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TRADE NEGOTIATIONS
BETWEEN
CANADA AND THE
UNITED STATES

1934-1935



Dept. of External Affairs
Min. des Affaires extérieures

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I. Note from the Canadian Minister at Washington to the Secretary of State of the United States

CANADIAN LEGATION

WASHINGTON, November 14, 1934.

SIR:

The Government of Canada for many months have been giving careful consideration to the means whereby the exchange of commodities between Canada and the United States might be increased, and I have been instructed to present a statement of their views for the information of the Government of the United States. The Government of Canada believe that the time has come for definite action and that the declared desire of both Governments to improve conditions of trade between the two countries should now be carried into effect by the negotiation of a comprehensive trade agreement.

You will recall that when the Prime Minister of Canada visited Washington in April, 1933, at the invitation of the President of the United States, the development of trade between the two countries was sympathetically discussed. On April 29, 1933, Mr. Roosevelt and Mr. Bennett issued a joint statement at the end of their conversations, which concluded as follows:

"We have also discussed the problems peculiar to the United States and Canada. We have agreed to begin a search for means to increase the exchange of commodities between our two countries, and thereby promote not only economic betterment on the North American continent, but also the general improvement of world conditions."

At that time it was expected that at an early date the President would be vested with special powers to enter into agreements looking toward an increase in the exchange of commodities between the United States and other countries. Since Mr. Bennett's visit, informal discussions have been carried on, and several methods of improving trade relations between the two countries have been suggested and examined.

In the past eighteen months the Governments of the United States and Canada have repeatedly manifested their determination to increase international trade, by declarations of policy and by the conclusion of bilateral trade agreements.

Within that period of time Canada has made trade agreements with several European countries.

The policy of the Government of Canada with respect to trade relations with the United States was again stated by the Prime Minister of Canada speaking in the House of Commons on February 19, 1934. Mr. Bennett on that occasion referred to the fact that the Governments of the

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United States and Canada had agreed to begin a search for means to increase the exchange of commodities between the two countries and thereby promote not only economic betterment on the North American continent, but also a general improvement of world conditions, and indicated that the policy of the Government was to continue their efforts to that end.

On July 21, 1933, at the international Monetary and Economic Conference in London, the policy of the Government of the United States was expressed by you in a resolution submitted on behalf of your Government. This resolution declared that the governments represented at the Conference should forthwith "initiate bilateral (or plurilateral) negotiations for the removal of prohibitions and restrictions and for the reduction of tariff rates; and declare that their aim in these treaties is substantial reduction of basic trade barriers, and not merely the removal of temporary and abnormal restrictions and increments imposed for bargaining purposes." The resolution continued: "In shaping its policy and in executing its obligations under any agreements, each Government should direct its first and greatest efforts towards eliminating restrictions and reducing duties which most clearly lack economic justification, particularly:

- (a) Duties or restrictions which not completely or almost completely exclude foreign competition, such as those which restrict importation of particular commodities to less than 5 per cent of the domestic consumption thereof;
- (b) Duties or restrictions on articles the imports of which have been substantially curtailed since 1929 as compared with domestic consumption;
- (c) Protective duties or restrictions which have been in effect a considerable period of time without bringing about a substantial domestic production of the protected commodities (say equal to 15 per cent. of the total domestic consumption thereof)."

On December 16th, 1933, on your motion, the Seventh International Conference of American States at Montevideo adopted a resolution which declared that the Governments of the American Republics would promptly undertake "to promote trade among their respective peoples and other nations and to reduce high trade barriers through the negotiation of comprehensive bilateral reciprocity treaties based upon mutual concessions."

On February 22nd, 1934, the Department of State issued to the press a statement concerning trade negotiations with Canada, which reads as follows:

"The trade between the United States and Canada is larger in normal times than that between any other two countries in the world, and it is natural that both countries should desire to restore the reciprocal flow of commodities to normal proportions. We hope to be in a position at an early date to take steps looking to the conclusion of a trade agreement with Canada which will further the interests of

both countries. We hope thus to bring into practical application the 'good neighbour' policy between these two great countries which have so much in common."

A few days later, on March 2nd, the President requested the Congress to enact legislation conferring on him authority to enter into trade agreements, in a message which concluded with the following words:

"I hope for early action. The many immediate situations in the field of international trade that to-day await our attention can be met effectively and with the least possible delay."

The legislation in question became law on June 12th. Since then your Government has set up the organization necessary for the conduct of negotiations, carried on its preliminary investigations, initiated discussions with several governments, and proclaimed the conclusion of a trade agreement with Cuba. The objective of the United States in entering upon these negotiations was stated by you in a public address on November 1st to be "to break down all the artificial and excessive impediments put in the way of world commerce, not only in our own interests but for the benefit of all others as well, since only by restoring the whole world can individual countries hope to remain economically healthy long."

It is hardly necessary to stress the importance to both the United States and Canada of their mutual trade. For many years each country has provided the other with either its largest or its second largest foreign market. From 1927 to 1932, and again in the first nine months of 1934, the total trade between Canada and the United States was greater than the total trade between the United States and any other country. In the last ten years, according to the figures of the Department of Commerce of the United States, the aggregate value of the trade between the two countries was more than ten billion dollars, and in the single year of 1929 it reached the great figure of \$1,451 millions. During the decade ending in 1933 Canada provided a market for the products of the United States larger by one-fourth than the whole of Asia, about twice as large as Germany or all South America, nearly three times as large as France or Japan, nearly seven times as large as China, and more than ten times as large as the Soviet Union. In spite of the considerable decline in trade from the high level of 1929, Canada still provided a market in the first nine months of 1934 only slightly smaller than all Asia, nearly twice as large as all South America or Japan, between two and three times as large as Germany or France, four times as large as China, and twenty-two times as large as the Soviet Union. Over 30 per cent of all exports from Canada are currently sold in the United States, and notwithstanding the great difference in population of the two countries, about 15 per cent in value of all exports from the United States are currently sold in Canada. The relative importance of the market of each country to the other, and the persistence of trading on a substantial scale throughout the changing phases of the business cycle, as revealed by the trade returns, demonstrate the inherent advantage of this interchange

of commodities and the tremendous potentialities of expansion under favourable conditions. But no useful purpose can be served by calculating the relative shares retained by each country in a total world trade that for four years has been steadily shrinking, until in 1933 it fell in value to approximately one-third of the level of 1929. If peace and prosperity are to be established on an enduring basis, it is essential to increase the absolute volume of world trade. No better beginning can be made than by taking steps to increase without delay the volume of trade between two countries which offer the most notable opportunity.

Recent trends in the balance of international payments emphasize the necessity of increasing the volume of trade between Canada and the United States. There are six major factors which chiefly determine the nature and extent of the current balance between the two countries. These are: (a) commodity trade; (b) interest and dividends; (c) freight payments; (d) tourist expenditures; (e) gold shipments, and (f) capital movements. On the first three items there has been for many years a heavy balance against Canada, which has been met by a favourable balance on tourist expenditures, by the shipment of gold, and by the movement of capital. An approximate annual balance between the two countries is normally achieved on such other items of international payments as insurance, advertising, royalties, and immigrant remittances, when these items are added together.

(a) *Commodity Trade*

In no year since 1882 have Canadian exports to the United States exceeded in value Canadian imports from the United States. During the thirty years ending in 1933, Canada purchased in the United States almost 70 per cent of all her imports, and sold in the United States only 37 per cent of all her exports. In the last decade, Canadians have spent over \$1.60 in buying products of the United States for every dollar spent on Canadian products by purchasers in the United States. Canada has therefore been obliged to meet the debit balance thus arising by other means of payment. In the decade 1921 to 1930, according to the Department of Commerce of the United States, the balance payable by Canada to the United States on exchange of commodities averaged \$287 millions a year. In 1932 and 1933—which were the acute years of the depression—the balance was more nearly equated; but in the first nine months of 1934 Canadian imports from the United States have increased more rapidly than Canadian exports to the United States, and the ratio between them currently stands at about 10:7.

(b) *Interest and Dividends*

The long-term investments in Canada of United States capital have been estimated at a total of about four billion dollars, offset by about one billion dollars of Canadian capital invested in the United States.

The interest paid annually by Canada to the United States in excess of the interest paid by the United States to Canada now amounts to about \$125 millions, without taking into account instalments of principal payments, which in recent years have averaged approximately \$75 millions annually.

To this should be added an annual sum, amounting at present to between \$25 and \$50 millions, being the excess derived by the United States from dividends on investments in Canada over dividends from investments by Canada in the United States.

The United States investments in securities issued or guaranteed by the Dominion and Provincial Governments is estimated at \$1,218 millions. During the depression there has been no default in the payment of interest or principal on any of those issues, even in face of the discount on the Canadian dollar which continued from the latter part of 1931 until late in 1933. Interest payments have been, of course, a continuing charge, the real burden of which has increased with the decline in prices. The strain on Canadian economy has been heavy, and it has only been borne by the adoption of special measures for the equalization of exports and imports.

(c) *Freight Charges*

Since the war, net freight payments have been favourable to the United States to the extent of between \$25 and \$50 millions annually, and this substantial sum remains a debit item against Canada.

(d) *Tourist Expenditures*

The expenditures in Canada by visitors from the United States have been by far Canada's largest annual credit item. Canadian authorities estimate that the net balance on this account has been as high as \$188 millions in one year, but since the depression the net Canadian surplus from this source has sharply declined, and amounted only to \$60 millions in 1933.

(e) *Gold Shipments*

In some measure, Canada has been enabled to meet the adverse balance of payments through the development of the gold mining industry and the shipment in recent years of practically all the newly-mined gold to the United States. According to the figures of the Federal Reserve Board, the United States received a net balance on this account averaging \$50 millions a year in the five years 1929-1933; in the first eight months of 1934, gold valued at \$64 millions at the new valuation was received from Canada, an amount practically equal to the Canadian gold production during the period. Production in Canada has increased substantially during the depression, and its value in the United States has been enhanced by the reduction in the gold content of the United States dollar. It is impossible, however, to expand production rapidly. Even if the entire Canadian production were shipped to the United States, it would still be insufficient by at

least \$25 millions annually to meet the net interest payments due in New York. Further, it may not be found possible to continue the shipment of the entire Canadian gold output to the United States.

(f) *Capital Movements*

It may be stated, in general terms, that in recent years the net Canadian credits from tourist expenditures and gold shipments have offset the net debits to the United States from interest, dividends, and freight, while the adverse Canadian balance on commodity trade has been met by the net movement of capital from the United States to Canada. Capital has moved both by new long-term investments in Canada and by the purchase of existing Canadian securities. In 1931 the flotation of new capital issues in New York virtually ceased, and the meeting of Canadian obligations in the United States became much more difficult; in fact, it was necessary in some instances to raise capital in Canada and transfer it to the United States to meet maturing obligations there. A reduction in imports therefore became urgently necessary if Canadian obligations were to be promptly and fully paid at maturity. The fall in commodity prices, the decline in Canadian exports to the United States, which was accentuated first by the United States Tariff Act of 1930 and later by the imposition in 1932 of a heavy tax on imported lumber, the discount against the Canadian dollar, and the heavy falling off in tourist expenditures, combined to make the situation still more difficult. Most of the factors responsible for this difficult situation still persist.

Since the beginning of the depression, amongst countries heavily indebted to the United States, Canada stands almost alone in having promptly discharged in full its obligations payable in the United States. If this record is to be maintained, it is clear, in view of the uncertainty as to international capital movements, that the exports of Canadian goods to the United States must be increased or the imports of goods from the United States into Canada decreased.

It should be realized that certain formidable obstacles to the lowering of tariff barriers now prevailing in other parts of the world are not present between the United States and Canada. The opportunities of a new continent have resulted in a parallel economic and social development almost without precedent. Standards of living and working conditions are similar on both sides of the international boundary. The measures of protection which each Government has imposed against the products of the other country have not been determined by a desire to exclude the products of cheap labour. In these difficult times, countries seeking to maintain high domestic standards of living have a common interest in expanding trade with each other. For the past year, also, the Canadian dollar has been close to parity with the United States dollar, and the disturbing effects of exchange instability have in large part disappeared. Even if the desired general revival of international trade should still be

delayed for a considerable period, there is much to be said in favour of an immediate attempt to increase the volume of commerce between these two neighbouring countries, whose traditions and ideals of social and economic progress are so alike.

Attention has been directed to the trade agreements between Canada and the other members of the British Commonwealth of Nations signed at Ottawa in 1932. In some quarters the statement has been made that these agreements render difficult the negotiation of a comprehensive and effective trade agreement between Canada and the United States. An examination of the facts will demonstrate conclusively that such is not the case. The agreements concluded at Ottawa in 1932 have been of immense importance in increasing the trade between the several Nations of the British Commonwealth. The market of the United Kingdom in particular has been a most valuable outlet for Canadian products. In return for the market thus assured Canada has continued and enlarged the preferences which had been accorded the United Kingdom since 1897. The Ottawa agreements do not, however, preclude and in fact have not precluded the signatories from offering extensive and valuable tariff concessions to other countries, and it may be stated positively that the Government of Canada is free to enter into an agreement with the United States covering a wide range of products.

The Government of Canada is prepared to join the Government of the United States in a declaration that their common objective is the attainment of the freest possible exchange of natural products between the two countries. It is recognized that this objective cannot be attained in the immediate future, as important interests in both countries would be disturbed unduly by the sudden removal of existing tariffs on all natural products. The Government of Canada would therefore favour, as the first step, the reductions included in the proposals set out in the next paragraph, to be succeeded by progressive mutual reductions in the duties on natural products, leading to the attainment of the declared objective.

I am authorized to put forward the following outline as a suitable basis for the negotiation of a trade agreement:

- (a) A mutual undertaking to maintain during the lifetime of the agreement the unrestricted free entry of commodities now on the free list of either country.
- (b) The mutual concession of tariff treatment as favourable as that accorded to any other foreign country; this means that Canada would extend to the United States its intermediate tariff, involving reductions from the present rates of duty on some 700 items, including both natural and manufactured products, together with a number of further reductions below the intermediate tariff rates through the extension to the United States of concessions made by Canada in trade conventions with foreign countries.
- (c) The reduction by 50 per cent of the existing United States rates of duty, as authorized by the Tariff Act of 1934, on a specified

number of natural products, including *inter alia*, lumber,* fish, potatoes, milk and cream, and live cattle; a number of other agricultural products, and several minerals both metallic and non-metallic.

- (d) The reduction of the existing rates of duty by the United States on a number of partly or wholly manufactured products of Canada, including some processed natural products and certain products in which hydro-electric power comprises an important element in the cost of production.
- (e) The reduction of the existing rates of duty by Canada on a number of natural and partly or wholly manufactured products of the United States.

In view of the declared policy of the Governments of the United States and Canada to improve existing trade relations, and of the progress already made in both countries in the necessary preparatory studies, there would appear to be no barrier to the immediate initiation of negotiations and their speedy conclusion. I am desired, therefore, to request that I may be furnished with a statement of the views of the Government of the United States on this highly important question.

I have the honour to be, with the highest consideration, Sir,

Your most obedient, humble servant,

(Sgd.) W. D. HERRIDGE.

The Hon. CORDELL HULL,

Secretary of State of the United States,

Washington, D.C.

* This proposal is made on the assumption that the present excise tax of \$3 upon Canadian lumber will be discontinued after June 30, 1935.

**2. Note from the Secretary of State of the United States to the
Canadian Minister, Washington**

DEPARTMENT OF STATE,

WASHINGTON, December 27, 1934.

SIR:

I have the honour to acknowledge the receipt of your note of November 14, 1934, in which you review the trade and financial relations between the United States and Canada, and advise me that your Government proposes the early initiation of negotiations looking to a trade agreement between our two countries.

I have given careful consideration to your note. I fully subscribe to the views which you express in regard to the importance to each of our countries of its trade with the other, and I am happy to note the willingness of your Government to undertake negotiations looking to an increase in trade in both directions. It is not necessary to comment in detail on your statements respecting the balance of payments as between our countries. As you are aware, international balances are settled on many fronts, and it would be a serious setback to world trade if countries undertook to achieve balances with individual countries.

I am happy also to take this occasion to express my appreciation of the unflinching determination with which the Dominion and Provincial Governments have met their loan obligations.

When the Trade Agreements Act, 1934, was enacted, this Government took immediate steps to create an organization to undertake negotiations for trade agreements. One agreement has been concluded; negotiations for several others are now in progress; and intensive preparations are well under way for similar negotiations with a number of other countries.

I believe that a point has now been reached when an exchange of views on this subject with Canada should be undertaken, and I am, therefore, gratified to learn that your Government is of the same mind. Whatever the desirability of the freest possible exchange of natural products, and indeed other products, between the United States and Canada as an ultimate goal, the United States Government must in any negotiations undertaken at this time restrict itself to measures authorized by the Trade Agreements Act, 1934, of which I enclose a copy.

The outline which you suggest as a possible basis for discussions has been noted. You mention several specific products upon which your Government proposes to seek reductions in existing rates of duty in this country. In communicating to you the willingness of the Government of the United States to enter upon negotiations with your Government looking to a trade agreement calculated to increase trade in both directions, I must, of course, make it clear that in advance of negotiations this Gov-

ernment can not make any commitment as to whether it will be possible to agree to a reduction in the rates of duty on particular products, each of which must be carefully studied in the light of existing economic conditions before any decision can be reached. This is the procedure which has been adopted and followed in connection with the trade agreement negotiations with other Governments. Correspondingly, it is understood that your Government will wish to give the same study to individual products upon which this Government may request reductions in the Canadian rates of duty.

I suggest that to the proposed outline of discussions there be added the question of methods of determining the value of merchandise for duty purposes in either country, a matter which I consider of importance in the proposed negotiations.

On the basis of these general observations, this Government holds itself in readiness to begin immediate preparations for trade agreement negotiations.

Accept, Sir, the renewed assurances of my highest consideration.

(Sgd.) CORDELL HULL.

The Honourable

WILLIAM DUNCAN HERRIDGE, K.C., D.S.O., M.C.,

Minister of the Dominion of Canada.

**3. Note from the Canadian Minister, Washington, to the Secretary
of State of the United States**

CANADIAN LEGATION

WASHINGTON, January 4, 1935.

SIR,

I have the honour to acknowledge your Note of the 27th December, 1934, in which you advise me of the willingness of your Government to enter upon negotiations with the Government of Canada looking to a trade agreement calculated to increase trade between our two countries, and to assure you that my Government, who have noted the suggestion that the question of methods of determining the value of merchandise for duty purposes be added to the proposed bases for discussion set forth in my Note of the 14th November, are ready to commence negotiations immediately with a view to the conclusion of a commercial agreement with the Government of the United States of America.

I have the honour to be, with the highest consideration,

Sir,

Your most obedient, humble servant,

(Sgd.) W. D. HERRIDGE.

The Hon. CORDELL HULL,
Secretary of State of the United States,
Washington, D.C.

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