, provincial and municipal governments, or of our railways and other public utilities, which were issued in London or, to a much lesser extent, in New York. Also, even at that time, outside money was being invested in branch plants in Canada, or in purely Canadian firms. Professor Viner calculated that the total net foreign capital inflow for the 14-year period was about $2.5

billion, or an average rate of about $200 million a year. Indeed the gross inflow in each of the years 1912 and 1913 averaged some $400 to $500 million. Allowing for the decline in the purchasing power of the dollar, this might be equivalent to a capital investment today perhaps four times as great. When we reflect that the population of Canada in those days was less than one-third of its present size, a capital inflow of this magnitude can only be described as enormous by any standard. Those capital inflows were resumed in the 1920's, but after the onset of the great depression of the 'thirties, the net movement of capital was outwards rather than inwards, since debt repayments were in excess of new foreign investment. The next period of heavy movements of foreign capital into Canada began about ten years ago and is still continuing.

Why Foreign Investment Attracted

The reasons why Canada is able to attract foreign investment or to borrow in external money markets in such large amounts year after year are self-evident. First, Canadian governments have always treated foreign capital in exactly the same manner as domestic investments in respect to tax treatment and other such matters, and have maintained an economic climate that was favourable to investment generally. The record of our borrowers and the earnings from foreign investments have been as good as could be found anywhere. The reputation Canadian governments and corporations enjoy is something we are all anxious to safeguard.

In the second place, the opportunities for profitable investment have exceeded the available supply of domestic savings. During the last decade Canada has had a particularly high level of governmental, corporate and private capital investment. In recent years the figure has exceeded 25 per cent of our Gross National Product. This is a very high proportion to be devoted to public and private investment projects, judged by any standard. The level of savings in Canada during most of this period was very high, but even then it was only sufficient to support about four-fifths of this capital formation. And of such domestic saving, too small a proportion was invested in new industrial facilities, or in our new and dynamic resource industries.

Filling the Capital Gap

To meet the deficiency of capital and enterprise required to promote the needs of an expanding economy, United States and other foreign investors, attracted by the opportunities that existed or by the higher rates of interest paid for borrowed capital, were glad to fill the gap. We were fortunate in being able to attract such capital. So far as our national resources are concerned, many large industrial corporations in the United States have found it advantageous to open up new mining properties and other natural resources to supply the raw materials needed by their parent companies in the United States. I am thinking, for example, of iron-ore mining, where the product is required by the steel mills of the parent companies in the United States to take the place of the ores formerly supplied from domestic sources, and no longer available.

In the case of our manufacturing industries, the Canadian tariff on imported manufactures has long since served, by design, to encourage the establishment of various manufacturing industries in Canada, and this has often been done by subsidiaries of foreign, including American parent companies. This has been particularly marked in the automobile, rubber, electric-apparatus and chemical industries.

In addition to these direct investments, there is a substantial and continuing interest on the part of outside investors in the bonds and shares of Canadian provincial and municipal governments and corporations. Some of these borrowers have found it more convenient and less costly to borrow their requirements in New York and, to a much lower degree, in some of the European money markets.

Types of Foreign Investment

Leaving aside the inward and outward flow of short-term capital movements, which anyway tends to cancel out over the long run, it may be said in quite general terms that the flow of foreign investment into Canada today consists of three equal types. Using the statistics relating to 1959 the amount directly invested (that is, in branch plants and the like) totalled about $500 million. Second, the amount of new issues of Canadian securities sold abroad, these being mainly municipal and provincial bonds, and a certain number of corporation shares and bonds, totalled about $540 million. And third, there was a net inflow of funds to purchase existing Canadian securities and for other capital purposes amounting to some $530 million. Against this there was an outward movement of funds arising from the investments of Canadian concerns in their subsidiaries abroad or from the purchase of American and other external securities, amounting to about $60 million. Taking into account all inward and outward movements the net capital inflow in 1959 was slightly more than $1400 million.

This experience makes Canada by far the world's largest importer of long-term capital at the present time. At the end of 1958, the last year for which estimates have been made, gross foreign investment of all kinds on capital account was $20.7 billion. On the other side of the ledger the gross external assets of Canada were then about $7.7 billion, or about one-third as large as our external liabilities. This results in a net foreign indebtedness of $13 billion. Just seven years ago (in 1953) the comparable figure was only $6.0 billion. This means that in the last seven years the net foreign investment in Canada has more than doubled, growing by rather more than it grew over the entire previous period of recorded economic history, if we ignore changes in the purchasing power of the dollar. Now I am not implying for one minute that these magnitudes in themselves constitute a problem for Canada. The governmental and corporate bodies have had no difficulty in meeting their interest and capital-repayment obligations and the outward flow of corporation dividends has steadily increased. With the growth of production and incomes in Canada, the ratio of foreign indebtedness to national income is much smaller than it has been in most earlier periods. So long as this condition continues, and so long as our ability to earn external revenues from trade continues to grow, there should be no difficulty on this score, or in terms of the so-called transfer problem.

Moreover, we all know full well that Canada could not have achieved the rapid and broadly-based expansion of our productive facilities without these foreign investments. We fully recognize the great benefits which the economy has derived by reason of the new manufacturing and industrial techniques which have been introduced, and of the natural resources which have been developed. Foreign capital has developed many new enterprises which were too large or unfamiliar for Canadian savings and enterprise to handle. Many of the investments in new plant or in mining or oil properties involved too big a financial risk or too long a waiting period for Canadian finance to carry without outside assistance.

I should mention, however, that there are a few facts associated with external investment which do give us concern. The first arises from the implications of external ownership in some of our industries. Although these adverse consequences may seem rather small when set against the advantages the economy derives from the investment in question, this nevertheless does not mean that they can be ignored.

Canadian Saving and Investment

The second fact is that Canada is now in a position in which it is able to meet a larger proportion of its capital requirements from its own savings and where it is desirable that everything within reason should be done to encourage a greater degree of Canadian saving and investment in Canadian industry. Related to this is our concern to avoid such foreign borrowing as may be in excess of our real requirements, as happens from time to time. Such excess borrowing, by reason of its effect on the exchange rate, can have adverse consequences for production and employment.

So far as the first point is concerned, foreign investment brings a growing degree of external control over many important Canadian industries. In earlier periods this may have been inevitable, but with the growth in our ability to save and invest we should like to see provision made by the external owners themselves for a wider degree of Canadian participation in such industries. At the present time external investors, operating usually through subsidiaries, have a controlling interest of about 50 per cent of all Canadian manufacturing industry. In some branches of our manufacturing industries the percentage of external control is much higher than this, as is the case in industries like oil, natural gas, mining and smelting. I think that in altogether too many cases some externally-owned manufacturing and resource industries have not taken full advantage of their opportunities to increase the proportion of Canadian ownership and management. Nor have they pondered deeply enough on the desirability of engaging in more research work in Canada, or of permitting the Canadian company to seek export markets, instead of leaving the responsibility for such matters to the parent company. I know that most subsidiaries enjoy great advantages from their association with the parent company, without any cost to them. They share in the result of the research conducted by the parent company. But many subsidiary companies have found it desirable and profitable to strengthen the research function of the Canadian subsidiary, or to give it freedom to engage in competition for foreign markets, including the freedom to compete with the parent company. I should like to see more of this kind of corporate liberty.

However, these deficiencies must be weighed in the balance against the great benefits which foreign investment has brought to Canada. By and large, they are matters which should be corrected by methods of persuasion and good sense rather than by direct government intervention. It is recognized that for Canada to think in terms of any narrow economic nationalism would mean running against the worldwide trend towards international interdependence, and counter to the policies of greater freedom of trade payments which we have supported so strongly in every international forum. More important still, it would be damaging to our own best interests. American investment in Canada constitutes a bridge between our two countries and I am sure that all of us wish to keep the structure of the bridge sound and strong.

Increased Markets for Canadian Oil

There is another area where we would like to see a strengthening of the bridges that join our two countries. Earlier in my remarks I referred to the large amount of foreign capital invested in the Canadian oil industry and the important contribution which this capital, accompanied by technical know-how and market connections, has made to its establishment and growth. Oil production on a significant scale is a comparatively recent phenomenon in Canada. Following upon the spectacular discoveries of oil in Western Canada a little more than a decade ago, many billions of dollars have been invested in oil exploration and development, in producing wells, refineries, pipe lines and a wide range of supporting facilities. A very high proportion of the capital required in the oil industry has come from the United States and many of your large oil companies are leaders in the Canadian oil industry. At the present time, United States investors have a stake well in excess of $3 billion in Canadian oil. Indeed, about half the total United States direct capital investment in Canada since 1950 has been concentrated in Canadian petroleum. For this reason alone - not to mention such considerations as common defence interests, as a result of which the oil pipe line from Northern Alberta and British Columbia to the Puget Sound area was built - the health and prosperity of the Canadian oil industry are of direct and substantial concern to the United States.

I should like to say a few words to you today on the subject of oil because, as some of you may know, the Government of Canada has recently announced a new national policy affecting this important industry. Canadian policy in relation to oil has traditionally been free of governmental control and regulation. In this field, as in others, we have been guided by the basic principle that private enterprise, pursuing its best interests in response to normal market forces, would foster a vigorous, healthy industry, growing in response to our own expanding economy and the needs of our natural export markets.

Canada is both an importer and an exporter of oil and petroleum products, although our imports vastly exceed our exports. Our markets in Eastern Canada absorb more than $450 million of crude oil and product importations (translated into United States terms, this would correspond to imports into your country of more than $10 billion <u>per annum</u>). About four-fifths of this total consists of crude oil which is processed in our large Eastern refineries, largely concentrated in Montreal. We import in excess of $75 million a year from the United States, mainly petroleum products. Unlike the situation in the United States, we impose no quantitative controls whatever on the importation of oil and petroleum products. Crude enters duty-free and the tariff rates on products are quite moderate. Exports, at the rate of about $100 million a year, consist almost entirely of crude oil. This oil moves overland by pipe line to oil-deficient areas in the United States lying adjacent to the international boundary. Your imports of Canadian crude make up about one per cent of your total demand and 11 per cent of crude imports from all countries.

State of Oil Industry

In recent years there has been a good deal of concern and disappointment with the state of the oil industry in Canada. The matter has been reported on by a Royal Commission and more recently our National Energy Board conducted an intensive study of the situation. The Canadian Government could not fail to be impressed by the results of these studies. They showed that output was unduly low in relation to productive capacity, to domestic demand and, more important, to the levels of output required to meet sound economic criteria. Exploration and development activities, which are so fundamental to the future growth of the industry, have been falling off sharply. There are disturbing indications that oil production in Canada is being determined not so much by normal market forces or by conditions in our own country as by the influence of outside forces brought to bear on the production and marketing decisions of the oil companies operating in Canada.

In view of these findings we came to the conclusion: that the Canadian oil industry would not achieve a satisfactory level of output and an adequate rate of exploration and development unless the Government intervened to offset the inhibiting external influences. Accordingly, the Government decided upon a national oil policy looking to the gradual expansion of oil production and a more satisfactory pace of exploration and development.

Aim of New Policy

The objective of this policy is to reach a level of output of approximately 800,000 barrels a day in 1963, and to move progressively to that target by gradual stages. During the past year the average daily production was about 550,000 barrels a day. We believe that the established target is realistic and based on estimates of what can be achieved in conformity with sound economic principles. I stress this point because I wish to make it entirely clear that the Canadian Government is not applying forced draft to stimulate artificial growth of the industry. We expect to reach our targets by fostering the greater use of Canadian oil in our own domestic markets in Ontario and by a modest and gradual expansion of exports to existing markets in the West and the mid-West regions of the United States lying adjacent to the international boundary. Expansion in both these directions can be attained entirely through established pipe lines.

I shall outline the methods to be used in implementing this policy. Various approaches have been suggested from time to time, most of them involving some measure of governmental intervention. The Government has been urged to reserve the Eastern markets now being served by imports for our own producers in Western Canada through a system of mandatory import controls and the construction of a pipe line from the oil fields of Alberta to the rich Montreal market. We were often reminded of the restrictive policies pursued in other countries.

We decided that of the various alternatives available, the most satisfactory method would be to endeavour to reach our objectives on the basis of a voluntary programme by the Canadian oil industry itself. This approach, we believe, has much to recommend it from the point of view of all interested parties both in Canada and abroad, not least of all the United States and our other trading partners.

Need for Co-operation

To succeed along this path we will need a sincere effort and the full co-operation of all segments of the Canadian industry, particularly from the large international oil companies with subsidiaries in Canada, many of which are owned in the United States. We will make every effort to achieve our goals with a minimum of government intervention, consistent always with the success of our programme, which we regard as imperative. We are hopeful that this co-operation will be forthcoming in the full measure required and that it will not become necessary to fall back on a mandatory system of government controls.

Let me assure you that we have approached this programme with no fixed views or inflexible attitudes. There is only one respect in which our views are entirely firm. We are determined to make this programme work.

In formulating our national policy we have taken into account as fully as possible the position of our trading partners whose interests may be affected. We believe that the voluntary system is designed to reach our objectives with a minimum of interference in established trading patterns.

The voluntary programme entails a progressive enlargement of the share of the Ontario market served by Western crude and this will mean some modest displacement of oil imported from the Middle East and Venezuela. This development would be entirely consistent with the declared policy of the Venezuelan Government, which considers that its oil should not penetrate regions in the Canadian interior. This programme also involves a modest and gradual increase in exports to existing oil-deficient markets in the United States West and middle-West. We believe that this modest increase, from about one per cent to 2 per cent of your total oil consumption, would be entirely consistent with the encouragement given to Canadian production and to the building of a pipe line to the Puget Sound area by the United States at the time of the Korean War and the enlargement contemplated when arrangements were made on strategic grounds for the exemption of Canadian oil from the United States import controls in the spring of 1959. The attainment of our objectives will, we believe, foster a healthy and vigorous petroleum industry, which is so vital to the long-term economic and strategic interests of Canada as well as those of the United States.

Trade With Cuba

There is one last subject on which I should like to say a few words, since there has been so much misunderstanding about it. I refer to the matter of Canadian trade with Cuba.

Let there be no misunderstanding about our policy. We have no intention of allowing Canada to be used as a backdoor to frustrate the effect of the trade controls now being exercised by the United States. First, no commodity of United States origin may be exported from Canada to Cuba unless it is of a kind which may still be exported direct from the United States to Cuba. There is therefore no basis whatsoever for the fears which have been voiced that Canada's trade with Cuba will provide for a backdoor evasion of the United States embargo. Second, we have not authorized for export from Canada to Cuba any shipment of arms, ammunitions, military and related equipment or materials of a clearly strategic nature. This is in keeping with our policy of refraining from the export of such goods to areas of tension anywhere in the world. Third, a tight control is exercised on the export of goods such as aircraft engines which may in certain circumstances have strategic significance. The circumstances of each case determine whether the export of goods should be given an export permit. The fourth feature of our policy is that there are no restrictions on the export to Cuba of Canadian goods of a non-strategic nature.

It is quite important that this peaceful trade should also be seen in perspective. No other country, including each of the NATO allies such as the United Kingdom, France, Belgium and Norway, has taken any action to impose a trade embargo similar to that of the United States. Cuba has been a traditional market for certain Canadian food exports and the United States itself has continued to ship livestock, food and drugs to Cuba and in much greater volume than the total of all exports from Canada. Since the United States embargo was imposed, Canadian trade with Cuba shows no evidence of any dramatic increase in the volume of trade. Our total exports to Cuba in 1960 were only $13 million, which was less than the figure for 1959.

I offer these remarks to make it abundantly clear that there is no basis for the fear expressed in some United States newspapers that Canada's chief concern in its relations with Cuba has been to make a quick commercial profit at the expense of the United States. Canada is offering no special inducements or incentives on exports to Cuba and no loans or other special financial arrangements are being considered.

Apart from these commercial and economic considerations, there are of course important political and international factors which must not be overlooked. The Canadian Government is by no means complacent about the situation in the Carribean. Our position in NATO in the United Nations and elsewhere does, I think, make it clear where we stand in the world. However, our experience in our relations with Cuba has been different from that of the United States. Just as we respect the right of the United States Government to determine its own policies towards Cuba, we know that the United States will respect our right to reach our own decisions on such matters.

Conclusion

At the outset I spoke of the freedom with which Canadians and Americans can discuss together their problems and difficulties. This is a boon of friendship and a benefit of neighbourliness. In all things we must preserve a sense of proportion. Such differences of approach as arise from time to time between our two countries are dust in the scale in comparison with those great values, aspirations and interests which we hold in common.

We are allies together in the defence of Western freedom; we are upholders together of the cause of freedom, decency, humanity and good faith in dealings between nations. We are striving shoulder-to-shoulder to build a better world not only for our own people but for all mankind. Together we have learned to accept the implications of a shrinking world and the common responsibilities cast by destiny upon us.

Where in all the world do you find the governments of two adjoining countries forming joint committees of both governments? For the past three and one-half years I have had the privilege of being a member of the Joint Canada-United States Committee on Trade and Economic Affairs. From its establishment in 1958 I have been similarly a member of the Canada-United States Joint Committee on Defence. Through these channels we speak to each other at the government level with utmost frankness, but we never lose sight of the fact that we have and serve interests that are fundamentally common. I am sure we shall continue to do so.

Canadians are very proud of their independence; they are jealous of their sovereignty; they are a self-reliant people. Our decisions are our own, but let there be no doubt that for our American neighbours we cherish and will ever maintain an abiding friendship that befits the best neighbours in all the world.

S/C