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CANADA'S DOLLAR SAVING PROGRAMME

An address by Mr. D. C. Abbott, Minister of Finance, before the Edmonton Chamber of Commerce on January 5, 1949.

During the past year, the developments which have taken place in the province of Alberta have attracted the attention of all Canada. The discoveries and rapid development of oil fields in the Edmonton area has been one of the most important economic events in the Dominion. We have heard many glowing reports about the tremendous strides in economic growth which are currently taking place in your province and more particularly in and about your city. It was therefore with more than ordinary enthusiasm that I looked forward to this visit to Edmonton because it would give me an opportunity to see for myself what it is that you are doing. What I have seen since my arrival has lived up to my expectations. Nowhere have I seen a display of activity more impressive than what is taking place in this community.

Your modern city hides the fact that only a few decades ago Edmonton was a small trading post. To-day with the spectacular new oil discoveries just outside the city and perhaps under it, Edmonton is on the way to becoming the principal Canadian oil city, and if the present rate of development is maintained, perhaps one of the larger oil centres of North America. The great Northland, in its now growing development, will become an ever-expanding hinterland demanding the services of Edmonton. What all this will mean for the future of your city is now a foregone conclusion. Its significance for the Canadian west and the whole Dominion must not be underestimated. To a Minister of Finance, concerned with the country's exchange problems, the oil development is a particularly heartening event.

The year that has just closed has been one of mounting anxiety throughout the world. Here in Canada we have been very fortunate but we could not hope to escape some of the effects of the unsettled international situation. These disturbed conditions manifested themselves especially in our foreign exchange and trade position. This was one of the most urgent problems which we had to face in 1948. I know how much your region and your community are affected by the circumstances in world markets and therefore I am glad to have this opportunity to speak to you about some of our trade problems as they exist to-day, and about the progress that was made to meet them during the past year.

As you know, long before the war ended, Canada took active steps, in co-operation with the United Kingdom, the United States and other interested countries, to establish the necessary international machinery for economic co-operation. You are familiar with the role that Canada played in the establishment of the two Bretton Woods institutions and with

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the more recent efforts to establish an International Trade Organization in which Canada played an important role. You are familiar too with the positive steps taken through the extension of foreign credits to aid in the recovery of the United Kingdom and Western Europe, thus helping to re-establish and maintain our traditional markets there. It was clearly in the long-term interest of every section of Canada and every Canadian industry to promote the recovery of those countries with whom we have always conducted a large and mutually profitable trade but such a programme of assistance could not be undertaken without some special efforts.

Within Canada the transition from war to peace has proceeded smoothly. Throughout the period we have had peak production and employment. The flow of imports to meet the backlog of investment and consumption demand was at a high and growing level. But, because of the inability of the European countries to expand their exports to us, the bulk of the increase in imports came from the United States. The value of Canadian exports was also high and rising, and was more than sufficient to pay for our import needs under normal circumstances. A substantial part of our exports, however, had to be sold on credit. Consequently our receipts of foreign exchange were not sufficient to pay for our imports from the United States and our exchange reserves declined.

Canadian exchange reserves fell from about \$1500 million at the end of 1945 to \$500 million by November 1947, and to a low of \$461 million in December. There was obviously a limit to the decline in reserves which could be permitted.

On November 17, 1947, the Government announced emergency measures to safeguard our gold and dollar reserves and to correct the lack of balance in our trade position with the dollar countries. The main emphasis was on the positive aspects of the programme, which aimed at achieving a better balance through measures designed to expand exports to the dollar countries, particularly the United States. To achieve immediate results in putting a stop to the drain on our reserves a temporary series of trade and travel restrictions were put into effect. We have regarded these temporary restrictions as unavoidable measures which were necessary to help bridge the gap until the positive measures could produce their results.

The main pivot of the constructive programme was the successful termination of the General Agreement on Tariffs and Trade which opened the United States market to Canadian goods to an extent greater than had ever been achieved in the past.

Furthermore, in order to reduce permanently the lack of balance in our trade with the United States, the Government undertook to make every feasible effort to encourage a more rapid development of our natural resources and their domestic processing. This would make available more goods for export to the United States, and in some cases reduce our dependence on United States sources of supply. An outstanding example of development in this direction is the remarkable progress achieved in the Alberta oil industry during the past year.

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The achievement of a better balance in our exchange position through constructive means could not be reached through any one device. We had to have a carefully worked out and balanced programme which operated toward this end in a number of ways. We sought to promote a diversion of exports to dollar markets wherever this could be done without disturbing established trade connections, and without inflicting hardship on the United Kingdom and other European countries. We devised methods to achieve a better balance in the operations of our branch plant industries so that their exports to the United States and other dollar markets would to some extent pay for their heavy imports of parts and materials. In the past this has traditionally been a one-way flow. We established conditions which would help the United Kingdom and Western Europe to recover their markets in Canada for goods which they traditionally exported to us before the war. This would enable them to buy more imports from Canada and at the same time make us less dependent on dollar sources of supply. Finally we undertook to assist the production of gold by offering a production subsidy to help the gold mining industry meet the higher costs of production. The Government kept in close touch with developments in the United States which had a bearing on our trade position. We were anxious to impress upon our United States friends the importance of having the European Recovery Programme include a feature which would permit the recipient countries to use Marshall dollars for purchases in Canada. This would help to maintain export markets and would enable Canada to continue its contribution to European recovery by making available large supplies of goods essential to them.

Obviously, we could not expect these constructive measures to solve our problems overnight. Accordingly I had the unpleasant job of announcing the imposition of temporary restrictions designed to protect our limited reserves until the positive aspects of the programme began to take hold. I promised then that the restrictive aspects of the programme would be relaxed as soon as the improvement in our exchange reserves made such relaxation possible.

A little over a year has passed since these steps were taken to correct our exchange difficulties and establish a closer balance in our dollar trade. I am happy to be able to tell you that the programme has worked with increasing success throughout the year. This success is shown in the steady rise in our exchange reserves. A short while ago I said that in future I intended to release the figures of official gold and United States dollar holdings on a quarterly basis. At that time I gave out the figures for September 30 last which then amounted to \$855 million. To-day, I am in a position to announce the preliminary figure for the end of the final quarter of 1948. At December 31st, five days ago, our official holdings of gold and United States dollar exchange had reached \$998 million. This figure compares with the low point of \$461 million on December 17th, 1947, hardly more than a year ago. During this relatively short period our reserves have increased by no less than \$537 million. The December 1948 figure includes the sum of \$150 million, which is the proceeds of the long-term loan sold to three American life insurance companies last August. If we deduct the proceeds of this loan we see that our reserves have increased by \$387 million as a result of our improved trade position.

I think you will agree that this improvement in our exchange reserves in so short a time is a gratifying achievement. The real significance of the improved position can be seen in the record of our foreign trade during 1948. Exports to all countries during the first 10 months increased from about \$2300 million to \$2500 million, an increase of nearly

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10 per cent. Exports to the United States for this period increased from \$850 million to \$1200 million, an increase of over 42 per cent. From the point of view of the main objective of Canadian export policy during this period, namely the increase of exports to dollar markets and the achievement of a closer balance in our trade with the United States, this is a most encouraging accomplishment, indicating in no uncertain terms that the constructive features of the emergency exchange programme are meeting with a very considerable measure of success. While exports to the United Kingdom and Europe showed a decline, they remained on a high level. The off-shore purchase arrangements of the Marshall Plan enabled Canada to send a large amount of exports to the United Kingdom and Europe and to receive payment for a substantial proportion in U.S. dollars.

The increases in exports to the United States occurred in a broad list of goods, but the largest relative gains were in agricultural products. I have already indicated how the concessions in the United States Tariff which we obtained in the Geneva Agreements helped to pave the way. Export controls were removed on cattle, beef and coarse grains in accordance with the Government's declared policy of withdrawing emergency wartime controls as soon as circumstances permitted. This combination of measures had immediate results in bringing about a heavy flow to the United States of farm products in which you in the province of Alberta are especially interested. Cattle and beef together accounted for an inflow of no less than \$67 million of United States exchange during the first 10 months and it is estimated that for the full year this figure will exceed \$100 million.

Although the value of our exports has expanded substantially, our imports have not increased appreciably. However, an important shift has occurred in the source of our imports in the direction of a better long-term balance. Imports from the United Kingdom, the Commonwealth and Europe increased no less than 41 per cent. Almost 70 per cent of this rise is due to larger imports from the United Kingdom. This is partly a result of the considerable measure of recovery in these countries and indicates that the large-scale credits which the United States and Canada extended are beginning to bear fruit. Also, this improvement has been assisted by our import control programme which was designed to help these countries to recover their traditional pre-war markets in Canada. The temporary suspension of the Preferential duties on cotton and rayon piece goods which I announced in my last Budget is an example of how we sought to encourage imports from the United Kingdom and to make available increased supplies for our consumers.

On the other hand imports from the United States were reduced by about 10 per cent during the first 10 months of this year. This decrease shows the effect of the import restrictions.

The import restrictions are not entirely responsible for the reduction of imports from the United States. To some extent that part of the constructive programme which envisaged a more rapid and fuller development of Canada's natural resources was successful in providing domestic sources of supply for goods formerly imported from the United States. This feature of our programme, involving considerable capital outlay and shifts in production, will take some time to become fully effective, but to the extent that it does it means permanent and lasting benefits.

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The outstanding example of progress in this field occurred in Alberta. I am referring to the important oil discoveries and the growth of the petroleum industry in the Edmonton area. I shall not attempt to discuss the full significance of Alberta oil, but I would like to indicate its importance from an exchange and trade viewpoint.

In 1947, imports of petroleum products were over \$200 million -- it was the largest item among all our imports. In 1948, due to increased prices and some rise in consumption, imports are likely to exceed \$300 million. You will appreciate the magnitude of this necessary expenditure of dollar exchange when I tell you that it makes up about one-fifth of the value of all our imports from the United States. This figure is greater than the total net trade deficit with the United States for the whole of 1948. It is almost equal to the total savings in exchange anticipated as a result of all the import restrictions imposed under the Emergency Exchange Conservation Programme.

Developments in Alberta oil have already been of appreciable assistance in saving United States dollars. Under the most cautious estimate, proven oil resources will contribute substantially to dollar savings in the years to come. If the extensive exploration currently under way both in Alberta and in the Northwest should prove as successful as the Leduc and Redwater discoveries, Canada may be well on its way to greater oil self-sufficiency in the years to come. It has been predicted that Alberta oil will supply all the needs of the Canadian prairies by 1950. Some hold out the hope that when the Alberta and Northwest oil resources are fully known and developed, Canada may become an oil-exporting country. The uncertainties of oil production rule out excessive optimism, but I can assure you that what we already know is enough to gladden the heart of a Minister of Finance concerned with the country's exchange problems. Nor is the significance of the Alberta oil development limited to exchange matters. We are just beginning to realize the transformation that may be wrought not only in the economy of Alberta, but in the economy of the whole country.

Government policy has and will continue to contribute to the further development of Alberta's oil industry. Exploration and processing facilities involve large outlays for plant and equipment with heavy outlay of United States dollars. Our import control of capital goods has been designed to encourage development of this kind, by seeing to it that exchange and supplies are available to the full extent of requirements. This is the type of dollar expenditure which we are prepared to meet to the limit as part of our plan to encourage the more rapid development of our natural resources. Taxation measures, by allowing generous allowances for exploration and research, have definitely contributed to the expansion of the Alberta oil industry. I can assure you that the Government will continue this policy to encourage and facilitate progress along these lines.

The expansion of exports and the contraction of imports has pared down the trade deficit with the United States from over \$800 million in 1947 to only \$275 million for the first 10 months. The improvement in our exchange reserves, and more particularly, the manner in which that improvement has taken place, has permitted the Government to introduce progressive relaxation of the trade and travel restrictions.

At the end of July the special excise taxes introduced to discourage the consumption of durable consumer goods with high dollar import content were lifted. Last October the Government announced the relaxation of import restrictions on a wide group of fresh fruits and vegetables. On January 1st there was a further relaxation of restrictions on the import of a considerable list of consumer goods and the restriction on personal purchases brought back to Canada by returning travellers was removed.

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As you can see from the course we have followed thus far, the Government is pursuing a policy of gradual relaxation. The initial threat to our gold and dollar reserves has been successfully met, - the tide has turned in our favour. A continuation of present favourable trends will enable the Government to consider making further relaxations from time to time during 1949.

The improvement in our reserves, and the consequent relaxation of restrictions, has been welcome to every Canadian as well as to our friends across the border. It would be misleading, however, to exaggerate the extent of our improved position. To the extent that the progress made thus far is due to the restrictions on imports, a programme which we are pledged to abandon as soon as possible, and to the operation of the Marshall Plan which is of a temporary nature, we cannot look to them as positive or final solutions. We must make more headway in the positive part of our programme before we can be confident that we are completely out of the woods. We have shown remarkable recuperative powers, but the continuing international political difficulties and the unsettled world conditions constitute an ominous sign of the kind of trading world in which we now live. Because of the volume and character of our external trade to-day, the exchange reserves that can now be regarded as providing a satisfactory minimum are much higher than they were before the war. The future programme for the relaxation of restrictions must give adequate consideration to the need for Canada to reach a level of exchange reserves which is adequate in the present disturbed conditions of world trade.

I can assure you that the Government will push forward with constructive programmes until a complete and stable solution is reached. Artificial trade restrictions are completely foreign to our long-term trade policy. I am convinced that the ultimate solution of present trade and exchange difficulties not only for Canada, but for the world, will be found in the expansion of world trade and the elimination as soon as possible of artificial barriers, restrictions and discriminatory practices.

Commencing next April Canada will participate in a new series of tariff negotiations with twelve and possibly more countries which desire to become parties to the Geneva Agreement. This should serve to broaden the benefits we have already obtained and help to open new markets for Canadian goods.

Every Canadian is proud of the rapid growth and dynamic expansion which has taken place in Canada in the last decade. These are difficult times and no one can predict the future, but if anything is certain -- Canada's continued economic growth is certain. Alberta will be in the forefront of that growth. There will be new and increasing opportunities for your region to continue its development. Oil is only one of your great resources. Your city is situated in the heart of a rich and diversified agricultural area. Your region is endowed with unlimited supplies of coal and natural gas, all basic essentials to modern industry. You are located on the threshold to the vast region of the Canadian Northwest. We cannot foresee what new treasures this undeveloped area will disclose, but the valuable finds of uranium and gold, and the search for oil and base metals now taking place, are forerunners of very promising possibilities. The characteristic energy and enterprise which I know you will apply to these rich endowments assure the future progress of your city and province and will enhance the welfare of our country.

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